

Public Audit Committee
Wednesday 4 February 2026
5th Meeting, 2026 (Session 6)

The 2024/25 Audit of the Scottish Government Consolidated Accounts: Financial Sustainability and Taxes

Introduction

1. At its meeting today, the Public Audit Committee will take evidence from the Permanent Secretary to the Scottish Government, on the Auditor General for Scotland (AGS) and Audit Scotland on the section 22 report, the [2024/25 Audit of the Scottish Government Consolidated Accounts](#), which was published on 30 October 2025. A copy of the report can be found at **Annexe A**.
2. The Committee also agreed to take evidence on the Auditor General for Scotland (AGS) and Audit Scotland's report on [Financial Sustainability and Taxes](#), published on 13 November 2025. A copy of the Financial Sustainability and Taxes report can be found at **Annexe B**.
3. The Committee previously heard evidence from the AGS on the Financial and Sustainability and Taxes report on 3 December 2025. Papers and the Official Report from the meeting can be found [here](#).
4. The Committee previously heard evidence from the AGS on the section 22 report on 17 December 2025. Papers and the Official Report from the meeting can be found [here](#).
5. Following this evidence session, the AGS provided additional information to the Committee on the financial position of Ferguson Marine (Port Glasgow) Holdings Ltd. The AGS's letter of [27 January 2026](#) can be found in **Annexe C**.
6. A letter was also received from Colin Cook, Director of Economic Development, Scottish Government, dated [17 December 2025](#) regarding an update on the Glasgow Prestwick Airport: Economic Impact Assessment. This is available at **Annexe D**.
7. The Committee will decide any further action it wishes to take following the evidence session today.

Clerks to the Committee
January 2026

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The 2024/25 audit of the

Scottish Government Consolidated Accounts



AUDITOR GENERAL 

Prepared for the Public Audit Committee by the Auditor General for Scotland
Made under section 22 of the Public Finance and Accountability (Scotland) Act 2000
October 2025

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Key messages

- 1 My independent audit opinion is unmodified. An underspend of £1 billion is reported in the 2024/25 Consolidated Accounts.
- 2 The Scottish Government did not need to apply all the additional measures announced in September 2024 to achieve a balanced outturn, mainly due to additional funding received during the year.
- 3 There remain significant pressures for 2025/26 with the achievement of a balanced financial outturn not yet certain. Many of the actions being taken are short term and do not support the fiscal sustainability of the Scottish public sector.
- 4 Additional transparency on the medium-term financial position has been provided by the publication of key documents in June 2025. More detailed delivery plans, supported by robust governance arrangements, are required. These must result in changes to the design and delivery of public services, including an affordable public service workforce.
- 5 The Scottish Government has well-established assurance arrangements, but the Director-General portfolio structure presents some challenges when tackling issues that impact across government. This should remain an area of focus to ensure resources are targeted at priority areas. I reported earlier this year on the need for improvement to NHS governance arrangements.
- 6 Changes to sponsorship arrangements for public bodies are being implemented. These must strike the right balance between oversight and assurance, and the responsibilities of appointed Accountable Officers.
- 7 Oracle Cloud was successfully rolled out in October 2024, at a total implementation cost of £59.5 million. Continued focus will be needed to realise the anticipated benefits and demonstrate value for money from the investment in the new system.
- 8 The Scottish Government cannot clearly demonstrate that public spending is delivering the intended outcomes.

Introduction

1. I am submitting the Scottish Government Consolidated Accounts and auditor's report for 2024/25 under section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report that I have prepared under section 22(3) of the Act.

2. My report is intended to support the Scottish Parliament in its important scrutiny role of the Scottish Government. The report contains key information from the 2024/25 Consolidated Accounts and the Scottish Government's management of its budget. It also covers Oracle implementation, sustainability, governance and performance reporting.

