



OFFICIAL REPORT
AITHISG OIFIGEIL

DRAFT

Finance and Public Administration Committee

Tuesday 9 December 2025

Session 6



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FINANCE AND PUBLIC ADMINISTRATION COMMITTEE
34th Meeting 2025, Session 6

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*Michael Marra (North East Scotland) (Lab)

COMMITTEE MEMBERS

*Ross Greer (West Scotland) (Green)

*Craig Hoy (South Scotland) (Con)

*John Mason (Glasgow Shettleston) (Ind)

*Liz Smith (Mid Scotland and Fife) (Con)

*Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stephen Boyle (Auditor General for Scotland)

Richard Robinson (Audit Scotland)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance and Public Administration Committee

Tuesday 9 December 2025

[The Convener opened the meeting at 09:30]

Budget Scrutiny 2026-27

The Convener (Kenneth Gibson): Good morning and welcome to the 34th meeting in 2025 of the Finance and Public Administration Committee. We have one public item on our agenda, which is an evidence session on the Auditor General for Scotland's report "Financial sustainability and taxes", published on 13 November 2025. I welcome to the meeting Stephen Boyle, Auditor General for Scotland, and Richard Robinson, senior manager, Audit Scotland.

Before we move to questions, I invite the auditor general to make a short opening statement. Good morning, Auditor General.

Stephen Boyle (Auditor General for Scotland): Good morning, and many thanks for your invitation to join you this morning to speak to my report on fiscal sustainability and taxes.

As the committee will know, devolved taxes have contributed positively to Scottish budgets and are forecast to continue doing so. However, that contribution is being constrained by the relatively weaker performance of the Scottish tax base compared to the rest of the United Kingdom, as a result of slower earnings and employment growth. The Scottish Government, in our view, has not yet been transparent enough about the difference and has not yet set out a clear enough strategy or assessment of the extent to which that can be addressed through its tax and economic approaches.

The Scottish Government faces a growing fiscal challenge, with a forecast £2.6 billion gap in resource funding projected by 2029-30. Tax and economic growth are key pillars of the Scottish Government's medium-term financial strategy, but it has not been clear enough about the role that those pillars are expected to play over the medium term, with the current focus largely on controlling public spending. The Scottish Government's fiscal sustainability delivery plan draws on actions from the national strategy for economic transformation, but stronger alignment of those strategies is needed to ensure that actions that can best support fiscal sustainability are identified and prioritised.

Following the announcement of the UK Government budget last week, this is clearly a critical time for the Scottish Government as it considers the implications for its own 2026-27 budget and medium-term financial plans and spending review next month. Clear and consistent communication is critical to support parliamentary and public understanding and scrutiny of budget choices and fiscal plans. My report includes recommendations to support improved transparency in those important areas.

As ever, Richard Robinson and I will do our utmost to answer the committee's questions. Thank you.

The Convener: Thank you very much. We all have your report right in front of us. I will ask you some questions that you have answered in your report, but I am quite keen to get some of that on the public record.

In your opening statement, you highlighted transparency. Can you talk us through your frustrations with the Government's lack of transparency and how it can be improved?

Stephen Boyle: You are right, we talk about transparency in the report. A number of our reports talk about the importance of clear, consistent communication and understanding of what can be complex technical matters and today's report is perhaps an example of that. I will start with two points and, as I might do throughout the session, I will turn to Richard if there is anything that he wants to add.

The first point is about the public's overarching understanding. Drawing on the Government's own analysis of the understanding of taxes, which this report covers, 50 per cent of people surveyed said that they do not have a good understanding of how taxes work in Scotland. To me, that feels like a real deficit. People need and should expect to have a clear understanding of their taxes and what they are used for. That that is not the case needs to be addressed. I think that the Government has recognised that and has set out, in some of its strategies, plans to address that. Transparency on that point really matters.

Secondly, we drill into some of the documentation that sets that out. I know that the committee will be familiar with much of what I will say. Our report talks about the tax performance gap, which—for the purpose of getting it on the record, rather than assumed absence of knowledge—is that the monies raised by taxes, because of the workings of the fiscal framework, do not always then translate directly into what that means for the Scottish budget. The transparency point in budget documentation really matters. What we have found is that you cannot see those two figures side by side in the budget

documentation. You would have to go looking for them, first in the main body of the report and then in the annex. We think that it would support scrutiny and understanding, which is the essence of the transparency point, if those figures were set out more clearly, side by side. We make recommendations on both those points in today's report.

I will turn to Richard Robinson in case there is anything that I have missed or that he wants to develop.

Richard Robinson (Audit Scotland): Thank you, Auditor General. Those are probably the two main points. Paragraph 40 of the report talks a little bit more about transparency and understanding. One of the points is that that level of understanding has been fairly consistent for a number of years, so the question is the extent to which the Scottish Government can do something to shift the dial on that understanding. We note that the Government has done some foundational work through its good practice guide for improving communication on tax, but the question is the extent to which we will see that manifest itself in a better understanding of tax among the population of Scotland.

On the point about the transparency of the numbers, at paragraph 38 we talk about that in relation to the 2025-26 budget. The high-level figure of up to £1.7 billion is clearly stated in the documents, but you would have to go to the annexes to understand what that means for the impact on the budget. That figure will change: at the point of the 2025-26 budget, it was net £838 million, while the latest Scottish Fiscal Commission forecast has brought it down to £616 million. Presenting the figures together would help a better understanding of and transparency about the intentions for what could be raised, against what the impact of that could be in terms of spending power for the Scottish budget.

The Convener: Thank you. I will not ask about the tax base performance gap because I am quite sure that colleagues want to dig into that in some detail.

I was surprised, though, by the comment in paragraph 40 that the percentage of people who state they do not understand taxes well is around 50 per cent. I thought that it would be much higher than that. I think that the number of people who do not understand what taxes are devolved and reserved is infinitely higher than 50 per cent. I think that you would be quite shocked. People do not realise that excise duties or VAT or whatever are reserved; there is corporation tax, inheritance tax, you name it. I think that there is real surprise about what is and what is not under the control of this Parliament.

Stephen Boyle: That is a valid comment, convener. There is a deficit in public understanding. We set out in this survey—perhaps also to express my own surprise—the level of understanding in other parts of the UK, where only 40 per cent said that they did not have a good understanding. There is additional complexity with devolved taxes, as you suggest, as to which taxes are reserved and which are devolved. From our perspective, and I am sure that the committee would agree, this really matters. It matters that the public understands—that they are able to have a feel for—how their taxes are used. The totality of public reporting on spending is a core part of how democracy operates effectively. We are supportive of plans that the Government will take to improve public understanding. I welcome the acknowledgement that it is not sufficient to say that this is complex and difficult. More has to be done to engage public understanding of how taxes and public spending work in Scotland. We at Audit Scotland recognise that we have a part to play in that through our reporting and to be clear and concise in how we reflect that in our reports and our recommendations.

The Convener: Talking to constituents over many years, I have found that most of them are quite astonished when they find out that council tax does not provide 100 per cent of local authority funding. When you tell them that it is probably 14 or 15 per cent, they are quite amazed.

In paragraph 10 of the report you say that

“This audit focuses on taxes devolved through the Scotland Acts 2012 and 2016”

but that it is not about non-domestic rates or council tax. Would you like to be able to include those in future?

Stephen Boyle: It is always a possibility.

The Convener: It could make a more rounded picture.

Stephen Boyle: Yes. We keep our work programme under review. When I say “we”, I refer to the fact that both the Accounts Commission and I receive services from Audit Scotland.

We are clear that taxes really matter. Not to labour the point, but it is a subject that people have to engage in. We will keep our programme under regular review as to where we go next. Council tax, property taxes and local tax and spending remain of key interest to me and the Accounts Commission. As ever, convener, as we prepare and deliver our work programme, we regularly consult with the Parliament, myself through the Public Audit Committee and the Accounts Commission through its wider range of communication channels. For my own programme I will continue to do that probably early in the next

parliamentary session through the Public Audit Committee.

The Convener: I have a further concern on transparency and communication. In exhibit 1, you say about VAT assignment:

“To date there has been no agreement between the Scottish and UK Governments on a way forward for the implementation of VAT assignment.”

You continue in paragraph 5 to say:

“In July 2025, the Scottish Affairs Committee of the UK Parliament raised concerns over progress”.

This committee has consistently and repeatedly said that we do not believe that VAT assignment would be of any benefit whatsoever to Scotland. It would cost millions of pounds to set up. There would be arguments between Scotland and the UK over the levels of assignment—blah, blah, blah. There would be no control whatsoever in this Parliament of the VAT level. The view of this committee, expressed to the Scottish Government over many years, is that it is a complete waste of time. I see no reference to that in here; it is as if we are still a week after the Smith commission report has been published and we are just looking at when this will be implemented. I would hope that, in future reports, you would make it clear that we feel that this is a dead duck and that it is a waste of time to talk about it. We could talk about devolving VAT—that is another argument—but we do not feel that assignment should be progressed.

Stephen Boyle: I understand that and I appreciate that the committee has heard from the Cabinet Secretary for Finance and Local Government, setting out the Scottish Government’s position—broadly mirroring your remarks there, convener—that the level of risk with the assignation model is too much for the Scottish Government, never mind the complexity that would be involved in trying to implement such a scheme within what would be Great Britain, or wider, following Brexit and the application of the United Kingdom Internal Market Act 2020 and so forth. There is no doubt real complexity there, and I suspect that that will be one of the many reasons, if I might speculate, as to why it has not progressed as originally intended.

