

The Legacy of the 2021-26 Session: Memorandum by Professor David Heald¹ to the Finance and Public Administration Committee of the Scottish Parliament

Introduction

1. I thank the Committee for providing me with opportunities to contribute to its scrutiny work during the 2021-26 Session of the Scottish Parliament. I have found that engagement enjoyable. I have long been an advocate of fiscal devolution, both on the expenditure side (diverging on expenditure level and mix) and on the revenue side (securing devolved taxation powers and using them). However, it is clear from what I say in this brief memorandum, and have said at greater length in previous memoranda to the Committee, that I am critical of where the Parliament has reached after more than a quarter century of legislative devolution.
2. The pre-circulated document (Finance and Public Administration Committee, 2026) impressively records the Committee's activities and outputs in the 2021-26 Session. My understanding of the purpose of the planned Legacy Report is to create a documentary record for the successor Committee and to indicate potential topics for investigation. I set out below what I believe to be the most urgent issues. Some are within the powers of the Scottish Parliament and Scottish Government to resolve, while others require co-operation by the UK Government. Although this distinction is not absolute, I will start with those issues on which action in Scotland could ameliorate existing problems, before moving on to those issues which require co-operation from the UK Government.

Demand-Led Public Expenditure

3. It is clear from what the Scottish Fiscal Commission (2025, p. 5) has published that the Scottish Budget is fiscally unsustainable. The long-term problem might look manageable when the average fiscal gap over the years to 2074-75 is 1.2% on the assumption that there is no UK fiscal consolidation, but it is clearly unsustainable at 11.1% in the modelled UK fiscal consolidation. Either public spending will have to be curtailed, or taxes will have to increase, or some combination of both. Roy (2026) sets out very clearly the daunting fiscal prospects facing the Scottish Government formed after the May 2026 Holyrood election, and this is just the beginning.

¹ David Heald is Emeritus Professor at the Adam Smith Business School, University of Glasgow. Since 2023 he has been a member of the Scottish Government's Advisory Group on Tax Strategy. He is a member of HM Treasury's User and Preparer Advisory Group on government financial reporting (2020 to present) and is a member of the Local Authority (Scotland) Accounts Advisory Committee (2025 to present). Sole responsibility for the contents of this memorandum rests with the author.

4. The Scottish Government has limited resource borrowing powers and, unlike the UK Government, must set a balanced budget.² Since 1998, the UK Treasury has distinguished between Departmental Expenditure Limits (DEL), which can be subjected to hard limits, and Annually Managed Expenditure (AME) for which outturn expenditure depends on how many recipients meet pre-set eligibility and on pre-set payment levels. The Scottish Budget's hard limit comes into conflict with significant components of expenditure, notably but not exclusively social security, overspends on which then squeeze out public services expenditure. Strikingly, in 2007-08, per capita health expenditure in Scotland was 14% above the UK but only 1% above in 2024-25 (Treasury, 2008, Table 9.12; Treasury, 2025, Table 9.6). The comparable figures for Total Expenditure on Public Services, which includes non-devolved expenditure, were 17% above and 14% above, respectively. Farquharson *et al.* (2021) calculated that devolved Scottish spending in 2019-20 was around 27% higher than comparable expenditure in England. If Scotland were to ask for a Barnett floor on convergence, as has now been granted to Wales and Northern Ireland, Scotland's case would be substantially based on its differentially adverse health status and speed of population ageing.
5. Unlike for Northern Ireland (Northern Ireland Fiscal Council, 2021, pages 110-15), there are no systematic data for Scotland where there are many examples of 'above-parity' spending but where it is hard to find any of 'below-parity' spending. This gap has to be financed by spending less elsewhere. In my view, every Scottish Budget should provide a multi-year table of above-parity and below-parity expenditure lines. Alternatively, the successor Committee could request that the Scottish Fiscal Commission prepare such data. There has been reluctance to generate data which, though it might be politically uncomfortable, are a pre-condition for rational prioritisation.

Devolved and Local Taxation

6. My view is that too much policy effort has gone into minor taxes with limited revenue potential and not enough into managing the significant revenue-raisers, namely Scottish Income Tax, Non-Domestic Rates and Council Tax. The recent collaboration between the Scottish Government and the Convention of Scottish Local Authorities on Council Tax reform led to a consultation which closed on 30 January 2026 (Scottish Government, 2025), passing the political difficulties to the next Scottish Government.

² This is broadly true, but there are minor exceptions in relation to borrowing for forecast error of tax revenues and about the operation of the Scotland Reserve.

Revaluation is essential but managing the transition from 1991 property values to current values will be politically difficult because of big shifts in relative valuations across locations and housing types.

7. It would be possible to make the Scottish income tax system more progressive than that in the rest of the UK, without there being irrational peaks in marginal rates between £46,663 and £50,270 (different higher rate thresholds interacting with National Insurance Contributions) and between £100,000 and £125,140 (phased withdrawal of the Personal Allowance). The former has been created by Scottish Government policy decisions and the latter by UK policy decisions, though it could be offset by, albeit politically difficult, adjustments to Scottish income tax rates. The default position at both UK and Scottish levels is to use fiscal drag to generate more revenue, on the assumption that this is less politically costly than changing tax rates.
8. The Scottish Government (2024) published its tax strategy in December 2024. A tax strategy should set out where the Government would like the tax structure to be, say ten years ahead. If it were a tax strategy in a meaningful sense, it would be possible for the Parliament to assess annual changes as taking the tax structure closer or further away from the desired destination. Although there is useful material in that document, it is not a tax strategy because ministers did not wish to constrain their annual budget decisions on tax.
9. Without substantial cross-party co-operation, necessary reforms to these three major taxes will not be made and the reputation of fiscal devolution will suffer.

