Scottish Government Bonds and Investing in Ourselves

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DISCUSSION PAPER

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EXECUTIVE SUMMARY

- The focus of the proposed bond programme, as currently drafted, is to encourage the foreign ownership of Scotland's assets.
- The wholesale programme will result in approximately £170 million leaking out of the Scottish economy.
- This decision to issue wholesale bonds is inconsistent with the Scottish Government's commitment to Community Wealth Building (CWB) and directly conflicts with the principles of CWB upon which the Community Wealth Building Act 2026 is based.
- An alternative retail bond programme would add £120 million to Scottish businesses and households.
- If the Scottish Government is serious about CWB, it must consider how to retain wealth in Scotland's economy and reduce its heavy reliance on foreign direct investment (FDI) and capital investment from overseas.
- The wholesale programme further weakens the resilience of both the Scottish Government and the domestic non-government sector, which comprises households and businesses.
- Issuing government bonds is unlikely to demonstrate that Scotland is a more desirable place for international investment. 'Crowding in' is highly uncertain.
- The credit rating Scotland received to support the bond programme was based on subnational calculations by rating agencies. It has no bearing on Scotland's credit rating as an independent nation and is based primarily on HM Treasury's backstop. Scottish Ministers have been disingenuous, linking this to Scotland's independent economy.
- Scotland's immediate and long-term interests will be better served by issuing bonds as retail bonds or, if offering them to institutional investors, to do so exclusively to Scotland's Local Government Pension Funds.
- No planning, consideration, or scenarios assuming Scotland becomes an independent country were included in a process that will likely see the Scottish Government repay a 10-year bond issued in 2026 through 2036.
- The Scottish Government must pause the wholesale bond programme and reevaluate the issuance to consider funding investment from within Scotland.

INTRODUCTION

On November 13th, 2025, the Scottish Government published its plans for a Bonds Programme as an alternative to borrowing from the UK Treasury National Loan Fund (NLF) to fund capital investment. Between 2026–2030, the Scottish Government plans to raise £1.5 billion in international capital markets through a wholesale bond issuance.

The Scottish Government has had the capability to borrow for investment since 2012 (Scottish Government, 2025a). Under the fiscal framework negotiated in 2023, the Scottish Government can borrow around £450 million each year, with an overall limit of no more than £3 billion in debt outstanding. Against the scale of the global bond market, the sums being borrowed by the SG are minuscule. By comparison, the UK Government issued around £300bn of bonds in 2024-25.

The Scottish Government can choose from whom and how it wishes to borrow for capital investment. Until now, the Scottish Government, like most other public bodies, has chosen to borrow from the NLF, primarily because the process is straightforward and familiarity has led to established habits. However, the NLF offers little flexibility on repayment terms. The Scottish Government could continue to borrow the full amount from the NLF, and there is little danger that this funding source would ever run dry, but the Scottish Government has opted to break the habit and reduce its dependence on the UK Government's public borrowing fund.

The Scottish Government has identified that an alternative funding source could provide greater fiscal flexibility and diversify its sources of capital investment finance. Engagement with Scottish Government officials responsible for the Bond Programme revealed that an option to issue 'retail bonds' to the Scottish public was considered but rejected. Instead, a wholesale bond was chosen. The Scottish Government Bonds Programme: Summary Outline Business Case does not evaluate a retail bond issue.

This paper principally discusses the challenges and the decision to fund infrastructure investment through international capital markets rather than a retail bond offered exclusively to the Scottish public, credit unions, and/or Scottish institutions, specifically Local Government Pension Schemes.

WHOLESALE BONDS PROGRAMME

The Scottish Government is making good progress towards its first bond issuance in 2026–27, First Minister John Swinney told financial services firms in London in January 2026 (Scottish Government, 2026a). The debt instrument of choice is a wholesale bond, which is issued directly to institutional investors.

Traditionally, a single financial institution is appointed to approach institutional investors and then conduct the sale. Institutional investors purchase a bond for a set price. They can either hold the bond until it matures or sell it on the secondary market. During the specified period, the bondholder receives interest, and the principal is repaid at the bond's maturity date. The interest rate is set by the market (Scottish Fiscal Commission, 2026).

Box 1.

December 2022: "Investor Panel: Mobilising international capital to finance the transition to Net Zero" formed
December 2022: The Investor Panel's first meeting
October 2023: Scottish Government bonds announcement
November 2023: Investor Panel recommendations and Scottish Government response
December 2023: Scottish Government capital borrowing and bonds: memorandum
November 2025: Scottish Government bonds launch planned

Objectives for the bonds programme

The Scottish Government Bond Programme (Scottish Government 2025b: 3) lists three strategic aims:

Strategic Aim 1: To ensure the Scottish Government can access diverse and cost-effective sources of capital funding and enhance Scotland's fiscal sustainability.

Strategic Aim 2: To raise Scotland's profile to financial investors; and

Strategic Aim 3: To develop Scotland's institutions and fiscal discipline.

Taking each objective in turn, we can evaluate the impact of a wholesale bond issue on these strategic aims.

Strategic Aim 1

Reducing the amount the Scottish Government borrows from the NLF will effectively reduce reliance on the NLF (this is self-evident). We must state there is no funding issue with continuing to borrow from the UK. The NLF is obliged to agree to any amount up to the limit agreed under the fiscal framework; however, it could be argued that diversifying sources of borrowing is a sensible approach for any organisation, including a sub-national government such as Scotland and its 32 Local Authorities. The Scottish Government believes that it may be possible to reduce borrowing costs and show 'value for money' from switching sources of borrowing. Although interest rates are almost certainly going to be higher, changing the repayment schedule may provide better use of public money. Annual debt repayments to the NLF include repayment of part of the principal and interest (Scottish Government, 2026a). In the case of a wholesale bond, none of the principal is repaid until the maturity date.