Yet, it does not seem that that is entirely reflected in the Scottish Affairs Committee’s or the UK Government’s position. The correspondence from this summer seemed to suggest that there was more appetite to explore this model. As ever, this is clearly a matter not for me as Auditor General but the two Governments to reach a settled position on.

The Convener: I fully appreciate that, but we are talking about transparency and communication. I think that that point should be part of the transparency and communication in

your document. It is not as though we have raised it once or twice. We have raised it umpteen times in this committee and the Scottish Government has more or less conceded the point that, yes, there is not really much point in progressing it. When we read something like that, it is a bit frustrating, to be honest.

Stephen Boyle: I recognise the frustration. Another point that I would make is that despite the correspondence and the communication, I am not sure that there has been a clear decision point. It seems that there is still something of a vacuum about whether that assignment will or will not take place. Until there are either changes or confirmation from both Governments it feels like that is the position. I am happy to accept the feedback on that part of the report.

The Convener: Thank you.

Let us talk more directly about the Scottish and UK tax systems and the interaction between them. Is the UK tax system progressive, given its obvious anomalies?

Stephen Boyle: It was not part of our audit to make a judgment on the UK tax system. My responsibilities, as you know, relate to devolved taxes.

The Convener: The reason I ask is that the Scottish tax system is bolted on to the UK system. Some of our previous witnesses over the years—Professor Heald is an obvious example—have talked about the fact that the UK system is not progressive. We have seen graphs that show that, for example, when your income reaches a certain level, you lose the child benefit. That applies to one person and not another—blah, blah, blah. How can the Scottish system be made more progressive if it has to interact with a system that is not progressive? Do you get what I am saying? I may not have put it very clearly. With a progressive tax system, everybody thinks that, as earnings go up, their share of tax goes up, but that does not happen. It goes up, it stays level and then it goes down—and we see the same picture in Scotland.

From an audit perspective, how can the system be made more progressive in the Scottish context, given the backdrop that we have to work with?

09:45

Stephen Boyle: Our audit focused on the devolved tax arrangements in Scotland and how those relate to the fiscal sustainability of the Scottish Government. I hope that we are clear in the report that the Scottish Government’s intention is to create a progressive tax system. The Scottish Government will cite for itself the benefits that accrue from that, such as the bigger impact that

that has on the Scottish budget. Exhibit 2 in the report sets out the growth, in terms of impact, of the different tax regime in Scotland, particularly as we project out, towards next year and beyond, the impact of differentials in Scottish income tax.

The Convener: I will move on to that in a wee second. The reason I am trying to get your view on this is that in paragraph 24 of your report, you talk about the higher rate of tax in Scotland, which begins at £43,663, compared to £50,271 in the rest of the UK. What about the impact of national insurance and tax combined? If you think about it, people earning between those two figures in Scotland will pay 8 per cent national insurance, plus the higher rate of tax at 42 per cent—effectively, a marginal rate of half. However, when their income goes over £50,000, their tax drops, and so the system becomes less progressive. People who earn £51,000 will pay a lower marginal rate of tax than people who earn £44,000. Is that not right?

Richard Robinson: I think that you are right that there are a few anomalies. If I am right, convener, it is about how income tax interacts with other taxes as opposed to being progressive in and of itself.

I know that people will have raised with the committee issues around national insurance, where the band points are aligned to the UK system and not the Scottish system. There will be points at which they are out of line with each other and there will be a blip. Other commentators have also mentioned the removal of the personal allowance after £100,000, and the impact that that can have on the effective pound rate. You also mentioned that there may be other spending-related elements, such as child benefits and so on.

It is fair to say that, for the tax in and of itself, the Government is looking to create a more progressive system than exists in the rest of the UK, which is demonstrated by the fact that there are more bands. There is the potential for that to increase fiscal drag and so on, which we discuss in the report, but it is fair to say that, once you look at the wider tax, spending and benefits arrangements, the impact on individuals will always vary.

The Convener: The Scottish Government has made it clear that it has tried over the years to get national insurance devolved. That will not happen any time soon, as we know. If it is to maintain a progressive tax system overall, should the Scottish Government adjust its taxation model—the money that people cough up each month—to take into account the different situations south of the border? The obvious thing would be to have the same higher rate of tax as in the rest of the UK, but that will probably not happen. How can the Scottish Government realign things to continue to

have a progressive system that does not have a marginal rate that drops as income increases, as I just alluded to?

Stephen Boyle: I fear that I may frustrate you with my answer, but I am mindful—

The Convener: I know that you are trying not to get too deep into policy matters.

Stephen Boyle: I am mindful that my role is not to advise Government on how to implement a progressive tax regime; it is to say what we observe.

As you mentioned, we set out the various bands and how those apply in relation to Scottish income tax. As Richard Robinson quite rightly pointed out in response to your question, it is clear that other taxes will have a bearing on that, national insurance perhaps being the most relevant, as it relates to income tax and so forth. However, we do draw on and reference the tax strategy. We note the Scottish Government's aim is that more than half of Scottish taxpayers will pay less tax than if they paid tax in the rest of the UK. In exhibit 5, we draw on some of the analysis of the Scottish Government's own forecasting around that.

The last thing that I will add, convener, is that this is complicated stuff; it is complicated to get that calibration right as it relates to how devolved responsibilities interact with reserved powers. I am quite sure that that will be part of Government's own thinking and the advice that it is taking in advance of the budget next month.

The Convener: Thank you.

I have another couple of questions. In paragraph 32, you talk about

“differences in the sectoral make-up of the economy, such as the sensitivity of the oil and gas industry in Scotland to changes in global oil prices”.

What about the energy profits levy? Have you looked at that?

Stephen Boyle: We have not looked at that in detail as part of this report. We looked more broadly at some of the structural differences between the Scottish and UK employment markets. Most importantly, where are the higher-paid jobs? In what industries are those jobs found? Those are the key drivers, as opposed to some of the broader issues, such as what gross domestic product growth we will have. Actually, very specifically—

The Convener: The argument right now in Aberdeen is that the levy is having an impact on exactly that—employment, income tax and so on. If oil companies are scaling back, they are not employing as many people, and those people are not paying income tax. Is that not something that should be included in a report such as this?

Stephen Boyle: I think that it is, rather, for the Government very specifically to think about what that then means for its tax and economic strategies.

The Convener: Do you mean the UK Government on this occasion, or the Scottish Government?

Stephen Boyle: We do not make recommendations to the UK Government, so our audit is focused on the Scottish Government, within the confines of its existing powers.

On your earlier questions, we recognise—

The Convener: The Scottish Government has no power over the levy.

Stephen Boyle: That is why we have not looked at the energy profits levy, but what we did draw on is—

The Convener: Hold on. We do not have any control in Scotland over oil prices, but you report mentions

“the sensitivity of the oil and gas industry ... to changes in global oil prices.”

Surely if you are mentioning global oil prices, you need to look at the issue in the round and talk about the impact of things such as the energy profits levy.

Stephen Boyle: I would say that we have identified that as a factor. To speak to the wider point that we touch on in the report, in order to achieve the benefits from its tax approaches that the Scottish Government wants to achieve through to the Scottish budget, we say that there needs to be better alignment with economic strategies.

We did a report in the past couple of years on the national strategy for economic transformation. I think that I might even have had some discussion with the committee in recent times around the need for NSET to have clearer targets, detailed means of measurement and so forth, and how that relates to the benefits that accrue from taxes, including income tax.

Of course, there are many wider factors that will have a bearing on that, but we are always mindful that it brings Audit Scotland up against two elements. One is the boundary between audit and independence, and advice to Government; the other point is about which responsibilities are devolved and which are reserved. There will always be other areas to which you could take a similar approach, and, as I mentioned in response to one of your earlier points, we will think about what that means for our future work.

Richard Robinson: Effectively, we are talking about what the Scottish Government understands about the tax performance gap which, as we say

in the report, is reducing the impact that the devolved taxes can have. We set out what we found from what the Scottish Fiscal Commission and the Scottish Government have said about that. One of the findings is that, although there are overall drivers—the strongest being weaker earnings and employment growth in Scotland compared to what happens in the rest of the UK—the granularity, the level of data and the understanding could improve. Some of that is to do with the reasons that you raised, convener. In paragraphs 66 to 68, we talk a bit more about the different sectors with higher earners. There are some structural differences in the distribution and shape of the tax base, and a difference in the economic make-up. That represents the Government's understanding of the facts.

We then inquired about what the Scottish Government knows about those differences in order to do something about them. In part 3 of the report, we raise the extent to which there is further analysis to be done, so that so you can understand the differences exactly and then decide you can do about any of them, especially if they are structural or relate to economic interventions and so on. We were expecting further analysis following the letter that we mention in paragraph 71, but we are not aware of any further analysis that was done alongside the May MTFS. That leads us to our findings on and recommendation about the links between economic strategies and what they mean for taxes, which we refer to from paragraph 73 onwards.

As the Auditor General rightly raises, in a number of areas there will be elements of reserved decisions and devolved decisions interacting. For the Scottish Government to best understand how they interact, how they impact on tax and the extent to which they will make a real difference to the budget in terms of affecting things such as the tax performance gap, it can do more analysis on and make stronger links between economic strategies and the impact that it expects on tax revenues.

