

Finance and Public Administration Committee
34th Meeting 2025 (Session 6)
Tuesday 9 December 2025

Auditor General for Scotland's report on financial sustainability and taxes

Purpose

1. To inform its scrutiny of the Scottish Budget 2026-27 in January 2026, the Committee is invited to take evidence from the following witnesses in relation to Audit General for Scotland's recent report on [financial sustainability and taxes](#)—

Panel 1

- Stephen Boyle, Auditor General for Scotland (AGS), and
- Richard Robinson, Senior Manager, Audit Scotland.

2. This paper sets out key messages from the AGS report. As is usual practice, the report was first considered by the Public Audit Committee at its meeting on 3 December 2025, when it heard evidence from the AGS and supporting officials. Some key issues raised at that meeting are referred to at the end of this paper.

Financial sustainability and taxes

3. The AGS report on [financial sustainability and taxes](#) was published on 13 November 2025. The report “sets out the impact of devolved taxes on fiscal sustainability to date” and “explores the opportunities, risks and challenges of using tax as a lever to achieve fiscal sustainability and assesses how well the Scottish Government is managing these”.
4. The report focuses on “the main revenue-raising devolved taxes” of Scottish income tax and, to a lesser extent Land and Buildings Transaction Tax. It does not assess non-domestic rates or local authority taxes, such as council tax.
5. It builds on previous work by the AGS including his reports on [the Scottish Government's workforce challenges](#) published on 26 October 2023, and on [fiscal sustainability and reform in Scotland](#) published on 21 November 2024.
6. Key messages from the latest AGS report on financial sustainability and taxes include—
 - **Devolved taxes in Scotland have supported the Scottish fiscal position to date**, with the Scottish Budget benefitting cumulatively by around £4.1 billion since the introduction of devolved taxes in 2015-16. The report highlights that the Scottish Government's economic strategies and tax policies both matter to the size of the Scottish Budget, as economic policies can grow the tax base through increased wages or employment levels.

- **The Scottish Government's tax policies relative to the rest of the UK are increasing the size of the Scottish Budget** compared to the amount that would have been raised if the Scottish Government had not diverged from UK Government income tax policy. Fiscal drag¹ “is more pronounced in Scotland than in the rest of the UK due to the higher number of tax bands” and “recent periods of higher inflation have led to higher wage growth, increasing the amount of fiscal drag”.
- **The weaker performance of the Scottish tax base compared to the rest of the UK is limiting the contribution of devolved taxes to fiscal sustainability.** The report explains that “relative lower growth in Scotland acts as a drag on the Scottish Budget position [..., which] in turn means that some of the tax revenues paid in Scotland, rather than increasing the overall size of the Scottish Budget, are instead offsetting larger adjustments to the block grant”. According to the report, this lower growth in the tax base in Scotland is due to factors including weaker earnings and employment growth, behavioural responses, differences in the sectoral make-up of the economy, and a different distribution of incomes in Scotland compared to the rest of the UK.
- **The Scottish Government is not sufficiently transparent in explaining how taxes contribute to the Scottish Budget.** The report notes that “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”. The AGS goes on to say that it is unclear to what extent the Scottish public understand that the total of the taxes that they pay may differ to the net contribution to the Scottish Budget.
- **The Scottish Government faces significant fiscal challenges, with the gap between its funding and spending forecast to increase.** Exhibit 8 in the report sets out existing pressures on the Scottish Budget, including factors impacting on the whole of the UK such as inflationary pressures on public sector pay and the impact of climate change, and Scottish specific factors including a proportionately larger and better paid public sector workforce and Scottish specific policy commitments.
- **The medium-term funding gap exists after projected tax contributions are taken into account.** The report notes that “any contribution devolved taxes will make to closing [...] the £2.6 billion] funding gap will need to be over and above the baseline projections”.
- **Forecasts are by their nature subject to change, which means that the net tax position is not certain.** The report highlights concerns raised by the Scottish Fiscal Commission in December 2024 “about the scale of difference between its and the Office for Budget Responsibility’s earnings

¹ Fiscal drag occurs when inflation pushes taxpayers into higher income tax brackets, resulting in higher tax payments.

growth assumptions [... which] was out of line with historic trends and, as such the projected net tax position was uncertain”.