Strategic Aim 2

Once the Scottish Government issues a bond, it is unlikely to increase its credibility with international capital markets, and it certainly cannot 'secure' credibility, as this is a moving target for any borrower. It is difficult to argue that by issuing a bond, the Scottish Government, with all other things remaining equal, will "raise Scotland's profile". Indeed, information from the Scottish Government (FOI 2026a) suggests there is no clear evidence of a link between a Scottish Government bond and increases in foreign direct investment or capital flows.

Strategic Aim 3

It is likely that undergoing a wholesale bond process will support some development within Scotland's institutions, but this is likely to be small. No new institutions are being created. We believe that the objective of strengthening "fiscal discipline" strongly signals an acceptance that governments are subject to the authority of the bond market and have little agency in determining fiscal policy. Even though the Scottish Government has limited fiscal capacity within the UK fiscal framework under devolution, there remains room for manoeuvre if it makes different choices.

We argue below that such choices exist.

In sum, based on the strategic aims, the programme would, on the surface, seem to pass the credibility test, especially given the opportunity to provide fiscal flexibility.

These aims have been set by policymakers and seem sensible, but different aims could have been chosen, leading to a different outcome. So why were these particular objectives set? The Investor Panel's role is crucial to understanding these objectives.

The role of the Investor Panel

The Investor Panel was created specifically to guide the Scottish Government in attracting more foreign investment to Scotland and is a crucial institution in deciding the direction of Scotland's borrowing (Scottish Government, 2023b).

The Investor Panel

The Panel comprises:

• Angus Macpherson (Co-Chair)	Chief Executive, Noble & Co
• Alexandra Basirov	Head of EMEA ESG Finance & Solutions, Bank of America
• Shane Corstorphine	Ex-Skyscanner CFO & scale up consultant
• Judith Cruickshank	Managing Director, Commercial Mid Market Banking, RBS
• Baroness Margaret Ford	Chair, Gatwick Airport
• Michael McGhee/John Watson*	Global Infrastructure Partners
• Andrew Telfer	Senior Partner, Baillie Gifford
• Gavin Templeton	Managing Director, Pollination

*Alternate

Peter Reekie, Chief Executive of Scottish Futures Trust and Willie Watt, Chairman of the Scottish National Investment Bank acted as advisers to the Panel

Source: Scottish Government https://www.gov.scot/groups/investor-panel. NB the panel was dissolved after delivering its Nov 2023 report and is sometimes referenced as "Investment panel" in Scottish Government publications.

The Investor Panel minutes available on the Scottish Government website https://www.gov.scot/groups/investor-panel consider how a small country/government like Scotland could attract more international financial capital.

The principal conclusion was that the Scottish Government can support a better investment environment. These are not detailed minutes, and there was no specific mention of sovereign sub-national borrowing or discussions on retail or wholesale bonds in any of the meeting minutes published online.

However, FOI (2026a) provides a fascinating insight into the Investor Panel's influence. The extract from the Bonds Board minutes (ibid) states that the Investment Panel's view was that bond issuance should support broader capital investment. The Board advised that the Investment Panel would be well placed to provide evidence on the link between bond issuance and investment, even if the evidence were qualitative. There is a need for qualitative support, as there is little evidence that this wholesale bond would 'crowd in' corporate FDI or foreign capital flows (ibid).

To suppose that the Investor Panel would be an independent source of reliable evidence strikes us as both extremely naive and oblivious to a conflict of interest. If you ask bankers if it is a good idea for the Scottish Government to borrow from them and pay them interest, they are very likely to say yes.

Further background

Timing
The timing of the bond issue will take into account both Scottish Government budgetary needs and bond market conditions. This seems to be a flexible and sensible approach to bond issuance timing as advocated by GIMMS (2025) in their submission to the UK Treasury on Debt Management Office (DMO) reform.

Credit ratings
Much has been made of the credit ratings awarded to the Scottish Government by Moody's and S&P Global. Credit rating agencies are a central institution in the international financial infrastructure. Both agencies respectively rated the Scottish Government at Aa3 and AA, mirroring their ratings for the UK as a whole. This is expected (in our opinion, probably more hope than expectation) to help Scotland borrow at lower interest rates than other institutions, including some other nations. The methodology used was for a sub-national regional (https://www.moodys.com/web/en/us/solutions/ratings/sovereign-methodology.html).

As the methodology makes clear, in each national market, "national governments are the largest borrower, their credit standing provides a benchmark for other issuers of debt in the corresponding country". In other words, Scotland's credit rating reflects the UK's creditworthiness. Although the credit rating agencies "praised the SG's performance" (Scottish Government, 2026a), the Scottish Government cannot run a fiscal deficit, is backstopped by the United Kingdom, and is unable to borrow large sums.

This rating is not transferable to Scotland as an independent nation. Should Scotland become independent, ratings agencies would use a separate methodology. Suggesting that this rating would carry over to independence is disingenuous. Various Scottish Government press releases and publications (Scottish Government 2025b; Scottish Government 2025c) have highlighted that issuing debt will help build a track record of delivering on its financial commitments. This is, of course, only relevant while Scotland remains part of the United Kingdom.

No political motivation for decoupling from the UK Government funding stream
There is nothing within the Scottish Government Bond Programme which directly or indirectly considers the need to 'institutional decouple' from HM Treasury for any political reason. There was no planning, consideration, or scenarios that assumed Scotland would become an independent country during a process that will likely see the Scottish Government repay a 10-year bond issued in 2026 through 2036. Senior civil servants made it clear that the Scottish Government Bond Programme is set entirely within the current constitutional framework. As such, no consideration has been given to the impact of the bond programme on the finances of a post-independent Scottish Government.

Green bonds

The Scottish Government Bond Programme does not commit to issuing green bonds and is not linked to net zero or a just transition. In our discussions with senior civil servants, they suggested that the Scottish Government may be holding off on the decision to fund 'green projects' until after the 2026 Holyrood election. However, in early 2026, John Swinney stated that the funds raised from the wholesale issue would "support delivery of the capital infrastructure projects outlined in our recently published Spending Review and Infrastructure Investment Pipeline" (Scottish Government, 2026b). The pipeline includes only one 'green investment' of £300 million in peatland restoration and woodland creation (Scottish Government, 2026b), suggesting that the decision has already been made on where to spend the funds, i.e., not on green infrastructure projects. This indicates a shift in focus from the bond programme's original intention.