Background

3. The accounting boundary for the Consolidated Accounts reflects the areas for which the Scottish Government has direct responsibility and accountability, including the core portfolios, supporting administration, executive agencies and NHS bodies. It does not include bodies where the Scottish Government holds significant shareholdings such as Ferguson Marine (Port Glasgow) Holdings Limited (FMPG), Caledonian Maritime Assets Limited (CMAL), Scottish Futures Trust, Glasgow Prestwick Airport or the Scottish National Investment Bank. The Scottish Government's investments in these nationalised industries and limited companies are included within the Consolidated Accounts. Other public bodies such as local authorities, and areas of expenditure such as public sector pension schemes, are also out with the accounting boundary.

4. The Scottish Government Consolidated Accounts:

- cover over 90 per cent of the budget approved by the Scottish Parliament
- report the amounts spent against each main budget heading, and the reasons for any variances above £5 million
- show the amounts distributed to other public bodies including local government
- report the assets, liabilities and other financial commitments of the bodies within the consolidation boundary, that are carried forward into future years
- contain a performance report, in which the government gives an account of its performance during the year.

Financial management

My audit opinions on the annual report and accounts are unmodified

5. My independent auditor's report is set out at pages 80 – 83 of the Consolidated Accounts. My opinions on the 2024/25 financial statements are unmodified. This means, in my opinion, I am content that the Scottish Government Consolidated Accounts show a true and fair view and have been properly prepared to follow accounting standards and that the income and expenditure for the year is lawful.

The auditor of Social Security Scotland continues to qualify their regularity opinion

6. The 2024/25 annual report and accounts of Social Security Scotland include total benefit expenditure of £5,944 million of which £2,227 million (37 per cent) was administered by the Department for Work and Pensions (DWP) under an agency agreement with Scottish ministers. Due to these delivery arrangements, Social Security Scotland cannot directly assess the levels of fraud and error in these benefits and is reliant on the DWP's annually published estimates.

7. The estimated overpayments as a result of fraud and error in the benefits administered by the DWP, ranged from 0.5 to 3.9 per cent of expenditure. This means an estimated £40 million of overpayments were made to Scottish residents. This has reduced in recent years as more cases have transferred from DWP and are now being administered by Social Security Scotland.

8. The auditor qualified their regularity opinion as these overpayments were not incurred in accordance with relevant legislation and regulations. Further details can be found in the 2024/25 Annual Audit Report of Social Security Scotland.

9. As a material component, the qualified regularity opinion for Social Security Scotland requires me to assess the potential impact of its inclusion within the Scottish Government Consolidated Accounts. As in previous years, I concluded that the likely amount of error and fraud incurred is not significant enough to influence the economic decisions of the users of the Consolidated Accounts and therefore I have not qualified my opinion in respect of this matter.

10. I recently published a report on the Adult Disability Payment which accounts for £2,479 million (42 per cent) of the total benefit expenditure in

2024/25. My report highlights the growing gap between the funding received from the UK Government and expenditure, and the need for a clearer understanding of the impact on the delivery of the desired outcomes.

During 2024/25 the Crown Office and Procurator Fiscal Service agreed non-contractual settlement agreements with two senior officers

11. I have been advised by the auditor of the Crown Office and Procurator Fiscal Services (COPFS) that two senior officials received settlement payments totaling £0.2 million during 2024/25. These payments were omitted from the Remuneration and Staff Report disclosures in the unaudited annual report and financial statements.

12. The payments settled a long-running dispute resulting from the removal of a senior civil service pay band.

13. I note that these payments are now correctly disclosed within the Remuneration and Staff Report and that the auditor is satisfied that the SPFM requirements were met.

An underspend of £1 billion is reported in the 2024/25 Consolidated Accounts

14. The Consolidated Accounts show that total net expenditure during 2024/25 was £56.3 billion, £1 billion less than budget. The resource budget was underspent by £875 million (1.6 per cent) against a budget of £54.8 billion. Capital was underspent by £134 million (5.3 per cent) against a budget of £2.5 billion.

15. High-level reasons for significant variances between actual and budgeted spend are included in the Consolidated Accounts.

The approval of agency staff expenditure needs to be strengthened to ensure value for money

16. The Scottish Government's policy for the use of agency staff permits appointments to be approved at Deputy Director level regardless of the daily charge, length of appointment or overall cost of the engagement.