The Convener: I am keen to let colleagues in, so I will ask about just one other area, which is behavioural change. You have made it clear that some of the taxes that the Scottish Government has levied in recent years have been impacted quite significantly by behavioural change. For example, you talk about that in paragraph 35, where you say

“of a £617 million tax base performance gap, £159 million ... was due to behavioural change ... £320 million was due to differences in how income was distributed ... and £137 million was due to other factors”.

You could maybe tell us what the other factors are, because that is quite a significant amount.

When you are looking at that behavioural change, are you looking specifically at income tax, or are you looking at income tax and land and buildings transaction tax?

Stephen Boyle: We are focusing on income tax as it relates to behavioural change. We do cover LBTT in the report, and I am happy to talk about that as you wish. I will ask Richard Robinson to come in on some of the other factors if we have that detail.

The letter to the Public Audit Committee from the former director general of the Scottish exchequer that is referred to was significant. As this committee will be familiar with, I am sure, the National Audit Office audits His Majesty's Revenue and Customs and how devolved taxes work. For many years now, the Auditor General for Scotland has supported the Public Audit Committee's understanding of how devolved taxes work and provides additional assurance to the Scottish Parliament on that arrangement. It was in an evidence session that considered the Scottish Fiscal Commission's assessment of why the impact on the Scottish budget is not broadly aligned with the taxes that are raised that the behavioural change point was cited. It is healthy that it has come through in that letter that there is the beginning of an understanding. Richard Robinson rightly mentions that more detailed analysis is needed. It is also welcome that the Scottish Government is keen to broaden out the research base to understand why that is happening. In essence, convener, there is not a good enough understanding of it and that needs—

The Convener: I am sorry to interrupt, but I think that the point about understanding is really important. The thinking used to be that it was about people fleeing the country, whereas you make it clear in the wee window on page 26 that

"Behavioural responses to tax policy changes ... can include choices such as whether to work more hours, to divert income into pension contributions, take income as dividends instead of salary, or whether to seek employment elsewhere".

Stephen Boyle: Yes, you are right. It used to be framed around there being a sense of tax avoidance measures that people were taking around where they were resident, but it is much more complicated than that. Although that may be a factor for a small number of individuals, HMRC was quite clear in its evidence to the Public Audit Committee that there was not a strong evidence base for that.

I think that it speaks to probably the maturity of devolved taxes that we have now reached a point where there needs to be almost now a new layer of research and analysis to better understand the behaviours of taxpayers, whether those are about taking on additional hours or seeking promotion.

I go back to the point that you were focusing on earlier. Because of the different tax bands and the lack of transparency and understanding around these points, all of this need to be fed in so that the Scottish Government has a clearer understanding to support its understanding of what the forecasts will be and what bearing those will have on the Scottish budget.

10:00

The Convener: It is like someone earning £99,500 and not wanting to be promoted because then they will lose their £12,570 tax-free allowance, for example. That is obviously under UK control, of course.

The statistics that you mention in exhibit 10 are interesting. It was hoped that £65 million would be raised when the additional rate increased and the threshold was lowered in 2023-24, but 83 per cent of that was lost due to behavioural change, leaving only £11 million. The following year, when the top rate was increased, 85 per cent was lost—these are quite significant figures—and effectively only £5 million was brought in. Taxes are being levied that obviously cause some individuals pain, and the money is effectively being lost. I have no doubt that there is an impact on productivity if folk are working fewer hours and so on as well.

Stephen Boyle: I am not an economist, but over the past few weeks as we got into the budget cycle, there has been much coverage of the Laffer curve, the relationship changes in terms of people's behaviours, taxes and so forth.

The Convener: The Laffer curve is not as simple as people think.

Stephen Boyle: I am quite sure that that is true, but the dynamic, in broad terms, probably exists. You can see what that means in terms of the Scottish Government's tax and economic choices. Forgive me for labouring the point, but how these decisions result in well-paid jobs in Scotland, greater earnings and the resultant benefit that accrues to public spending is really at the heart of the report that you are considering today and the recommendation that there needs to be a better understanding of how tax and economic decisions interact. We broadly say that we have seen evidence in the medium-term financial strategy of focus on public service reform and public spending, but the other two pillars are where there is an opportunity for the Government to take forward.

The Convener: I asked three questions at the start, one of which was about LBTT behavioural change. Why do you not look at that? Clearly, one would anticipate behavioural change there. The £137 million of the tax performance gap that was due to other factors is quite a high proportion of

the £617 million—it is more than 20 per cent; in fact, it is 22 per cent. What are those other factors? It is a bit opaque.

Richard Robinson: Honestly, convener, I am not sure what the other factors break down as. The background to this is a letter that was sent by the Cabinet Secretary for Finance and Local Government following last year's Scottish income tax additional assurance scrutiny by the Public Audit Committee. We would have to ask the Scottish Government for more information about what that breakdown is.

The Convener: It would be good if you could do that. I could understand if it was £5 million, but 22 per cent of the amount that we are talking about is something on which clarification would be appreciated.

Why has behaviour change in relation to LBTT not been looked at?

Stephen Boyle: It is something that we can think about. We cover devolved taxes, both LBTT and Scottish income tax, in the report. In exhibit 2, we set out the pretty significant benefit that LBTT contributes to the Scottish budget. I do not quite have my mental arithmetic entirely to hand at the moment, but LBTT choices make approaching an additional billion pounds in net contributions to devolved taxes and to the Scottish budget.

What our audit has not covered—and we can give consideration to whether we are the right people to do this—is future analysis of some of the differential choices that Scotland and other parts of the UK are making, and their impact, in relation to property taxes. We can reflect on that. We set out at exhibit 6 in relatively simplistic terms the differences in terms of stamp duty land tax relative to LBTT in Scotland.

The Convener: Yes, LBTT contributes 1.6 per cent of the Scottish budget, so it is not insignificant.

Stephen Boyle: Absolutely.

The Convener: I will open up the session to colleagues.

John Mason (Glasgow Shettleston) (Ind): I want to follow up on some of the things the convener has been asking about. The word “transparency” has come up quite a lot. I wonder whether you are being a bit unfair on the Government, because the Government can produce any amount of information and you or somebody else can audit it, so it is all checked. However, if the public and, frankly, MSPs do not engage in trying to find out about it, that is not really the Government's fault, is it? It has been said that MSPs on the whole are not fiscally or financially literate—we are hoping to build that into

future Parliaments. Do you not think that it is partly the public and everybody else who is at fault?

Stephen Boyle: I would say that the situation is complicated. I recognise the point that you make, and there is a range of complexity that we just have to absorb. Arguably, that will always be the case when you are dealing with an annual budget of £60 billion or so, together with devolved taxes. We take the view that we should not stand behind that complexity and say that it will ever be thus, but that we should take the opportunity to explain the issues in accessible—not necessarily simplistic—terms that will be understood by the public and to support scrutiny within Parliament, too. There is more to do in that regard. We have talked about a couple of examples in the budget documentation for Parliament's purposes. Improving that documentation feels like a simple change that could be made.

John Mason: I accept that point, yes.

Stephen Boyle: It feels like the difference between tax raised and what it contributes—the tax performance gap—has not been discussed widely enough by Parliament or the public, and the language that is used is relevant in that regard.

John Mason: How many people are even interested in that? A lot of my constituents just say, “We want lower taxes and we want more money spent on public services.” That is the level of a lot of the public conversation. The tax difference is just way out of range for a lot of people.

Stephen Boyle: You are right. People will say they want American taxes and Scandinavian spending levels on public services, but there is a need to find a balance that enables people to contribute to the discussion. That is important with regard to retaining trust in processes and institutions, and we are part of that. I do not mean to digress too far, but thinking about the financial reports of the Scottish Government, other public bodies and even some commercial entities, auditors and accountants should start to ask whether those are enabling transparent and accessible understanding of how an organisation has performed, what it has spent and what the outcomes are. I think that there is much more to do in that regard.

One point that we have not covered in detail in this report but in which we are very interested is the question of where the Scottish Government goes next with regard to the national outcomes and the national performance framework—I know that that is also a matter of interest to this committee. There should be a much better alignment between what we levy in taxes, what impact that has on the budget and, most importantly, what outcomes have been achieved

from that level of public spending. It is incumbent on public servants to do better with regard to distilling complex information. There is more work to do, I would argue.

John Mason: As an accountant, I take your point that accountants have not been trying to make things easier for the public to understand—they have been trying to follow lots of rules and all the rest of it, so I think that that is right. Do you have any suggestions about what could be done? We have discussed this with the Fiscal Commission as well, and it takes exactly the view that you do—I think that we are all in the same place. Should we try to do more in schools with regard to financial education at an early age? Of course, that is a challenge, too.

Richard Robinson: I will refer to paragraph 40 of our report. On the framework for tax, the tax strategy that the Scottish Government produced said that taxes should be transparent and understandable. While you raise legitimate points about our responsibilities as citizens to understand our taxes, the Scottish Government has been quite clear about the fact that it believes that it has a role, too. Against that, you would want to address the fact that about half of the population do not understand taxes to a great extent or at all. Again, it is for the Scottish Government to decide exactly how it wants to go about that. I know that it has been doing work in that regard on the back of the practical guide for improving communication on taxes. A host of avenues could be used, including schools and other means. What will be important is the extent to which we can see that being transposed into better annual figures regarding how people understand taxes in Scotland.