The Investor Panel, set up in 2023 to advise the Scottish Government on its bond programme, was titled "Mobilising international capital to help finance the transition to Net Zero" (Scottish Government, 2023b), and it is difficult to argue that a green bond is not central to the net-zero cause. The Scottish Government energy minister at the time certainly thought so (The National, 2023).

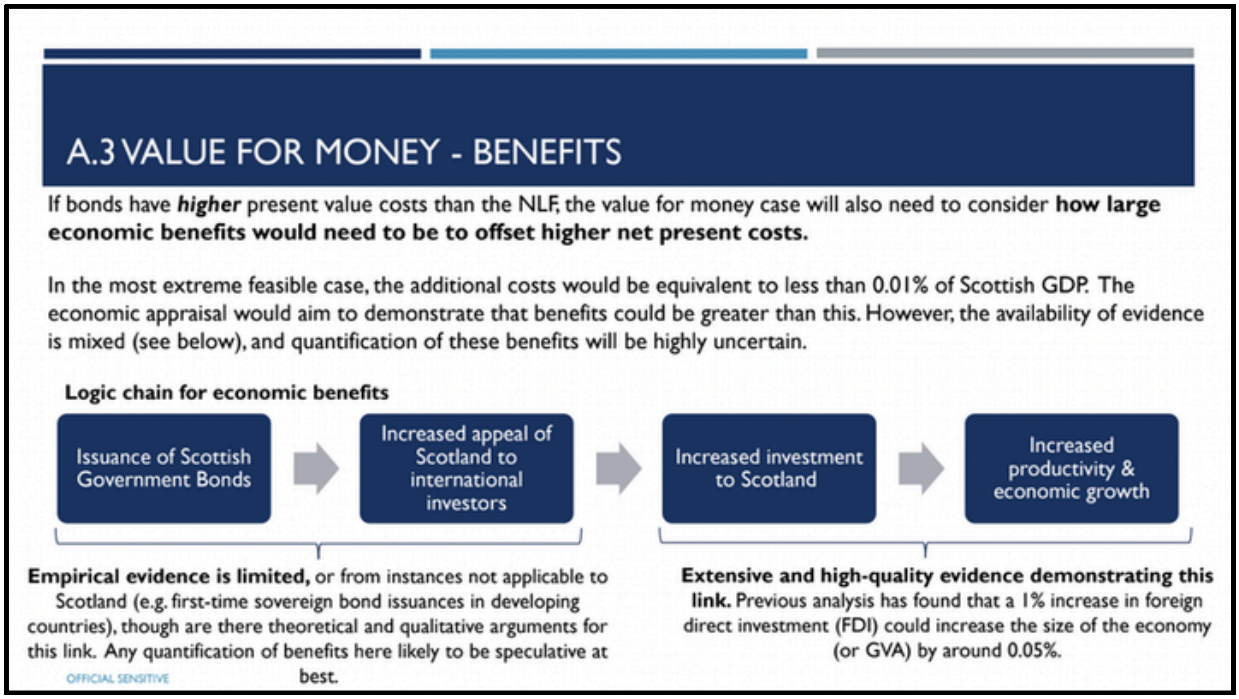
No more money is being borrowed

We must also highlight that there is no new money. The funds raised from the bond issue will replace money readily available from the NLF. "This is about using the powers we have to borrow better – not more," said First Minister John Swinney (Scottish Government, 2025c). The Scottish Government is keen to show international capital markets that Scotland is not embarking on a spending spree and that borrowing will be used only for essential infrastructure (Scottish Government, 2026a); hence, the bond programme is to "strengthen fiscal discipline".

Will the bond 'crowd in' international capital flows to Scotland

FOI (2026a) concedes that the Scottish Government has "pretty weak measurement in terms of this type [international capital flows] of investment", and that focus should therefore be on "investor sentiment," but it admits that this would be hard to measure. Figure 1 shows the challenge of crowding in investment.

Figure 1 Value for money - benefits



Source: Scottish Government (FOI, 2026a).

In summary, issuing government bonds is unlikely to demonstrate that Scotland is a more desirable place for international investment.

'Crowding in' is highly uncertain

This is intuitively correct. If an investor is looking to invest in Scotland, they will likely judge that investment principally by the expected return. This is an economic calculation that likely involves many inputs. These would include the success of previous investments, the availability of local skills, likely interest rates, likely economic activity - both domestic and internationally -, UK inflation, and the general business environment. It is indeed a stretch to suggest that Scotland's government issuing £300 million worth of bonds each year would even register on the radar of a company investing in Scotland.

Value for money

Figure 1 also shows the challenge of crowding in investment. The most "extreme feasible case" is that the bond issuance would have to increase investment by approximately £22 million (0.01% of GDP) to offset the additional borrowing cost.

Follow the money - where do the interest payments go?

Using the sectoral balances framework helps us follow the money. We split the Scottish economy into three sectors. The government sector, the domestic non-government sector (that is, all Scottish households and businesses), and the foreign sector. When the Scottish Government pays interest on its wholesale bond, financial wealth will transfer from the government (public money) into the foreign sector. A retail bond, on the other hand, assuming restrictions on the sale of the bond, would transfer financial wealth from the government to Scotland's households and businesses. By issuing a wholesale bond, the Scottish Government has chosen to divert interest payments (ranging from £120 million to £165 million) to the foreign sector rather than to Scotland's households and businesses.