17. The audit team identified a specific case where a previous employee was engaged through an agency, on a part-time basis for four months at a cost of £85,612. This was subject to two further direct awards, extending the appointment to ten months at a total cost of £220,689. The Scottish Government has advised that this was a technical role relating to the closure of the European Structural and Investment Funds and that a value-for-money case can be made on that basis.

18. While I recognise the significant financial risks associated with this work, I do not agree that this level of public spending is appropriate without a more robust approval and monitoring process being in place. The audit team have recommended that the Scottish Government review the approval levels for agency staff appointments, and the arrangements to monitor and report on agency expenditure. This recommendation has been accepted by the Scottish Government.

Financial interventions continue to require investment and ongoing management

19. The Strategic Commercial Assets Division (SCAD) has five units covering initial assessment for investment through to potential exit strategy. SCAD's role is to consolidate expertise, increase capacity to respond to cases seeking intervention from the Scottish Government and provide support across the whole lifecycle. [Exhibit 1](#) highlights the remaining financial interventions being actively managed by SCAD.

Exhibit 1

Financial interventions to private companies

Financial intervention	Total financial investment	Current value in accounts
Prestwick Airport Purchased by the Scottish Government in November 2013 with the stated aim of protecting jobs and safeguarding the asset. Change in financial investment value is attributable to accumulated debt interest. Total investment consists of capital (£43.4 million) and interest (£15.5 million).	£58.9 million (£55.5 million last year)	£21.3 million (no change)
Ferguson Marine (Port Glasgow) Holdings Limited Established by the Scottish Government in December 2019 after Ferguson Marine Engineering Limited (FMEL) went into administration. The existing voted loans (£97.7 million) were terminated and the difference between the valuation of the ferry vessels (£74.8 million) and the valuation of the outstanding loans (£22.9 million) was written off in 2020/21.	£361.9 million (£304.7 million last year)	£99 million* (£94.6 million last year) * This includes £55 million for MV Glen Sannox which was transferred to CMAL in November 2024

Financial intervention	Total financial investment	Current value in accounts
Lochaber Aluminium Smelter – Gupta Family Group (GFG Alliance) In December 2016, the Scottish Government issued a 25-year financial guarantee contract to SIMEC Lochaber Hydropower Limited. The Scottish Government receives an annual fee in return for the guarantee. The annual exposure to the Scottish Government is between £14 million and £32 million, over the lifetime of the contract.	Nil (no change)	Provision of £130 million (no change)

Source: Audit Scotland

20. I have asked the audit team to continue to monitor and report on these financial interventions, including the risks they present for the public purse.

The Scottish Government did not need to apply all the additional measures announced in September 2024 to achieve a balanced outturn

21. In August 2024, in recognition of the deteriorating financial position, emergency spending controls were introduced. In September 2024, a range of measures, totalling £933 million, were announced to support a balanced outturn position.

22. In total, just under £2.2 billion of additional resource Barnett consequentials were received in 2024/25 due to an increase in UK Government spending. I therefore note that the announced measure to utilise all the available ScotWind revenue of £460 million was not required.

There remain significant pressures for 2025/26 with the achievement of a balanced financial outturn not yet certain

23. The 2025/26 Scottish Government Budget was passed by Parliament in December 2024 and was set at £63.4 billion, a 3.8 per cent real terms increase on the budget set in 2024/25.

24. As noted in [paragraph 22](#), achieving financial balance in 2024/25 was supported by the receipt of additional consequentials. The Scottish Government cannot rely on receiving unplanned consequentials to achieve a balanced position for 2025/26 and therefore need to ensure that it manages spending within the approved budget.

25. I am aware that a plan to achieve financial balance has been identified, but that significant further work is required to ensure delivery. I also understand that many of the actions being identified, and delivered

for 2025/26, continue to be non-recurring. This approach impacts on the longer-term sustainability of the Scottish public sector.