John Mason: I tend to share the convener's view that more people perhaps do not realise that they do not understand the tax system, and that the Scottish people are probably being a bit more honest about their lack of understanding than the people who were surveyed in England. That is just my opinion.

Richard Robinson: If someone says that they understand it, they are not then tested on their understanding. The question tells us what they perceive their understanding of the tax system to be and the work that the Scottish Government could do to support that in line with its framework for tax and tax strategy ambitions.

John Mason: Paragraph 32 says that

"the growth in the tax base in Scotland has been relatively slower than in the rest of the UK"

and lists four factors that explain that. I accept that the Scottish Government is largely in control of behavioural responses from taxpayers to policy changes, because it controls its policy changes.

However, we cannot really do anything about the other factors, which include

"differences in the sectoral make-up of the economy"

and

"Different distribution of incomes in Scotland compared to the rest of the UK".

Similarly, the report goes on to talk about how financial services in the rest of the UK are different from those in Scotland, and the fact that there are many more high earners in that industry outside of Scotland. As I said, a lot of that is outwith our control, is it not?

Stephen Boyle: Undoubtedly, some aspects are outwith the control of the Scottish Government. However, we have mentioned a couple of times the national strategy for economic transformation, which is concerned with how to develop the Scottish economy and the resultant benefits to GDP and so forth.

The issue that you raise emphasises your point about transparency. There is a recognition that the tax choices that are made have implications for public spending and the budget. That is the level of further analysis and clarity that is required.

Some of the evidence that the Public Audit Committee has taken and the resultant correspondence has described the differences that you mentioned in financial services, including the fact that there are much higher earners in that industry in London and the south-east of England than is the case in Scotland. Can that be changed through engagement, interventions, approaches, encouragement and policy choices that the Scottish Government might offer? Setting out those factors more clearly will support transparency and will potentially affect the policy choices that are made with regard to what the national strategy for economic transformation intends to do in order to have a bearing not on GDP growth, necessarily, but on either increasing the number of higher earners living in Scotland or increasing the earnings of those who already do, which will have a significant direct bearing on the Scottish budget.

Richard Robinson: I agree with the Auditor General. Parts 2 and 3 of the report are about the extent to which the Scottish Government has the understanding that it needs in order to respond. The report examines what we mean when we talk about structural issues. Does that mean that there is nothing that we can do about them; does it mean that we can mitigate them, whether through tax strategy, closer links to economic strategy or whatever; or does it mean that we must accept that there will be an amount that we have to effectively manage as an impact on an annual budget, regardless?

There is an awareness that there is a tax performance gap and of some of the principal reasons behind it, but the next step is to gain a better understanding of the extent to which the Scottish Government can do something about it.

John Mason: I do not know whether I am being overly pessimistic but, with this whole thing where we are tied to comparing our growth with that of the UK, I think that you are saying that we do not entirely understand that link and that we might need to do more on that, which I would accept to an extent. In 1603, James VI left Scotland because London was richer and was going to grow faster than Edinburgh and all the rest of it. We have had quite a long time to look at that, and the position has not really changed.

I do not know whether you are prepared to comment on the fiscal framework, which I feel is fixed so that Scotland loses. Your report mentions the Barnett formula, which is intended to squeeze Scottish spending. It seems inevitable that the fiscal framework is also squeezing Scottish spending. Do you think that that is inevitable? Can the Scottish Government do something about that?

Stephen Boyle: You have made a couple of points. The point that I was making is that not enough people understand the situation. There are undoubtedly experts who understand it, many people in the Government understand it, and the committee clearly understands how the system operates, but there are not enough people to contribute to the wider discussion about how Scotland's public services are funded from the resultant tax.

10:15

My position on the fiscal framework is really clear—it is for the Scottish Government and the UK Government to determine how it operates. I appreciate that there has been correspondence from the cabinet secretary to the committee and to the UK Government on how the fiscal framework functions. We will continue to take a keen interest in whether that will be picked up before the next review period. That takes us into a policy space about how the framework operates best between the two Governments.

John Mason: Exhibit 8, which is about pressures on the Scottish budget, lists factors that are specific to Scotland. The second one is:

"Scotland's population is, on average, older and sicker when compared to the rest of the UK".

With the best will in the world, that cannot be turned around quickly. Am I right in saying that the fiscal framework does not account for need—that it does not consider that needs might be greater in Wales, Scotland or anywhere else?

Stephen Boyle: There will always be debates and discussions about how satisfactory or otherwise the fiscal framework is. I suppose that we have seen the evolution of that through the previous iteration in terms of additional powers and the inflating of that.

The next iteration could take a broader approach by rebasing some of the factors or some of the methodologies. I am sure that that will be part of the discussion and consideration between the two Governments about whether some of the founding principles of no detriment are to remain.

The fiscal framework sets out that it is to be fair and transparent, and I am quite sure that those principles will be carried forward. Ultimately, Scotland benefits from its own economic performance and potential.

That is probably as far as I can go on the subject. As I said, we will continue to watch closely the evolution of the fiscal framework between the two Governments.

John Mason: I am sure that the committee will raise the subject in other places; I will certainly raise it in other places.

Economic growth is linked to that. I was interested in paragraph 64 of the report, which talks about timescales. It says that, if the Scottish Government does something now,

"such as supporting people into employment or investing in skills",

that can

"take time, often many years, to feed through to the tax base and increasing tax receipts."

It is quite difficult to make comparisons, is it not? You mentioned national outcomes and so on. An input today might take five or 10 years or more before we see its impact. Is it not hard to tie the two together? Suddenly, Ukraine has a war, for example, and that throws everything else that is going on.

Stephen Boyle: You have perfectly illustrated the complexity and some of the challenges that have to be navigated through. Many public policy choices involve interventions and have benefits in the short term and medium term. Investing in skills and training is a good example of that; through public spending, people are equipped to acquire skills, be contributors and—if we really want to distil this down—be successful taxpayers who fund public services for many years to come. There is a lead-in time for some of those measures, but it does not mean that they are not good policy or not good choices.

I go back to your point about how the fiscal framework operates. In quite stark terms, it requires relative success compared with the rest

of the UK through better-paid and higher-skilled work and jobs in the short term in order to produce the wider benefit.

John Mason: My final point is on paragraph 82, which talks about having more of a strategy for reconciliations. Will you expand on that a wee bit? In the past, we have sometimes been warned about a huge negative reconciliation but, when we have got to the time, it has not been as bad as that. It is quite difficult to predict positive or negative reconciliations. Is it possible to have a strategy?

Stephen Boyle: We make a recommendation to that effect—that there needs to be a clearer strategy for both positive and negative reconciliations, to support the Government's wider approach to longer-term budget management. Richard Robinson will keep me right, but I hope that I am right in saying that the committee heard evidence from the Scottish Fiscal Commission that it expects larger budget reconciliations in the future.

You are absolutely right that there is some forecast uncertainty, and we have seen changes in forecasts that have happened. That is influenced by there being not just one but two forecasters that have a bearing on the Scottish budget. However, because some of the forecast reconciliations or block grant adjustments are higher than some of the limits in the fiscal framework, the basis of the recommendation is about asking what the Scottish Government intends to do in those circumstances, so that it can act in a planned way rather than having to initiate emergency spending controls to adjust for circumstances.

Richard Robinson: As we set out in the report, and as we know, when budgets are put together, two sets of forecasts contribute—the forecast from the Scottish Fiscal Commission and the forecast from the Office for Budget Responsibility. As the MTFS and the SFC have highlighted, those bodies have had slightly different forecasts for earnings growth and growth in the economy, for example.

We will not know what that means until the actual outturn figures come out. The purpose of forecast borrowing is to maintain a balance between years when figures go down. In some years, as we see for the coming year, that can go the other way and there can end up being a net addition to the budget. The purpose of all of that together is to allow a smoothing between years, so that the fluctuation that is inevitable with forecasts does not disrupt spending patterns between years.

Therefore, much as we can see that there are strategies around when and how to use borrowing powers, given that that is one half of the equation that can be used to balance and smooth budget

volatility caused by forecasts across the years, we recommend that it would make sense to set out both positive and negative reconciliation strategies together, so that people who are scrutinising the situation can understand how the Scottish Government is planning to manage the volatility that will inevitably happen between the forecasts and the actuals over time.

John Mason: I understand all of that, but let us take the £851 million that is mentioned for 2027-28. One strategy would be to say, "Right—let's severely cut spending this year and next year to build up a reserve so that we're ready for that £851 million." However, in the meantime, the criticism of the Government for not spending its money would be horrendous—because there would be all the national health service waiting lists and all the rest of it—and then maybe the negative reconciliation of £851 million would not happen. The Government is in a no-win position, is it not?

Richard Robinson: Potentially, this is where a strategy would be helpful, by setting out in advance how a Government would plan to manage the situation over time. You are correct to mention the projected £851 million negative reconciliation, which we refer to in paragraph 81. The reconciliation that is expected for 2026-27 is positive £406 million, and it remains to be seen which way the reconciliations will go in future years.

If there is a decision to be made, having a strategy that sets out how the positive and negative reconciliations will work together over time could be helpful to the Scottish Government.

Liz Smith (Mid Scotland and Fife) (Con): I will ask about the important issue of widening the tax base, which you referenced in your earlier comments, Auditor General. I am trying in particular to ascertain exactly where the high-growth jobs will be in the future.