The role of foreign direct investment (FDI)

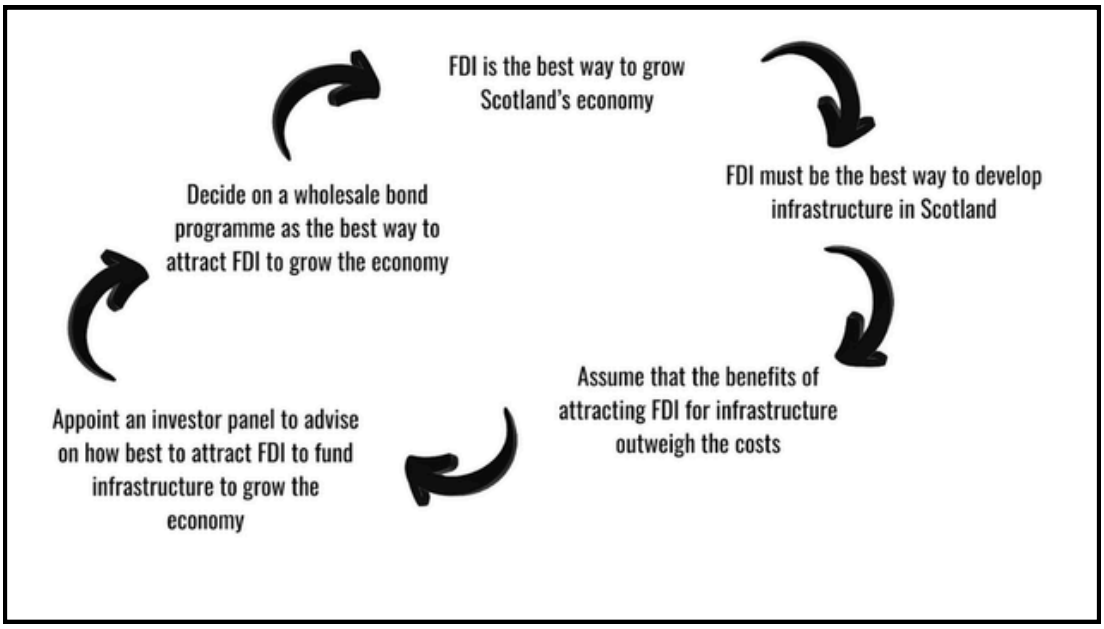
As outlined in the objectives for the bond programme, the Scottish Government aims to build credibility with the international capital markets and showcase investment opportunities in Scotland to overseas investors. By setting these objectives, the Scottish Government has highlighted the importance of attracting FDI to Scotland and placed the wholesale bond programme at the centre of that strategy. It is important to investigate what type of FDI the Scottish Government wishes to encourage, and the context here is exceptionally important. Around £11.5 billion leaks out of the Scottish economy each year, primarily as foreign investors repatriate profits (Scottish Government, 2023a). With this bond issuance, the government is seeking to increase this financial flow from Scotland (indirectly, of course).

In the course of our engagement with the Scottish Government on the proposed Scottish Government Bond Programme, it became apparent that the Ardersier ETF represents the type of foreign investment the Scottish Government wishes to encourage by offering bonds to global investors. This allows us to state with confidence that the bond programme focuses on encouraging foreign ownership of Scotland's assets. The example used by the Scottish Government as a benchmark is a "US PE [private equity] firm that bought Ardersier port under the Haventus banner to support a massive port expansion" (FO1, 2026a). The Ardersier port is part of the Inverness and Cromarty Firth Green Freeport (ICFGF). See Box 2 for further details.

Circular logic

Rather than suggesting there was 'Groupthink', it is perhaps more accurate to say that the Bond Programme operated on circular logic. As the Scottish Government itself highlights (FOI, 2026a) the logic itself is weak. (Figure 1).

Figure 2. The Bond Programme's Circular Logic



Source: Authors

A senior civil servant agreed with our assertion that, with different assumptions and objectives, the Scottish Government would have reached a different outcome. We now consider what that different outcome could have been.

Box 2. The story of a missed opportunity for Scotland

The £300 million of equity capital investment for this project could have been provided by Scotland's institutional investors. If US investors can see an opportunity, we have to ask why Scotland's wealth funds – our public sector pension funds (the LGPS funds) in particular– failed to do so. Our local authority pension funds currently have over £70bn in assets (December 2025). £300 million is 0.04% of that wealth. Investing in the formation of a Scottish-owned company, whose operations could be managed by the same team of highly experienced Scottish energy experts recruited by Haventus, would hardly "break the bank". The ETF will be a "cash cow" for its investors and therefore a source of reliable future cash flows to help the LGPS funds meet their obligations to pay pension benefits. What Scotland has in abundance is world-class offshore wind energy potential. Building and maintaining this infrastructure requires port facilities. US private equity company Quantum Capital saw an opportunity when the Ardersier port came to market in 2021. Efforts to raise capital in the City of London came to nothing, but Quantum Capital raised £300 million in New York to fund a project to redevelop Ardersier Port into an "Energy Transfer Facility" (ETF). Quantum formed a new company, Haventus, to advance the project. Lewis Gillies, a native of Lewis, who had enjoyed a distinguished career in the global energy industry, was recruited as the first CEO of Haventus. Haventus subsequently obtained a further £100 million in loans from the Scottish National Investment Bank (SNIB) and the UK Infrastructure Bank (now rebranded as the UK National Wealth Fund) – each contributing £50 million. The Ardersier ETF will provide a facility for transporting wind turbines and ancillary equipment for offshore construction, as well as for importing parts, fabricating and supplying them, operating the supply chain, and servicing and maintaining offshore infrastructure. It will make its US investors wealthy. The wealth and profits generated by the ETF's operations will flow out of Scotland.

RETAIL OR LOCAL GOVERNMENT PENSION SCHEME BONDS

It can be argued that it is prudent to reduce the amount of money the Scottish Government borrows from the NLF, and this argument has certainly been persuasive with policymakers. However, it is worth considering the full range of options available for the Scottish Government. We have discussed the wholesale bond in detail, so we now consider three other options (1);

- To offer "retail bonds" to the Scottish public, which has around £150bn in savings.
- To offer "retail bonds" to credit unions. Short-duration bonds (up to 5 years) are a suitable asset for credit unions.
- To offer Scottish Government bonds to the Scottish Local Authority pension funds (the 11 "LGPS" funds). Collectively, the LGPS funds currently have over £70bn of assets under management. Very little of this is invested in Scotland's economy.