Oracle implementation

Oracle Cloud was implemented in October 2024 at a total cost of £59.5 million, up from an initial estimate of £22 million

26. Last year I reported that the Oracle Cloud system was introduced for the Scottish Government and a further 32 other public sector bodies in October 2024 following earlier delays and cost overruns. I committed to reporting on the implementation of Oracle Cloud during 2025.







27. [Exhibit 2](#) details the approval timeline and associated cost estimates for the Oracle implementation. Project implementation costs were £59.5 million (following VAT recovery of £8 million), up from an initial estimate of £22 million at the start of the project in April 2022. The increased cost is attributed to a combination of an underestimation of the scale and complexity of the programme and the implementation delays. This additional spend reduced the budget available for other areas.

28. It should be noted that the final project implementation costs of £59.5 million do not include the costs required to implement the Enterprise Performance Management (EPM) reporting modules which were deferred from initial implementation. Work in relation to EPM is ongoing with £1.8 million spent on three releases up to August 2025, and further releases continuing through to July 2026. The delivery cost for these additional releases is still being determined by the Scottish Government.

Exhibit 2

Approval timeline for Oracle Cloud implementation process

Date	Activity	Cost
2021		
 April	Outline business case approved by Directorate General Corporate.	-
2022		
 April	Full business case approved by Minister for Business, Trade, Tourism, and Enterprise, and Cabinet Secretary for Finance and the Economy.	£22 million

Date	Activity	Cost
2023		
 September	Refreshed business case, with revised costs and planned implementation date of 1 April 2024, approved by Deputy First Minister and Cabinet Secretary for Finance.	£46 million
 December	Planned end of Oracle Cloud implementation phase per the original business case approved in April 2022.	-
2024		
 March	Deputy First Minister and Cabinet Secretary for Finance approved revised go-live date of 1 October 2024.	-
 April	Planned Oracle Cloud HR and Finance system go-live date per revised business case approved in September 2023.	-
 June	Refreshed Accountable Officer assessment, with revised costs, and implementation date of 1 October 2024, approved by Cabinet Secretary for Finance & Local Government.	£59 million
 30 September	Decision to proceed with the Oracle Cloud go-live date of 1 October 2024 was approved by the Steering Committee.	-
1 October	Oracle Cloud HR and Finance system go-live date	£59.5 million

Source: Scottish Government

Continued focus will be needed to realise the anticipated benefits from Oracle Cloud and demonstrate value for money from the investment in the new system

29. Successful implementation involves more than just the new platform being in place, it is about a strengthened control environment and being able to access better data to support decision-making.

30. The Scottish Government anticipate that they expect Oracle Cloud to be in a stable state in Autumn 2025. This will enable the project to move to the optimisation phase with a rolling schedule of continuous improvement.

31. I have asked the auditor to continue to monitor the implementation of additional modules and to report on the progress being made by the Scottish Government in realising the full business benefits from the system. Only then will the Scottish Government be able to demonstrate the value for money delivered from the investment in the new system.

Appropriate governance arrangements were in place for the transition to Oracle Cloud, and the decision to go-live in October 2024 was reasonable

32. The auditor reviewed the governance arrangements that operated throughout the implementation of Oracle Cloud. A detailed governance framework was put in place including a Steering Committee; Shared Service Programme Management Board; Programme Finance Review Group; Vendor Management Group; Business Design Authority; and Customer Board. A Gateway Review process was also established to provide independent assurance.

33. I am pleased to note that the auditor has concluded that the governance arrangements were appropriate and operated as expected.

34. Audit work has confirmed that the data migration process for transferring data from the old systems to Oracle Cloud was well planned and executed. Further, the Scottish Government developed detailed user acceptance testing plans to enable the end users to test the system to ensure it met their business requirements and was ready for deployment. Although not all exit criteria were fully met for the HR-Payroll modules, these were resolved after the system went live.

35. In addition to user acceptance testing, regular organisational readiness assessments were completed to track the preparedness of the Scottish Government departments and user bodies. The exit criteria set for the organisational readiness assessments was that all Scottish Government core departments and user bodies would achieve 70 per cent readiness prior to go-live.