When the committee met informally in the summer before we came back to Parliament, we were made aware of the fact that some labour market data in Scotland, particularly employment data, is missing. In some cases, it is very difficult to predict the trends. The Scottish Fiscal Commission rightly says that it uses HMRC data when it is working out likely tax revenues, but that is not enough to predict where the tax base could be broadened in the future. We need the data and the trends within that data to work out where employment trends will lie two, three, four or 10 years down the line.

First, do you think that that is an extensive problem? Secondly, do you have any thoughts about how we can address it? It really matters in trying to widen the tax base.

Stephen Boyle: You are absolutely right that those are key factors, and we touch on them in today's report.

I will ask Richard Robinson to talk about some of the data, but the other complexity is time lag—having good quality information in a reasonable period. That is not just an issue for some of the employment market changes; we need to recognise that much of the information about tax that has actually been collected comes many years after the fact. It can therefore take a number of years to have a good understanding of the economic interventions that Government is either benefiting from or leading.

That situation is known and understood, and many of the factors are outside the Scottish Government's control—particularly how some of the self-assessment process works and when that information comes through.

I will address a wider point before passing to Richard. As we mentioned in the report, of the three pillars in the medium-term financial strategy, the two that have had less focus on them are how tax and economic interventions and choices operate. Where will the high-pay jobs come from? Are they in renewables, life sciences or other sectors? Where will they benefit the resultant tax collection, Scottish budget and Scottish public spending?

That is a key point that we think needs to be addressed, and it is part the central recommendation that we make in today's report. For the insight into that, we have made the recommendation to Government that it should set out more clearly where it thinks the benefits will accrue.

I will bring in Richard Robinson if he wants to add anything.

Richard Robinson: I do not have much to add. The question emphasises the importance of how economic strategies and tax strategies are linked together. That might include where and to what extent the data is pulled together to get a better understanding. The Auditor General is correct that there is a time delay with the tax data. As we mentioned in paragraphs 77 and 78, that is important, especially given the uptick in the divergence between the Scottish system and the rest of the UK in 2023-24 and 2024-25.

Historically, the HMRC has been looking, alongside Scottish Government, at things such as cross-border migration to get an early heads-up of what the figures might show once the outturns are known. Once the outturns are known, it will be important to analyse them properly to consider what they are saying about different parts of the country and about behaviour. That will sit

alongside other sources of information, such as labour market information and all the rest of it.

Ultimately, it would be for the Scottish Government to consider the economic strategies and tax policy strategies together and say, "How are these working?" Again, that probably goes back to the earlier points that Mr Mason was making: what is our understanding of the structural differences, where are the higher net worth individuals, for example, and how does that information interact with the decisions we are making?

Liz Smith: Thank you for that, as this is a really important issue. We should listen to some of our developing industries that are doing really well, which includes Scottish financial services. Their point is that, while they see all the attractions of considerable growth and development, they believe that there is considerable behavioural change likely with some of the medium to high earners in their sector being put off because they feel that they are paying higher tax than they would be in the rest of the UK or because land and buildings transaction tax is a turn-off for them.

I want to drill down on the prospects and greatest potential for economic growth. It is important to understand the data that gives us the best information and—on top of that—the behavioural change statistics, which are fed in so that we can understand the connection between the tax revenue and economic strategy, as Mr Robinson has just said. I think that we have a problem just now, so I would be interested in your thoughts—without going into Scottish Government policy.

Stephen Boyle: You are right that there needs to be a better understanding.

Let us stand back from the report. For the public to understand the situation transparently and, just as importantly, for the Government to be clear on where it will likely get the biggest benefit from its policy choices—there is forecasting involved—there is a need for better understanding of the national strategy for economic transformation and how that connects with tax policy, of behavioural change and the choices that people make, and of the economic implications of tax and the choices that people make.

10:30

You rightly mentioned that there has been much commentary and discussion among some businesses and higher earners about the differential tax choices. That has to be balanced against the fact the Scottish Government's clearly stated ambition is to adopt a progressive tax regime and the analysis that set out that 50 per cent of Scottish taxpayers will pay less than they

would do in other parts of the UK. To square all of that, decisions must be built on a foundation of a good understanding of data and finding a way through—as Richard has mentioned—having to wait three or sometimes four years for data. It is really difficult to make informed policy choices in such a context.

Therefore, the root of the way forward will be better engagement among Government, research, academia and other sources to ensure a good understanding of what impact certain policy choices are having—perhaps beforehand, given that we might have to wait with the current timescales that are in operation.

Richard Robinson: I will come in briefly to raise the point that there are two elements to the situation.

One element is that, when we are talking about behavioural change, we are talking about tax policy and the impact of tax policy. As we set out in the report in paragraph 60 onwards, behaviour is not uniform, and that is reflected in exhibit 10. The Scottish Government produces ready reckoners, as it calls them, which involve forecasting or estimating what it thinks it will get from different tax options. Therefore, there is an understanding of what impact tax policy decisions could have.

Secondly, one point that we raised in the report is that, in its tax strategy in December, the Scottish Government said that, over the medium term, it will not make further changes to tax bands and rates. This means that the focus moves on to, “To what extent can you change and grow the tax base in Scotland?” That is where the economy comes more into play.

I wanted to highlight those two elements. That is where the links between what is happening in the economy and the expected impact of that on taxes comes to the fore—which is a slightly different issue to how someone may react to a tax policy change.

Liz Smith: Thank you. That is very helpful.

Michael Marra (North East Scotland) (Lab): Auditor General, your report says:

“The Scottish Government, through its fiscal publications, has not done enough to explain why the potential funds raised from tax policy are so notably different from the net contribution to the Scottish Budget, and how it intends to address this.”

Why do you think that is?

Stephen Boyle: In our report, we have set out the detail behind that statement. What I have not done is speculate on the rationale for the decisions that were made. I suspect that much of the process will have followed custom and practice

around how budget documentation is prepared and presented.

In my view, the tax performance gap is a topic that has had not had enough discussion. Aspects of our conversations this morning will be necessary and important for broadening out understanding of how public finances in Scotland work in a devolved context.

There is complexity—there is no doubt about that. In our report we use the word “complex” many times. However, for me, that is not a good enough reason not to do something about the situation. More has to be done to support scrutiny, transparency, and parliamentary and public understanding of tax and spending choices.

I have no insight beyond that, in terms of motivations for why that has not happened, but we make recommendations that we hope will close some of the transparency gap to which you referred.

Michael Marra: So, you do not see that directly in the documents; you are describing what might be called an absence. Have you any sense, from the Government’s other work, that it understands that this is a problem, or do you feel that it is pushing the problem away for political convenience?

Stephen Boyle: I will make two points. I have mentioned the budget documentation a couple of times. Just for absolute completeness, we think that those numbers should be much closer. Also, presentation matters: people should be able to see what the tax implications are and what the numbers will mean for the budget. I do not see a good reason why those numbers are not presented in budget documentation—if not side by side, then closely referenced to each other. That should be a relatively simple issue to address.

On the wider point, we are seeing the beginnings of a recognition that more work will be needed to better understand what can or cannot be changed easily. We set out some of those factors in our report. I will just check that I am referencing the right paragraph. Some of the reasons are set out in paragraph 32, and they do involve the issue of relative performance. In our report we get to a point where we are clear in our judgment that the tax and economic strategies need to be better aligned.

In our reports we often make recommendations that strategies must be supported by clearer implementation plans and that there should be better understanding of the broader context within which they operate, together with measurement and monitoring. That feels like a key next step in the circumstances that we are in.

I do not believe that there is an intention to not develop understanding; that was set out in the correspondence to the Public Audit Committee. However, more needs to be done—we are clear on that.

Michael Marra: A lot of your work is on the broad sustainability of not just public services but public finances. Your report identifies that there is a strategic balance to be struck between decisions on tax growth and those on spending, to make sure that we have the best outcomes.

I will address the first point, on the tax side. You highlight that a 1 percentage point increase in the top rate would result in only £5 million of benefit, but also that the Government has decided not to make any changes to bands within that area. Has the Government boxed itself into a policy position there? Has it given sufficient justification for the trade-offs around that position?

Stephen Boyle: I have not—and probably would not—take a view in those terms, as to the choices or other avenues that the Scottish Government is pursuing. What we have represented in the report is its tax strategy of there being no further bands or changes to rates.

If I broaden that slightly, as you mentioned, there is recognition of that in our report, in exhibit 10. The economic realities include that further tax—particularly for the highest earners, who perhaps have most choices at their disposal about how they structure their income and where that income is based—will mean that benefit will not accrue to the Scottish budget in the same way.

We often talk about sustainability, and we also talk a lot about transparency. The latter point is the most relevant in the tax context. It is about being clear—supported by analysis and appropriate research—about how tax choices will produce benefit, in terms of having higher earners and better-paid jobs in Scotland, and the specifics of navigating through the fiscal framework, and what that then means for the Scottish budget.

I will come back to your other point, on the spending aspect, but perhaps you could just remind me of it so that I can frame my response properly.

Michael Marra: I will maybe come back to the spending side of it. You also mentioned that such decisions would be supported by

“a more detailed assessment of the potential impact and timescales”

on taxation. Could you tell us a little more about what you mean by that?

Stephen Boyle: Richard Robinson might want to come in to say a bit more on that. It echoes the earlier discussion with Ms Smith on the

understanding of the choices that are available to the Scottish Government.

In terms of tax and economic context, some of the structural ways in which the UK and Scottish economies operate, and where jobs are based, can be influenced and others perhaps just cannot.