It is possible of course to do a mix of these three options.

We use the term SGGB (Scottish Government Green Bond) to refer to these three different bonds. An SGGB bond would offer a resetting of strategic aims:

*included in the strategic aims of the wholesale bond programme

- Diversify borrowing sources and reduce reliance on the NLF*
- Reduce borrowing costs*
- Build credibility with the Scottish public and/or Local Authority Pension Schemes
- Set the benchmark for Scottish institutions to borrow from the Scottish public and Scottish institutions, and demonstrate Community Wealth Building leadership
- Increase financial flows to Scotland's households and businesses
- Provide a valuable asset to strengthen credit union finances
- Increase flexibility over repayment schedule*
- Strengthen democratic discipline (accountability to the people of Scotland)

We would argue that these are much stronger and wider economic objectives for a bond programme.

BOX 3 Scottish Government Bonds and the LGPS Pension Funds

Scotland's 11 LGPS pension funds are large public sector institutional investors. They currently manage over £70bn of assets. The Strathclyde Pension Fund (SPF) is the largest (and the 2nd-largest UK local authority pension fund), with £33.8bn in assets (31/12/25). Only a very small proportion of total LGPS assets are investments in our own economy. As large, domestic institutional investors, they are a clear alternative target for a Scottish Government bond issue. It is the responsibility of a pension fund to decide for itself whether an investment opportunity is worth pursuing. All pension funds adopt principles of investment and an investment strategy that will inform their decisions about which investments to make. Any Scottish Government Bond issue aimed at the LGPS funds would need to be preceded by engagement by the Scottish Government with the management of the LGPS funds to agree terms which would enable the funds to accept the bonds as a suitable investment, consistent with their "fiduciary duty". Furthermore, we are of the opinion that the Community Wealth Building Act 2026, at least the spirit of the legislation, has the potential to reshape the definition of fiduciary duty applicable to the Scottish LGPS pension funds - see Appendix 2 for further discussion.

(1) Although neither the Scottish Government or the authors are proposing the status quo, we do consider this option in the following section.

Timing

An SGGB bond issue could be achieved quickly and, like wholesale bonds, would meet the Scottish Government's budgetary needs, providing fiscal flexibility.

Risk, repayment, and an outline of the SGGB

From the perspective of a member of the public or LGPS pension fund, the risk of losing their investment by holding a Scottish Government bond is vanishingly small. An overview of the bond would include a 5-year Green Bond at 3.5%-4% and a 10-year Green Bond at 4.5%-5% (2). The bonds would be non-transferable; however, should bondholders wish to liquidate their holdings (in whole or in part), they would be redeemed by the Scottish Government. Members of the public can find themselves in a situation where they need cash. This can also, of course, happen to Pension Funds, as was evident following Liz Truss's mini-budget. Credit unions may also need short-term access to additional liquidity by redeeming bonds they are holding. Bonds tie up investments for 5-10 years. Normally, a bondholder can redeem a bond for cash by selling it in the financial markets. In the case of an SGGB, the bond can be repurchased by the Scottish Government for cash. A fuller description is available in the appendices.

Route to market

For retail bonds, the institutional intermediary engaged by the Scottish Government to facilitate the public issue of SGGBs could be the Post Office. Provisions for online applications for the retail bonds would also facilitate a full public subscription to the bond issue.

In a standard government bond issue, commercial or investment banks serve as intermediaries, but this is not appropriate for a retail bond sale. For bonds sold to LGPS pension funds, there is no need to appoint an investment bank. The bonds could be offered to LGPS funds by the Scottish Government Finance Department through direct engagement with the funds, during which discussion should take place about the terms of the bond contract, which could be accepted as consistent with both the funds' fiduciary duty and the principles of community wealth building.

Follow the money - where do the interest payments go?

With an SGGB, interest payments would stay in circulation in the Scottish economy. Avoiding leakage, however, would require specific contractual conditions to be incorporated into the bonds that would prevent their subsequent sale in the secondary bond market. The bonds would only be redeemed by selling back to the issuer – the Scottish Government (see Appendix 1).

Value for money

An SGGB would almost certainly pay a lower interest rate than wholesale bonds. As the Scottish Government, in its capacity as the issuer, can decide the repayment structure, SGGB would be as flexible as wholesale bonds and more flexible than continued borrowing from the NLF. Lower transaction costs estimated at around £7 million simply for setting up the wholesale bond programme (Bloomberg, 2026) would result from avoiding payments to consultants and financial intermediaries.

Impact on Scottish Budget

The Scottish Finance Department would need to include a small contingency reserve in annual budgets to facilitate early redemption (i.e., before the maturity date) of SGGBs. (see Appendix 1).

Green bonds

The specified purpose of the bonds (to finance 'green' investment) is likely to encourage popular take-up at lower interest rates than either the NLF or the bond market. The lower rate can be attributed to a 'green premium' derived from public sentiment.

Democratic discipline

The bondholders - the public, credit unions, and LGPS funds - will be keen to hold the Scottish Government to account and to report exactly how the capital has been deployed, thereby strengthening "democratic discipline".

(2) The rates may appear low however evidence from the NS&I Green Savings Bonds which offer a 3-year fixed-term bond designed to fund green projects, has rates at 2.95% AER as of January 2026. Other secure green investments can be found with rates below 4%.

Why was a retail bond rejected?

FOI (2026a), which provides an extract from the Bonds Governance board Minutes: 11/03/24, offers little clarity on why a retail bond was rejected. An extract from the notes of a meeting with externals on 07/12/2023, FOI (2026b), discusses "Public vs Private Placement," including more specific information on the difference between wholesale and retail bonds. It notes that a retail bond may take longer to issue than a wholesale bond and that it is common to conduct a "roadshow" to reach retail investors, but it does not suggest that either point is material. It notes that approaching individual investors (the process for a wholesale bond) is "good for discretion," and highlights that wholesale bonds have a fixed structure, whereas retail bonds can be structured with much greater flexibility.