36. Two Scottish Government departments and one user body were below the 70 per cent readiness threshold when the decision to go-live was made. The minutes of the meeting of the Steering Committee on 30 September 2024 noted that the remaining issues and risks were not significant enough to delay the implementation of the system.

37. The transition to Oracle Cloud comprised a wide range of activities consistent with the audit team's expectations. To support the transition there were three separate 'freeze periods' where no changes were allowed to the systems to minimise the data transfer risks. The longest period related to the e-HR system which resulted in no changes to HR and payroll data for seven weeks.

38. The audit team were satisfied that the decision to go-live on 1 October 2024 was reasonable, and the transition to Oracle Cloud was well planned, managed and executed.

The training arrangements and management of support tickets could have been improved

39. The Scottish Government recognised that training was a key element of the change management process and essential for the go-live preparation. The audit team reviewed the training plan and identified that there were no forms of training available before 1 August 2024. Given the scale of the change, it would have been preferable for users to have a longer period to complete training and familiarise themselves with the requirements of the new system prior to go-live. This would also have helped smaller user bodies manage the resource impact of the volume of training that had to be completed.

40. A clear process was established for identifying, documenting and resolving issues from system users. However, the audit team collected feedback from user bodies which highlighted that there was frustration with how the support ticket process operated. The Scottish Government acknowledge that staff were not prepared for the volume of support tickets raised and this impacted on the operation of the planned process.

41. I note that the Scottish Government has accepted the recommendation made by the audit team and has committed to continuing to work with user bodies to address their frustrations.

A service auditor has been procured to provide assurance over the system controls operating within Oracle Cloud

42. The role of a service auditor is to provide independent assurance that outsourced service providers are operating effective controls, confirming that the system is operating as intended. It also delivers efficiencies by avoiding the need for multiple audits and enquiries.

43. The audit team reviewed the arrangements the Scottish Government has in place to obtain assurance on the Oracle Cloud application controls, and third-party hosting controls including:

- **Service Auditor Report – System and Organisation Controls 2 (SOC2) 2024/25:** A SOC2 review is designed specifically for technology and cloud computing organisations that handle customer data. The Scottish Government has obtained a SOC2 report for 2024/25.
- **ISAE 3402 Type 1 Service Auditor Report – Application Controls 2024/25:** The Scottish Government has procured an ISAE 3402 Type 1 report for 2024/25. This is an industry standard report that scrutinises whether the new Oracle Cloud application has the requisite controls in place. The ISAE 3402 Type 1 review is currently being completed with the service auditor report due to be issued by October 2025. No audit assurance can be obtained from

a Type 1 report as although it assesses the design of the key controls, it does not provide any assurance over their operation.

- **ISAE 3402 Type 2 Service Auditor Report – Application**

Controls 2025/26: The first ISAE 3402 Type 2 report will cover the 2025/26 financial year and involve detailed testing of the effectiveness of the controls in place in respect of the Oracle Cloud application. The final report will be available in summer 2026.

44. The SOC2 report confirms that the Scottish Government had sufficient assurances over the operational effectiveness of the controls in place to protect customer data at Oracle's UK cloud data centres.

45. I have asked the audit team to continue to monitor the assurance arrangements and include conclusions on these as part of next year's audit reporting.

The lessons learned review should consider the impact of optimism bias on the original estimates for the timescale and costs of the project

46. As with any large project, it is important that a post-implementation review is completed to reflect on the overall success of the project in meeting its stated objectives and expected benefits. This should include assessing which aspects of the project went well and what could have gone better, and to identify lessons and insights that can be applied more widely to improve the planning, management and delivery of future projects.

47. I expect the post-implementation review to consider the conclusions of the audit team on Oracle implementation and develop lessons learned that can be shared across the public sector. This could be used to inform the procurement and implementation of a new finance system for NHS Scotland.