Scotland clearly has a strong financial services base, particularly in Edinburgh. Although I am sure that some of those roles are very well paid compared with other jobs in Scotland, they do not carry the same relative benefit as they would in the south-east of England. It is all about beginning to get into the granularity about realistic changes that the Scottish Government could make to its tax base and about the resultant economic benefits. Despite the best endeavours, some of those changes will not accrue benefits that would see a material difference to the Scottish economy and resultant public spending.

That is the level of analysis that we are talking about, on the better alignment of tax and economic strategies in the round.

Richard Robinson: I will start with the point that, as we set out in exhibit 9 in our report, tax, as a lever, is contributing towards the medium-term picture. We say that that is effectively baked into what the medium-term position looks like, so then—given that there is a fiscal sustainability gap there—there is a question about the extent to which tax can go further. We have had conversations about what that might mean for tax policy, for the economy and so on.

In terms of the timings, this is in particular a Scottish income tax issue as opposed to a land and buildings transaction tax one. LBTT is fully devolved. The information about it is known a lot sooner, and so the impact of change can be seen a lot sooner.

As we said to a previous inquiry, with Scottish income tax, because of the delay that occurs mainly with self-assessment information coming in—as members will know, everyone has to get their forms in by the end of January, so that delays when the information is known—there is probably more uncertainty to manage there in terms of understanding the impact of the decisions that have been made, because there is just a gap over time.

In paragraph 50 of our report we say that, even within that, there are uncertainties around the forecast. When we look at the medium-term picture and the fiscal sustainability element and say, “Here is the contribution of tax to that”, there is still an uncertainty to it.

Earlier we mentioned that there are two forecasts—one from the OBR and one from the SFC—and they have used slightly different

figures. In paragraph 50 we say that the SFC and the Scottish Government have mentioned that as a factor that could affect their medium-term picture, and that,

“if earnings growth in Scotland is the same as that in the rest of the UK over the forecast period, then this will reduce the net tax position in 2029/30 by £950 million”.

Therefore, there is something about understanding not just the fact that there is a time delay, but that there is an uncertainty within all the forecasts for that period. The Scottish Government needs to have a good understanding of what is driving that, what it means and how it might respond to it.

Michael Marra: I suppose a fairly typical criticism of Governments in general, and their approach to taxation in particular, is that they are often more interested in the harvest rather than in growth in the first place. They use tax to plug the gap in their spending plans rather than thinking about how it might support the sustainability of the sector.

Liz Smith touched on issues about opportunity in certain areas and on thinking about the future. From the Government's documentation, and the work that it has carried out, have you a sense that it is sensitive to the impact that its own tax measures might have on the performance of sectors in Scotland that might be weaker?

Stephen Boyle: In broad terms, we would say that there is a developing understanding of tax strategy and tax policy and their resultant impacts on the Scottish budget. On analysis by sector, I think that the Government is probably better placed to answer on its insight, rather than my saying that it is something that we have looked at specifically through this audit. We have done more of a high-level assessment rather than taking the granular approach that you suggest.

In broader terms than that, though, we would look at sustainability across the piece, as you mentioned, and, within that, particular sectors of public spending. In our report we comment that there is currently a focus on public spending rather than the other two areas. Again, a need for more of the detailed implementation that comes with that will be an important next step.

Michael Marra: I will close by returning to the issue of public spending, which of course you comment on quite regularly. I am thinking about two of your reports: one entitled, “NHS in Scotland 2025: Finance and performance”, and another, published more recently, in November, which is entitled, “The 2024/25 audit of NHS Tayside”. The picture that both reports paint is of a Government that is unable to change services. There does not seem to be a process whereby it can deliver change and efficiency on the public spending side. If you are looking at a tripod of issues around tax

and growth, but the Government is focused on the third leg—spending decisions—and it is not able to deliver on those, is it not a key issue of concern if that is its principal focus and you, as Auditor General, keep telling the Parliament that it is not able to deliver change and manage public spending effectively?

10:45

Stephen Boyle: I will give evidence on the two NHS reports to the Public Audit Committee—tomorrow on the report on NHS Tayside and in due course on the NHS overview

The report on NHS Tayside is a slightly different one. I will just mention it very briefly, without getting into too much detail about what I will touch on tomorrow. It is primarily about mental health services in Tayside, which I know is an area with which the committee is very familiar. In broader terms, on the NHS's service delivery and its sustainability, we reference the fact that, despite record investment and more people working in the NHS, seven of the 14 territorial boards in Scotland required additional funding to allow them to balance their books in year.

There are signs of progress alongside that difficult part. In the course of the summer the Scottish Government produced several key strategies—for example, the service renewal framework, the population health frameworks, and the plan to move to a preventative base model some of the outcomes—for which there is clear evidence of benefit to both individuals and public spending.

However, the vital part of delivering a strategy is having a clear implementation plan for the next steps. That is the key part—to get away from the sustainability issues that have seen us providing either loans or brokerage to health boards to allow them to balance their books or, more recently, alongside that, providing emergency budgets to enable that to happen. A better understanding of what those policies or strategies will make is key.

Michael Marra: Returning to the mental health services side, I want to use that as an illustration of the Government's inability to meet those broader targets. We have had report after report, including from yourselves, on such services, and the Government just seems to be unable to actually deliver change. What is the dysfunction that is resulting in that, when you tell us that that is the one factor that the Government identifies that it can use to control its massive budget black hole?

Stephen Boyle: I want to avoid conflating what might be local issues within a particular area of public service to suggest that those are symptomatic of a system that cannot evolve, change or deal with complexity. Whether it is in

the context of the Tayside report or others that we produce, I do not necessarily see that just because there are specific issues the system cannot function as intended.

However, there is undoubtedly opportunity to build upon the various ambitions. I mentioned some of the NHS strategies. The Government also has broader strategies in the form of the fiscal sustainability delivery plan and the public service reform strategy. In and of themselves, those set out a direction of travel, but the harder bit to understand, which sits underneath that, is about what will happen and when, and what benefits will accrue.

Some of that will be really difficult; it will involve changing the nature of public service delivery and some of the choices that we make on workforce and estates that will likely signal an evolution in how public services are delivered. However, it must be done transparently, with a clear plan that can be measured and evaluated. Then we need to go back into that last piece of work on having really clear public reporting through the national performance framework and the national outcomes so that the Parliament and the public have better insight into what is being given to them from public spending and on the taxes that they pay towards that.

Ross Greer (West Scotland) (Green): Good morning. I will be happy to be proved wrong on this one because it has been bugging me, although I think that I have figured it out. In exhibit 10, the two tax policy changes are referred to as changes to the “additional rate” and to the “top rate”. Are you talking about the same rate for both those policy changes? Although the additional rate exists in the rest of the UK, in Scotland we have always referred to the top rate. From what I have been able to figure out, the information is drawn from an SFC report that uses “additional rate” when it means “top rate”. Can I just check that we are, in both lines in exhibit 10, talking about what in Scotland we refer to as the top rate?

Stephen Boyle: I will bring Richard Robinson in. I think that you are right; some of the terminology can overlap.

Ross Greer: Yes, I think that we have all been guilty of saying additional rate at various points, but it has always been the top rate, since it has been devolved.

Richard Robinson: I think so; I will double check and get back to you if any different.

Ross Greer: That was not my main question; it has just been bugging me and I have been trying to figure it out.

Exhibit 10 is about lost revenue from behaviour change. Obviously, it would be better to have £65 million than £11 million, but it is still £11 million that we would not have had otherwise. What would be useful to know in weighing up the policy change is what if any other negative impacts there have been. Has the behaviour change at the upper end—for example, if consultants in the NHS have reduced their hours to avoid higher tax—had an impact on the provision of services? Does it have an impact on spending in the real economy and therefore a knock-on impact on business? Is it possible to quantify any of that, or are we getting far too far into secondary effects? Without being able to quantify any negative effects of the policy, all that we can say is that £11 million is not as good as £65 million, but it is still £11 million that we would not otherwise have had and where is the harm?

Stephen Boyle: It is important, if it is not already available, to do that level of analysis. We have not done that in today's report, but your question goes back to some of the report's findings on behavioural change, which is not well enough understood, whether it is the direct effect of, to borrow your example, NHS consultants not increasing their hours or, as the convener mentioned earlier, the bearing that the policy has on people's choices as they approach the £100,000 annual earnings threshold. Given how important this is and going back to the very specific part of the relative changes in the fiscal framework around earnings, it feels as if it needs to be better understood so that the economic strategy and the tax strategies are more closely aligned than they are.

Ross Greer: On a totally different note, I will pick up on various bits of the conversation about public understanding. Either last year or the year before, I mentioned to you some of the challenges around the media's reporting of your publications, especially regarding underspend and the difference between technical underspend and the cash-in-a-pot-that-is-still-sitting-there kind of underspend. Have you done any additional work on how that is communicated to the media and to politicians? Obviously, politicians have other incentives to portray certain numbers in certain ways. When we talked about that last year, it was about the impact that that had had on public sector pay negotiations at the time: a headline says, “Scottish Government underspends by £1 billion” while a group in the public sector cannot negotiate to get £100 million for their pay deal.

Stephen Boyle: That is a really important point. I would characterise public understanding as needing to be a shared endeavour, not just from auditors, but from the Government and the Parliament too.