Intensified Interactions with UK Budget Timing and Decisions

10. The paradox of increased fiscal devolution is that implementation has intensified interactions between the Scottish Budget and UK Budget timing and decisions. Clearly, UK public finances are under stress from, *inter alia*, geo-political uncertainty, expansion of defence spending, legacies of the Global Financial Crisis and Covid, and higher debt interest. My view is that delayed UK fiscal events are not in the UK's best interests, as well as being disruptive to the devolved governments and legislatures. What is required at all levels (UK, devolved and local) is multi-year stability in budgetary planning. Coping with spending pressures in the context of minimal real-terms growth in the rest of the 2020s would be eased if there were belief that in-year top-ups and cuts would not occur. Without the Scottish Government having greater reserve-holding powers, in-year top-ups are likely to lead to rushed spending before year-end to avoid the return of funds to the Treasury and political criticism of underspends. Without greater resource

borrowing powers, the Scottish Government has insufficient fiscal flexibility to manage the fiscal risks to which it is now exposed.

Revisiting Scotland's Fiscal Framework

11. The revision of Scotland's Fiscal Framework (UK Government and Scottish Government, 2023) delivered the Scottish Government's bargaining objective of confirming the use of the Per Capita Indexation method for calculating Block Grant Adjustments. The '2 up, 2 down' briefings³ in the run-up to the 26 November 2025 UK Budget highlighted the vulnerability of the Scottish Budget to UK decisions. The case for a higher limit on the Scotland Reserve and for more resource borrowing powers has been made above.
12. The intended purpose of devolving more taxation powers to the Scottish Parliament was to increase its fiscal autonomy and accountability. This would increase its fiscal legitimacy at the expense of taking on more fiscal risk. In practice, because of global and UK developments, the Scottish Budget has become more vulnerable to UK fiscal decisions and timings because Block Grant Adjustments depend on the relationship between UK and Scottish revenue changes. For example, if bonuses rise in the City of London and English Premier League footballers secure higher relative salaries, there will be increases in the income tax Block Grant Adjustment for Scotland. In the context of asymmetric devolution, there are no simple answers, so policy attention will be essential during the next Session of the Scottish Parliament.

Enhancing Parliamentary, Media and Public Understanding of Spending and Taxation

13. I have always been impressed by this Committee's understanding of the fiscal problems faced by the Scottish Government. However, I doubt whether this understanding is shared across the Parliament and, whatever the result of the 2026 Holyrood election, there will be many new MSPs. Public understanding is not helped by the decline of specialist correspondents in the traditional media. A survey commissioned by the Scottish Government (2026, p. 3) reported that:

54% of respondents felt they understood the UK tax system and the UK taxes paid. This compares to 41% of respondents who felt they understood tax devolution in Scotland and the devolved taxes they paid. This is broadly in line with the last three years.

³ These briefings were that the UK Government would increase the UK basic rate of income tax by 2 percentage points and decrease employee National Insurance Contributions by 2 percentage points. The former was estimated to lead to a £2 billion increase in Scotland's negative Block Grant Adjustment for income tax. Neither change was made.

Given the complexity of the UK and Scottish tax systems, I am doubtful of these results which emphasise the importance of how survey questions are formulated. In order to achieve the intended benefits of fiscal devolution, the successor Committee could valuably contribute to enhancing MSP and public understanding of how Scotland's public finances now operate.

References

Farquharson, C., Phillips, D. and Zaranko, B. (2021), *Public service spending in Scotland: trends and key issues*, Scottish Election Analysis Briefing Note 2, IFS Briefing note BN323, London, Institute for Fiscal Studies.

Finance and Public Administration Committee (2026), *Session 6 legacy issues and key themes – Finance*, mimeo.

Northern Ireland Fiscal Council (2021), *The Public Finances in Northern Ireland: A Comprehensive Guide*, Belfast, Northern Ireland Fiscal Council.

Roy, G. (2026), [*Promises and Pressures: The Tax and Spending Choices Facing the Next Government*](#), Stevenson Trust for Citizenship Lecture, University of Glasgow, 3 February.

Scottish Fiscal Commission (2025), *Fiscal Sustainability Report*, Edinburgh, Scottish Fiscal Commission.

Scottish Government (2024), *Scotland's Tax Strategy: Building on our Tax Principles*, Edinburgh, Scottish Government.

Scottish Government (2025), *Future of council tax in Scotland: consultation*, Edinburgh, Scottish Government.

Scottish Government (2026), *Scottish Budget 2026-27 – Public Attitudes to Tax*, Edinburgh, Scottish Government.

Treasury (2008), *Public Expenditure: Statistical Analyses 2008*, London, HM Treasury.

Treasury (2025), *Public Expenditure: Statistical Analyses 2025*, London, HM Treasury.

UK Government and Scottish Government (2023), *The agreement between the Scottish Government and the United Kingdom Government on the Scottish Government's fiscal framework*, London, HM Treasury.

Professor David Heald
4 February 2026