The general appeal of a retail bond is that they are "issued in denominations that are accessible to the man in the street, for example, in £5k tranches" (3). It is difficult to read this note without thinking that the case for a retail bond has been strongly supported; in fact, the note reads, "Key point – issuing a retail bond is not as straightforward as one might expect, but should not be ruled out at this stage." Unfortunately, the Scottish Government has not provided any information to determine exactly why it was ruled out, or at what stage.

Does the note (ibid), however, contain a smoking gun that alludes to why this decision was taken, "HSBC looked at retail bonds for TfL and Isle of Man but concluded that it was not worth it"? In other words, retail bonds don't make as much money for financial institutions as a wholesale bond.

Now that we have addressed the options available to the Scottish Government, it is worth comparing them in detail.

(3) We suggest that issuing the bonds in tranches of £100 would increase take-up by ordinary people who have fewer personal savings.

A FULL COMPARISON

Scottish Government (2025b) evaluates only wholesale options and compares those with the business-as-usual case of borrowing from the NLF. There is no consideration of a retail bond. This is more evidence that the destination - a wholesale bond issue - was set before all the options were considered. Had a less ideological process (less circular logic) taken place, we believe that borrowing options could have been scored on this or a similar framework. Scottish Government (Ibid.) states that it used a more detailed analysis to decide on multi-year wholesale options, but the framework is not publicly available. But at any rate, it did not consider a retail option.

We do not suggest that our framework should be used to determine a bond programme; however, this simple table demonstrates that had wider objectives been considered, an alternative decision may have been made. The objectives have been drawn from the Scottish Government Bonds Programme's strategic aims and include Critical Success Factors (Ibid.).

We have added broader economic objectives. We used a very simple scoring system, with 0 being the least likely outcome and 3 the most likely. There was no weighting for individual objectives.

Table 1. Wider economic objectives and additional public issuance option

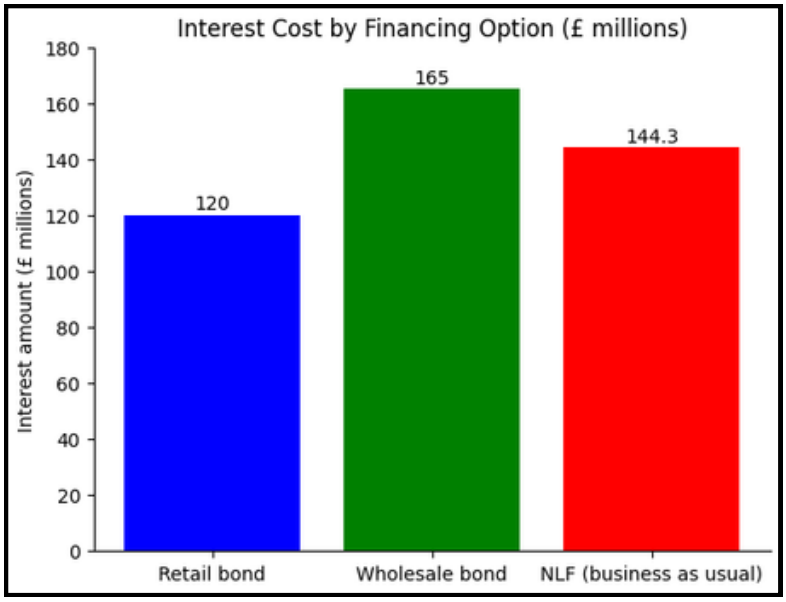
Objectives	Business as usual via the NLF	Wholesale bonds	Green bonds issued to Scottish Public/Institutions
Access to diverse sources of capital funding*	0	3	3
Enhance Scotland's fiscal sustainability *	1	2	2
To raise Scotland's profile among financial investors*	0	1	0
To raise Scotland's profile in the Scottish private sector	0	1	3
To develop Scotland's institutions*	0	1	3
Likely value for money*	2	1	3
Supplier capacity and capability*	3	2	2
Achievability*	3	2	2
Alignment with Net Zero	1	1	3
Interest repayment to the Scottish private sector	0	0	3
Redenomination of debt into Scottish pounds	0	3	3
Strengthening democratic discipline	1	1	3
Comply with the spirit of the CWB Bill	1	0	3
SCORE	**12**	**18**	**33**

Value for money

Of utmost concern to the Scottish Government (and, we would imagine, most commentators and members of the public) is value for money. The economic case presented by the Scottish Government considers the amount of interest paid, but not its destination. To properly assess value for money for the Scottish economy as a whole, it is essential to consider both the amount of public money paid in interest and where those financial flows end up. We should also note that issuing a wholesale bond is likely to cost around £7- £10 million more than continuing to borrow from the NLF or issuing a bond to Scotland's LGPS funds, and several times more expensive than issuing a retail bond. That said, we focus only on the highest cost, the interest payments, and their destination. Assumptions;

- £300 million for ten years (total £3bn) as outlined in the Scottish Government Bonds Programme
- An SGGB interest rate at 4%, NLF (business as usual) 4.81% (11 base points above UK 10-year Gilt), and a wholesale bond at 5.5%.

Chart 1. Interest cost and destination of interest payments by financing option



Key:
Blue: Interest payments flow to Scotland's households and businesses
Green: Interest payments flow to the foreign sector
Red: Interest payments flow to HM Treasury

On value for money alone, a retail bond is the clear winner, offering the lowest interest rate while generating £120 million more in income for Scottish households and businesses. A wholesale bond offers the highest interest and would see £165 million leak from Scotland's economy.

Scotland's immediate and long-term economic interests will be better served by issuing bonds as retail bonds or, if offering them to institutional investors, to do so exclusively to Scotland's LGPS funds. The total membership of the LGPS funds – active, deferred, and pensioner members – accounts for almost 25% of the Scottish working population; just under 700,000 members out of a working population of just under 2.8 million. Together with their families, the number of direct and indirect beneficiaries of the LGPS funds constitutes 25% of the total population of Scotland.