Take the example of the Scottish Government's consolidated accounts for 2024-25, which have recently been completed. They are accompanied by a statutory report from me to the Parliament and we will brief the Public Audit Committee on that next week. There is a £1 billion underspend and, as you rightly alluded to, that is not just cash sitting waiting to be spent. I do not know the precise figure, so I will resist quoting but, in broad terms, about half of that moves into the Scotland reserve—the amount will be determined by outturn reports. Some of that underspend is the result of accounting measures such as accounting changes for how some of the annually managed expenditure funding operates in Scotland and in the UK Government. We report that and we will be very clear in our evidence to the Public Audit Committee to support the publication of our report.

I go back to the discussion with Mr Mason, however. The accounts in and of themselves matter—they really matter and we support the Government's recognition that there should be an unqualified opinion on the Scottish Government's accounts so that people can have confidence in them and trust the disclosures therein—but the understanding of the accounts has more to go. One of the points that we, the Government and the Public Audit Committee have a long-term interest in is better financial reporting of Scotland's public service and moving to a version that is akin to whole-of-Government accounts for Scotland. The consolidated accounts, as valuable and as useful as they are, do not reflect all the assets, liabilities and transactions of public spending in Scotland. The Scottish Government has made real progress on that, but I do not think that issues of communication, transparency and understanding are just about tax, which we mentioned specifically. A broader understanding of how public spending operates in Scotland is appropriate. I absolutely accept your point that Audit Scotland has a key role in that.

Ross Greer: I will jump around again. Richard Robinson mentioned the ready reckoners. I am interested in your view of whether what the Government currently publishes as ready reckoners do the job that is needed, particularly in terms of public understanding, to which they are key. The projections around some of the potential changes to income tax are relatively detailed, in so far as they lay out 15 or so scenarios. On non-domestic rates, I think that there are only three scenarios, which is very narrow. Have you had any discussions with the Scottish Government about changes that it could make to the ready reckoners, perhaps by broadening out the range of scenarios?

Stephen Boyle: I am not sure that we have. Richard, you were part of the team that led the audit. Is that something that we went into?

Richard Robinson: No. In general terms, having ready reckoners is a good thing. It allows you to see what the different options would look like and that helps to then inform decisions and scrutiny. As to the extent to which the Scottish Government may want to expand the ready reckoners by having more examples and all the rest of it, that is a decision for it to make. That may depend on a whole host of things, such as the extent to which the Scottish Government is actively considering a particular tax over another one. That may then affect the breadth of ready reckoners that it wants to consider, especially against what the behavioural change and other elements could be.

It is a fair point; we have not discussed with the Scottish Government the extent to which it wants to expand those ready reckoners. In and of themselves, they help with transparency and scrutiny. The extent to which the Government may want to change them in future may depend on the extent to which it wants to look at alternatives for tax policy.

Ross Greer: I take on board that it is a decision for the Government. I would be interested in your view though, on whether you think that that would aid public understanding of the process. Take NDR as the example, because it has the narrowest range of ready reckoners that just look at whether the poundage rate goes up a bit or down a bit. The debate each year tends not to focus on that, however, but more on whether specific sectors should get a relief or a levy attached, and so on. In general, those are the key decisions that are made during budget negotiations. The classic issues are whether the hospitality sector should get relief in any particular year and whether relief applied down south should be applied up here.

Would it be valuable if the Government expanded the ready reckoners into areas such as those, particularly when there are proposals in the public domain that have come not necessarily from the Government but the hospitality sector or the Scottish Trades Union Congress, or whoever it might be? Would it be helpful if the Government then projected those proposals and included them in the reckoners?

Stephen Boyle: In principle, anything that improves public understanding of tax spending—whether it is ready reckoners and broadening them out over and above what is already there—feels like a good thing. I suspect that there will be factors and I think that the Scottish Government will be best placed to project, as you suggest, Mr Greer, one scenario rather than another. However, in principle, we support any method that feels reasonable and accessible and that improves understanding and transparency.

Ross Greer: Finally, I will pick up on Michael Marra's line of questioning and the points that you made—I think that it is the very first recommendation in your report—about better alignment between tax and economic policy. I have perhaps asked similar questions in the past. Is it possible to align tax policy with the national strategy for economic transformation? By that I mean, is the NSET specific and tangible enough to be aligned with? It is very abstract and broad brush. If I am thinking, “Right, I am a Scottish Government tax official and I need to align tax policy with what is in the NSET,” I would not be entirely clear what I was trying to align with.

Stephen Boyle: That speaks to where we got to in our paper on NSET: there are many measures, ambitions and indicators, but not all of them have clear, measurable outcomes. The alignment and the interconnection between different parts of NSET—we know that the Government has reported on and is progressing that ambition—needs to broaden out into the space of the connections between tax policy and economic changes. I would not want to understate how complicated that is, but it really matters, because of how the fiscal framework operates in Scotland. The Government's ambition, as set out in the medium-term financial strategy and organised around the three pillars, is unlikely to be met only by controlling public spending. Overcoming the complexity with clear measurable outcomes, supported by informed research, gives the Government the best opportunity to grow the relative tax base, as it needs to do in terms of the medium-term financial strategy. That is an important area for the Government to consider.

11:00

Ross Greer: On that point about the fiscal framework and the incentives that it provides, normally, any Government is incentivised to grow the economy to increase tax revenue. That is not exactly the case for the Scottish Government. If you take two growth sectors in Scotland—video games versus film and television—the number of staff that you require per product in the video game sector is a lot lower than in the film and TV sector. Therefore, the video game sector is much more lucrative in terms of tax revenue when it comes to corporation tax, which is of no value to us, whereas film and TV require far more people on medium-ish salaries and therefore have a higher income tax yield.

Have you ever seen the Scottish Government articulate its economic objectives in terms of—to be cynical—how to game the fiscal framework? In other words, identify which sectors will be the most valuable not just to the Scottish economy, but to Scottish public services in terms of the impact that

growth in those sectors would have on devolved taxes versus reserved taxes. We cannot prioritise every sector; one of the criticisms of the NSET is that it prioritises everything. It does not make choices like, “Do we prioritise video games or film and TV, and what would the relative impact on tax revenues be?”

Stephen Boyle: That is a really interesting example and it illustrates some of the importance of transparency around this. It goes back to the point that we discussed with Mr Mason and Ms Smith earlier. Economic growth matters; of course it does. If we set aside the fiscal framework for one moment, of course any Government would want to grow the economy. However, we do have a fiscal framework, so it is the relative impact that makes the most difference and therefore why alignment with the national strategy matters so much. That might support, if not a sole focus, maybe a clearer focus on and transparency about how tax revenues have such an important connection with certain economic focuses. In terms of what comes next from that, I think that it is probably for Government to set out clearly what its intentions are.

Ross Greer: Just to push on that a little bit, it does sound like you are saying that the Government has not articulated its economic strategy in those terms and that it has not drawn that very obvious link between some sectors being more valuable to us in terms of devolved taxes than others and therefore prioritising those sectors. Have you ever heard the Scottish Government express it in those terms?

Stephen Boyle: There is more to do to be transparent in those terms. It is about being clearer with the Parliament and the public about how the economic and tax strategies interact and the future financial implications of that for the Scottish Budget.

Craig Hoy (South Scotland) (Con): Good morning. In your November 2024 report “Fiscal sustainability and reform in Scotland”, you said that the Scottish Government was not being candid or transparent with the public about the scale of the challenge in the fiscal outlook: by the end of the decade, it is about £4.7 billion of a shortfall. Would it be fair to read into today's report that it is unrealistic to think that tax can be the mechanism by which the Scottish Government will manage to close that gap?

Stephen Boyle: I think that tax will be one of the levers, Mr Hoy. You are right, we have said—in that report, in this one and in subsequent reports—that we think that there is more clarity now in terms of reporting, through the medium-term financial strategy and the public service reform strategy, of the intention to move to a more sustainable position. There are a couple of points

that we might reference. A really important next step to see will be an implementation plan for how those changes will be influenced. However, sustainability and transparency are the key next steps for Government to address. What specific steps, in terms of both tax and the economy—building on the discussion with Mr Greer—will be taken along with controlling public spending? Controlling public spending has been the predominant focus of the Government to date.

Craig Hoy: In terms of pulling the levers of taxation, it seems to me, reading into this, that there are two forms of behavioural change. There is behavioural change by employees and by employers—Ms Smith referred to that. For example, a financial services company that I spoke to recently said that it offers its graduate trainees from Scotland the opportunity to work in any office in the UK and many elect to do so, because they are clever people and they work out that they will be significantly better off in the short, medium and long term if they go and work in Manchester rather than in Glasgow. I am always saying that because of the opacity in relation to behavioural change, we only manage to find out the damage that has been done after it has been done.

Stephen Boyle: There is a time lag before we can understand what the tax receipts are, because of how the system operates. As Richard rightly mentioned, self-assessment can take a number of years and forecasting is based on assumptions of behavioural change. As the report sets out, however, the Government does not have a good enough understanding of behavioural change and there needs to be more research to try and calibrate specifically what people will do in terms of different earnings brackets and different industries.

Exhibit 5 in the report sets out the cusp of each earnings bracket and what each bracket means for tax—again, I appreciate that the committee knows that full well. The Scottish Government has also set an ambition to have a progressive tax regime and different parts of the UK benefit from different levels of public spending, different services and so forth. The Government must transparently inform the public about the decisions that it makes so that people can make informed choices about where they reside, if they have the mobility or flexibility to do that. Transparency matters, Mr Hoy, and there is more work to be done on that point.