- **The Scottish Government is not clear about how much further taxes can go to address its medium-term fiscal sustainability challenge.** The report suggests that “quantifying the direct impact on tax revenues of any individual set of economic interventions is difficult, but a more detailed assessment of the potential impact and timescales would support prioritisation of actions and better inform fiscal plans”. It further notes that the Scottish Government has made policy choices which limit the further contribution tax can make to the fiscal position over the short to medium term. This includes commitments in its December 2024 Tax Strategy not to introduce any new bands or increase Scottish income tax rates and uprating the starter and basic bands by at least inflation.
- **Behavioural change risks reducing the impact of any future tax policy changes.** The report highlights for example a Scottish Government ready reckoner for the 2025-26 Scottish Budget showing that a one percentage point increase in the top rate of Scottish income tax would raise only £5 million in additional revenue once behavioural responses are taken into account. It goes on to say that “data on behavioural change is improving but is currently underdeveloped and will be crucial to understand the future impact of taxation”.
- **The Scottish Government has not set out sufficiently the challenges of using tax to support fiscal sustainability and how it plans to address these.** The report further states that it is “not clear how fiscal risks associated with the relative performance of the tax base are being managed [... and] it is not sufficiently clear how the Scottish Government is considering its economic strategies and tax growth together”.
- **On reconciliations, the Scottish Government must be clearer on its approach to support scrutiny of its medium- to long-term budget management.** The report highlights that the Scottish Government’s approach to date has been to focus on negative reconciliations. However, it concludes that “setting out its strategy for reconciliations in the round, both positive and negative would provide greater clarity on the Scottish Government’s approach to managing risk and support scrutiny of this”.
- **The Scottish Government must monitor closely and manage the budgetary impact of external factors, such as any changes in UK Government tax policy.** In responding to the UK Government policy changes, the report suggests, “it is important that the Scottish Government understands the fiscal risks and is clear on the extent to which the choices it takes reflect its tax principles and overall strategy”.

7. The AGS further sets out six specific recommendations relating to the above conclusions which are replicated in the Annex to this paper.

Public Audit Committee consideration

8. As noted above, on 3 December the AGS gave evidence on this report to the Public Audit Committee. Key points discussed at that session include:
 - Transparency is the key theme running through the AGS report. In particular, the Scottish Government should do more to ensure that the difference between the notional increase in devolved tax revenues from policy changes and the amount expected to be collected after behavioural change and tax base performance is explained. In the current Budget document, the former figure is prominent, but the latter is in an annex – these should be side by side, with the difference clearly explained.
 - Fiscal sustainability to date has largely focused on controlling spending. The Scottish Government needs to be clearer as to how the economic strategy, the tax strategy and the fiscal sustainability delivery plan (FSDP) are aligned. Pillar 2 of the FSDP sets out economic policy which aim to grow the tax base, but the document does not provide sufficient detail of the specific impacts of individual policies or the timing of improvements.

Next steps

9. The Committee will take evidence on the Scottish Budget 2026-27 on 20 and 27 January 2026 and expects to report in early February 2026. Evidence sessions on the impact of the [UK Autumn Budget 2025](#)² on the Scottish Budget 2026-27 will take place on 16 December 2025 and 13 January 2026.
10. In carrying out this scrutiny, the Committee will draw on its [pre-budget 2026-27 report on responding to long-term fiscal pressures](#), published on 30 October 2025. The Scottish Government's response to this report is expected to be provided on 13 January 2025, alongside publication of the Scottish Budget 2026-27.

Committee Clerking Team
December 2025

² Published on 26 November 2025.

Recommendations in the AGS report on financial sustainability and taxes (page 6 of the report)

The Scottish Government should:

- Strengthen the alignment between its economic and tax strategies, setting out which economic interventions are specifically expected to help grow the Scottish tax base and tax revenues; over what time the Scottish Government expects these to have an impact; and the scale of impact that these actions are expected to deliver.
- Provide clear, accessible and transparent information to help improve public understanding of the Scottish tax system and set out how the impact of this will be assessed.
- Set out more clearly its strategy for the management of both positive and negative reconciliations to better support scrutiny of its approach to long-term budget management.

Within its next Medium-Term Financial Strategy:

- Set out more transparently the contribution it expects tax to make to closing the projected fiscal gap, taking account of tax policy choices and the impact of economic measures, and being clear what this means for public spending. Within its planned tax strategy update, expected in early 2026:
- State clearly and quantify the impact of relative tax base performance on how taxes raised through policy choices in Scotland will impact the Scottish Budget. It should set out its understanding of what factors contribute to this, including the extent of any structural economic differences compared to the rest of the UK, and the extent to which these can be addressed.

In future Scottish Budgets and associated fiscal outputs:

- Present consistently the net impact on the Scottish Budget of tax policy choices, alongside the amount of tax expected to be raised, to support transparency and public understanding.