The 'best interests' of this 25% are no different from the interests of Scotland's people as a whole. The fiduciary duty of the LGPS funds, therefore, includes a duty to provide capital to support the growth in Scotland's productive capacity, which is in the best interests of everyone.

LGPS investment in infrastructure projects like the Ardersier ETF would retain the wealth in our own economy, generate the future cash flows needed to guarantee pension benefits, and help build the productive capacity we need so that Scotland can provide for all our people long into the future. This approach would demonstrate that the Scottish Government was ready to 'invest in ourselves'.

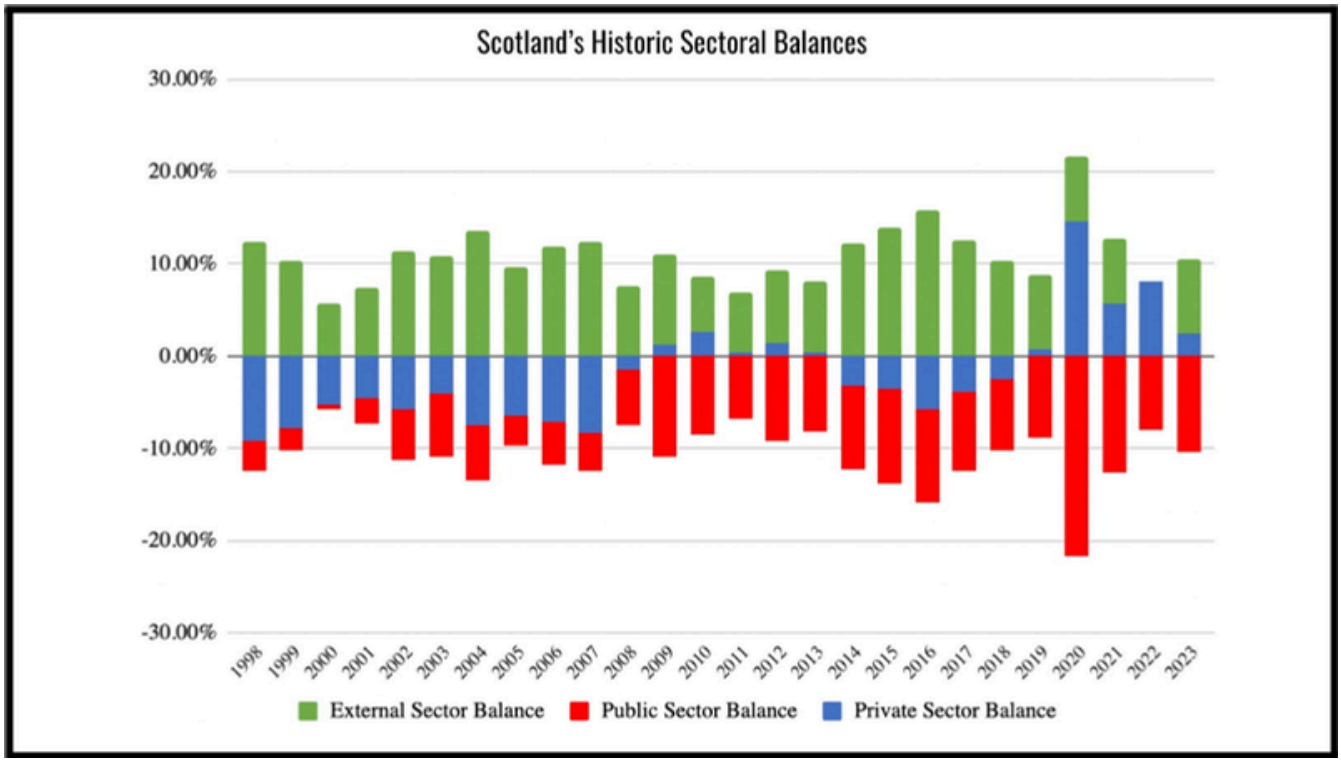
IN SCOTLAND, WE NEED TO INVEST IN OURSELVES

The Community Wealth Building (Scotland) Bill was passed in February 2026 and is now awaiting Royal Assent. A debate on this Bill took place on November 20th, 2025, coinciding with the publication of the Bond Programme. The concurrence of these two Scottish Government policy initiatives is important, but it is clear that they have been developed in isolation from one another and therefore represent a classic example of failing to 'join the dots'.

Community Wealth Building (CWB) is an approach to economic development based on the objective of stimulating and retaining economic activity within a local economy. It consists of five "pillars": spending, workforce, land and property, inclusive ownership, and finance (SPICe, 2025). For the purposes of this paper, we have confined our considerations to the "finance" pillar. However, when we consider income flows, we must note that they are often generated from the ownership of "land and property"; it could be argued that the Bond Programme spans the entire CWB framework.

The aim of CWB in relation to finance is to ensure that flows of investment and financial institutions work for local people, communities, and businesses, and that money and investment are retained in a local area to support communities and businesses. It is essential that Scotland and our communities retain their financial wealth. Scotland's sectoral balances show that the domestic non-government sector (referred to as 'private sector' below) normally spends more than it earns. In fact, the public sector was in surplus in only six years between 1998 and 2019.

Figure 3 Scotland's Historical Sectoral Balances



Source: Ehnts and Thomson (2025)

This is an important consideration in the context of the Scottish Government's proposed bond programme, which will increase foreign-sector earnings. The decision to issue wholesale bonds, with the deliberate aim of removing financial wealth from Scotland, is inconsistent with the Scottish Government's commitment to Community Wealth Building and with the law that will be enacted in the Community Wealth Building Act 2026.

CONCLUSION

There is significant capacity within Scotland to invest in ourselves. This does not seem to be recognised by the previous administration. Community Wealth Building is an essential "pillar" of investing in ourselves, and the Scottish Government could lead the charge for CWB by ensuring that all interest payments on Scottish Government debt are retained in Scotland's economy. Indeed, we believe the spirit of the Community Wealth Building Act 2026 demands it.