Craig Hoy: On the issue of transparency, you say in the report that there is less behavioural change with threshold changes than there is with rate changes. We have often called threshold changes stealth taxes. People do not realise that they are being dragged into upper-rate tax because they have received an annual increase in

their pay. Does the Government have more to do to provide transparency on the way in which it collects tax, given that threshold changes rather than rate changes seem to be the default of both Governments at the moment?

Stephen Boyle: You are right. In paragraphs 26 and 27, we talk about the fiscal drag approach that has been used. Freezing bands brings people who would not necessarily have considered themselves to be medium or higher earners into those categories. That is the case not only in Scotland but across other jurisdictions.

I risk repeating myself when I say that, if 50 per cent of people are saying that they do not have a good understanding of the tax system, that is a real deficit. People need to have a clearer understanding of the tax system.

Although the rates might not change, if the bands are frozen, people will drift into a higher band. People need to be able to make behavioural changes in an informed way. They might think that it is a good choice to continue to get the benefits of living where they live, or they can make an alternative choice. We recommend that people should be given the tools to make those choices through clear and transparent public reporting.

Craig Hoy: What would that look like in practice? Would it involve HMRC and the Scottish Government providing people with far more in-depth annual tax statements?

Stephen Boyle: We have not offered advice to the Scottish Government—that is not something that we would do—on how it should progress that. Richard Robinson mentioned that the tax strategy recognises that there is a gap to be filled by the Scottish Government, but, to deliver on that, it will need to calibrate its public reporting by exploring with the public, whether through surveys or other returns, how their understanding affects the choices that they make.

We have not made recommendations on that, but we are keen to see what the Government's response is.

Richard Robinson: I just want to make the point that forecasting behavioural change is not an exact science. Is someone reducing their hours because of tax or because they want to spend more time with the kids, or a bit of both? It needs to be understood that the level of accuracy that we can have about such things will be a limiting factor.

In paragraphs 59 and 60 of the report, we say that more minor behavioural changes seem to result from measures such as freezing, whereas the larger ones tend to be those that are more geared towards a particular tax group.

There could be a whole host of reasons for that, which could relate to people's ability to work somewhere else in the country—you mentioned the issue of mobility—or their ability to move their incomes into other forms of income, such as savings or dividends. There could be a number of reasons for that, but what is important is that the Scottish Government understands as much as possible about what those motivating factors are. That links back to the points that we make about the need for a detailed understanding of any structural differences and the links to the economy.

Craig Hoy: I presume that fiscal drag—freezing thresholds—is the stealthy way to do it, because people do not realise that they are being dragged into the next band. It is not the most transparent way of raising taxation.

Richard Robinson: Fiscal drag is a factor of having bands. Fiscal drag will occur in Scotland with the Scottish bands, and it will occur in the rest of the UK with the UK bands.

Craig Hoy: Particularly if you freeze the bands.

Richard Robinson: The bands are different. It would be for the SFC and the OBR to forecast those elements and how they would affect the relative position of the Scottish budget.

Stephen Boyle: As we say in paragraph 26, fiscal drag is more pronounced in Scotland because it has more tax bands.

Craig Hoy: Paragraph 58 identifies what the problem is and talks about the need for the Government to tackle that weakness in the forthcoming budget. It goes on to say:

"If this were to be the case, and if the Scottish Government were to further use tax as a lever to close the medium-term fiscal gap, then it would need to increase tax revenues through other means."

When you talk about "other means", do you mean that the Government needs to try to change the pattern of the labour market in Scotland? Is that what we should be considering, or does "other means" sound an alarm bell with regard to the possibility that the Scottish Government might look at other, new forms of taxation?

Stephen Boyle: Those are the choices that any Government faces, and the Scottish Government will set out its choices in next month's budget. As the committee knows, the Government is required to work within the fiscal framework, to produce a balanced budget and to provide clear and transparent reporting through a medium-term financial strategy. All those levers need to be squared off. Those are the choices that will have to be made to support fiscal sustainability.

Craig Hoy: I have a final, technical point. In paragraph 71, you rightly note that,

"In its letter to the Public Audit Committee, setting out its assessment, the Scottish Government committed to providing further analysis within the MTFS"

in relation to

"weaker relative earnings and employment performance in Scotland".

Obviously, the Government has not provided us with such analysis. Are you aware of whether it has been done? The committee can perhaps take that up, but I wondered whether, through any of your inquiries, you had found out whether that work has been done.

Richard Robinson: Not to our knowledge.

Craig Hoy: Would you say that it is important that that is done? That seems to be one of the strategic weaknesses of the position that we are in.

Richard Robinson: In that part of the report, we are talking about the Government's assessment of those factors that lead to weaker economic growth. We are saying that it is important that the Government understands the tax performance so that it can understand what to do about certain elements of that gap.

We were expecting something further. In its letter, the Government said that that would be provided in the MTFS, but we are not aware of that work having been done and not published.

Craig Hoy: Perhaps the committee can follow up on that. Thank you.

The Convener: That concludes questions from colleagues. I have one or two additional questions.

Over the years, I have known a few folk who moved to London, not for tax purposes but for big pay rises, only to find that they had no disposable income after they had paid the horrendous housing and day-to-day living costs. Quite a few of them have returned to Scotland somewhat chastened, having learned that everything is not so wonderful in the UK capital. Yesterday, I read an interesting article that said that, in Haringey, a family with five children would have to earn £88,000 per year to be better off working than they would be living off benefits. In addition, housing costs are significantly higher there in relation to housing benefit.

Given that your report is about the future role of taxes in delivering fiscal sustainability, what impact do you think that the benefit changes that have taken place recently and that will take place as a result of announcements by the First Minister and others will have on tax revenue and fiscal sustainability?

Stephen Boyle: Do you mean changes that are anticipated in the budget?

The Convener: I mean changes that have already been signalled. If people are to get higher benefits, that reduces the likelihood that they will join the labour market. What impact will that have on fiscal sustainability and taxes?

Stephen Boyle: In broad terms—I have not seen the article that you referred to; I would like to read it, if that would be possible—the key when it comes to how the fiscal framework operates is having well-paid jobs in Scotland that allow people to contribute to the economy. In our report, we have not assessed some of the wider factors, whether those are to do with—

The Convener: I ask because a lot of your report is about behavioural change, but behavioural change does not happen only at the top end; it happens across the pay scale. Your report seems to make no reference to that.

11:15

Stephen Boyle: That is absolutely fair. When it comes to behavioural change, we accept that people will make choices not only about their tax but about any benefits that they have and what that means for their ability to enter the labour market. In our report, we have said that there is not a sufficiently detailed understanding of how that relates to Scottish income tax. More work needs to be done to understand behavioural change as it relates to devolved taxes.

However, that is not the whole story. You are absolutely right. I accept that other earnings sources and benefits will also have a direct bearing on the economic and labour choices that people make.

The Convener: In exhibit 8, you discuss some of the pressures on the Scottish Government. I will not go through them all. While you say that the whole of the UK is impacted by inflation and demand-led spending, in relation to Scotland you mention a real-terms cut in the Scottish Government's capital block grant over the next five years and a

"slow real-terms growth rate in resource funding through the block grant, at 1 per cent per annum"

over the same period. In previous questions, we have touched on your emphasis on the point that you make in paragraph 54—namely, that

"in the short to medium term, public spending will be the main lever by which it can improve fiscal sustainability."

What milestones do you expect the Scottish Government to provide? In paragraph 55, you say that the Scottish Government needs to include

"timescales and milestones against which progress will be measured."

What timescales do you have in mind? Craig Hoy rightly mentioned the £2.6 billion gap in resource funding and the £2.1 billion gap in capital funding that will exist by 2029-30. What kind of milestones are you looking for against which you can measure the Government's success?

Stephen Boyle: Ultimately, the Government will decide for itself how it wishes to report on that. A reasonable reporting period would be every year—typically, people want to know about progress on an annual basis. If a longer period than that was chosen, I am sure that there would be good reason for that.

In the report, we talk about the three pillars in the medium-term financial strategy. Up until now, public spending has been the primary focus. The fiscal sustainability delivery plan sits alongside the MTFS. We are looking to see evidence and public reporting of measured progress. That feels like an important next step. I think that people would expect there to be an annual reporting cycle, but, again, that will be for the Government to determine.

The Convener: Of course, in the next financial year, we face a £1 billion gap in resource funding and £1.1 billion gap in capital funding, as you say in paragraph 41. Do you expect that gap to be closed in the next financial year?

Stephen Boyle: We will see what happens in the budget, which will, of course, be set out as a balanced budget. As we have said in many of our reports over the past few years, it is becoming harder to set and deliver budgets without sustainability, reform and changes in public spending.

Today's report builds on that point and talks about the need for better alignment between tax and economic strategies to avoid the need for some of the emergency budget measures that have been taken in recent years, which the committee will be very familiar with. Such an approach will allow for a smoothing in the delivery of public services and public spending and will avoid the need to react to events.

The Convener: That concludes questions from me and my colleagues. Are there any further points that you or Richard Robinson would like to make before we wind up the session?

Stephen Boyle: I again thank the committee for its interest in the report. I am happy to appear before the committee any time you wish me to.

The Convener: Thank you for responding to our questioning—it is very much appreciated.

11:18

Meeting continued in private until 12:10.

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