The economic case for wholesale bonds is very narrow, and the bond programme is primarily driven by the desire to attract more FDI. The extent of the "wider economic benefits" detailed in (Scottish Government 2025a: 5) is telling,

> *Improving information about Scotland's economy - credit ratings provide essential information to investors, helping them benchmark risks. The credit ratings from Moody's and S&P Global are a public endorsement of Scotland as a high investment grade country.*
>
> *And*
>
> *Improving networks and intermediation in the economy - providing more opportunities for investors to learn about investment opportunities in the Scottish economy.*

These are not broader economic benefits, as they focus exclusively on foreign investor sentiment. The evidence that the wholesale bond will 'crowd in' more FDI is very weak. Given that the net annual outflow of £11.5bn in repatriated profits (Scottish Government, 2023a) reduces Scottish Gross National Income, we must question why it appears to be an unquestionable assumption that FDI is always and everywhere good for Scotland's economy.

Issuing wholesale bonds does not offer value for money, as they carry higher interest payments than the NLF or retail bonds. In fact, once fees for ratings agencies, consultants, and financial firms are included, it is clearly the most expensive option. It also creates the highest net outflow of financial wealth from Scotland, further weakening already debt-stressed Scottish households and businesses.

By issuing a bond available only to Scottish households, credit unions, or Local Authority Pension Schemes, the Scottish Government would be 'crowding in' a belief that we have the capacity to invest in ourselves.

Recommendation

The Scottish Government should pause the process of issuing a wholesale bond and consult more broadly with Scottish households and businesses, including Scotland's Local Authority Pension Schemes and Credit Unions. With the passing of the Community Wealth Building (Scotland) Bill on the 11th February 2026, the new Parliament has an opportunity to turn words into action by issuing a bond that, rather than weakening the Scottish economy, strengthens its resilience.

APPENDIX 1

Details of an SG retail bond

An SG retail bond could be offered on the following terms. (Similar terms could be applied to a Local Authority Bond)

This borrowing by the Borrower (Scottish Government/Local Authority) is for the purpose of funding capital investment in our economy (or for specifically designated purposes e.g., housing or decarbonisation projects; "housing bonds" or "green bonds")

1. The Borrower will repay (name of bondholder) the sum of (the principal sum) on dd/mm/yy (the maturity date)

And

1. The Borrower will pay interest at x% per year to (name of the bondholder), payable on the anniversary date of this bond.
2. This bond is not transferable and may only be redeemed by the Borrower
3. In the event that (name of the bondholder) wishes to redeem this bond before (the maturity date), the Borrower will repay (principal sum) less x% of all interest paid up to the date of early redemption.
4. The Borrower reserves the right to refuse an application for early redemption of this bond and/or to defer the date of redemption
5. The Borrower reserves the right to repay any outstanding liability in Scottish currency in the event that the Scottish Government introduces a new currency before the maturity date.

It is proposed that these retail bonds are redeemable only by the Borrower to ensure that interest payments are retained within the Scottish economy and bond sales to foreign investors via secondary bond markets are prevented. The objective is to avoid what happened during the Thatcherite privatisations in the 1980s and 1990s, when shares in public utilities were offered to the public, many of whom then sold those shares to big institutional investors.

The right to refuse an application for early redemption is to prevent potential budgetary pressure arising from a flood of applications. Having to return money to bondholders at short notice could also disrupt capital investment programmes. This contractual condition does not prohibit early redemption but would give the Borrower time to manage the financial impact of any early redemption requests.

APPENDIX 2

The fiduciary duty of LGPS pension funds

The orthodox interpretation of the laws relating to "fiduciary duty" is that the Trustees must act in the "best interests of the beneficiaries". This is the common law of fiduciary duty, which applies to Trusts. In practice, the term "best interests" has been interpreted as "best financial interests".

This understanding of fiduciary duty is, however, under greater scrutiny and challenge than ever, particularly because pension funds have failed to invest at scale to support efforts to tackle climate change and decarbonise economies. Efforts are being made to amend the current UK Pension Schemes Bill 2025 to include a wider definition of fiduciary duty so that it takes into account long-term impacts and benefits of investment choices. See: ShareAction | Pensions Schemes Bill Lords Committee Stage Briefing.

Such a definition of fiduciary duty will mean non-monetary considerations must be taken into account - "best interests" would no longer be limited to the monetary value of pension benefits but include important non-monetary factors which contribute to wellbeing. A monetary pension is only one element contributing to individual wellbeing. People also rely on food security, high quality housing, energy, health and social care etc, and all the infrastructure required to deliver these essentials for quality of life.
The "beneficiaries" of the LGPS pension funds are the current and former employees of the local authorities and other bodies which support the delivery of local authority services (such as educational establishments, housing providers, etc.).

The pension contributions that fund the LGPS funds, and which are then invested in order to obtain financial returns on those contributions, all originate from the revenues that sustain local authority finances. These revenues are a combination of central government block grant and local taxes and other revenues (e.g., parking fees revenue, visitor levy, etc). Employment costs, including pension contributions, are met from these revenue sources.

Local authorities make pension contributions directly into one of the LGPS funds. Part of the payment is their own contribution as the employer, and the other is the employee's contribution, which is deducted at source from their pay by the employer and paid into the LGPS fund.

The national and local taxes paid by the Scottish public are the source of the LGPS pension fund contributions income. There is, therefore, an overwhelming argument that LGPS should be investing more of its funds in local economies and in the wider Scottish economy.

Local authority employees will retire one day. It is in their long-term interests that they have the benefit of high-quality public services, such as access to high-quality housing and health and social care provision. It falls within the fiduciary duty of the LGPS pension funds to provide investment that supports the long-term provision of high-quality public infrastructure.

In our opinion, the spirit of the Community Wealth Building Act reshapes the meaning of "fiduciary duty" when applied to the Scottish LGPS funds. As these funds are all funded by income from the public purse, the promotion of the principles of CWB into statute imposes on Scotland's LGPS funds an obligation to invest in accordance with those principles.

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SCOTTISH GOVERNMENT BONDS AND INVESTING IN OURSELVES