Sustainability

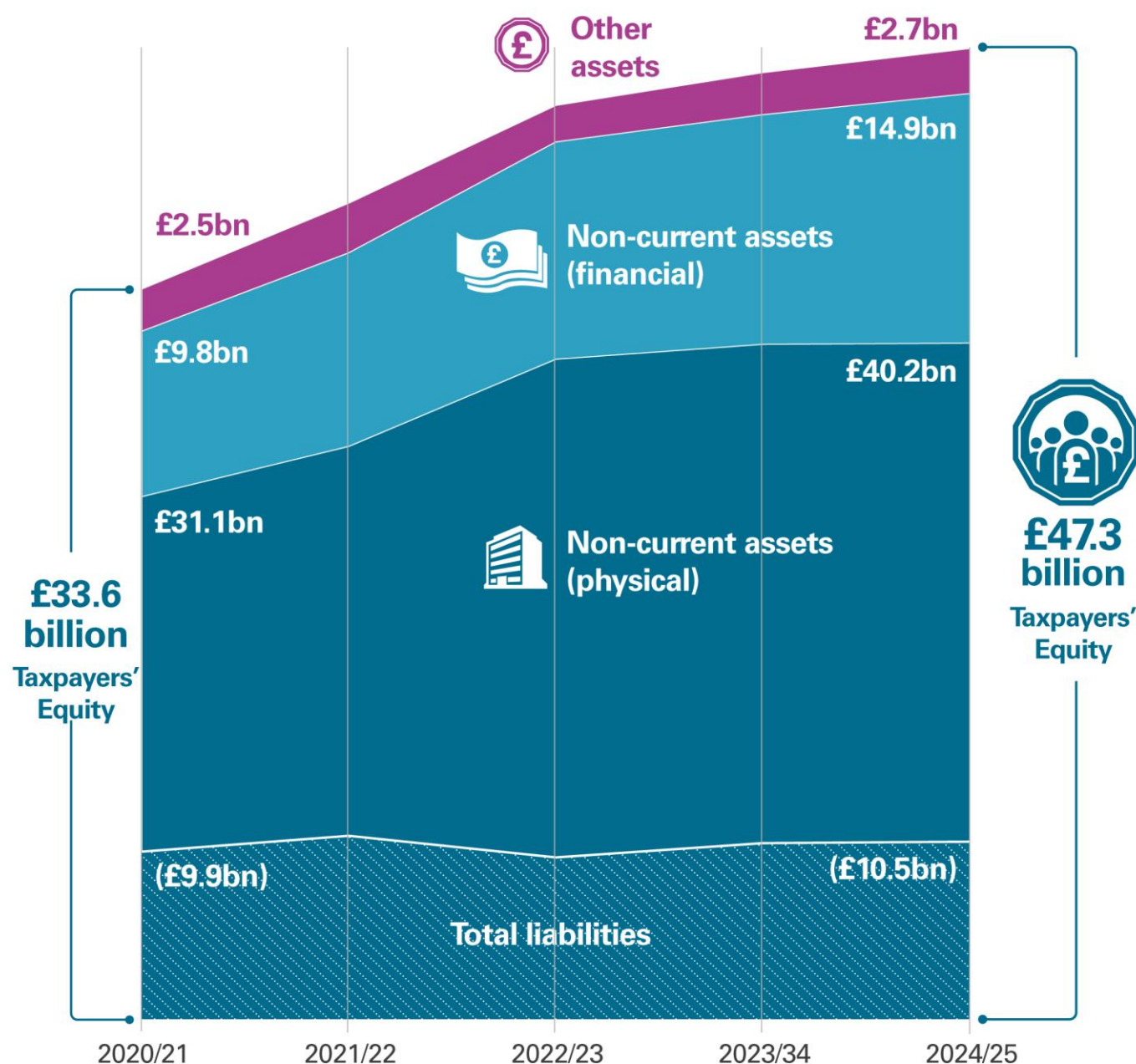
The Consolidated Statement of Financial Position shows that assets continue to increase faster than liabilities

48. The Consolidated Statement of Financial Position is one of the primary financial statements in the Consolidated Accounts. It summarises what is owned and owed by the core Scottish Government and those public bodies within the consolidated boundary. This shows taxpayers' equity – an accounting measurement of the amount of taxpayers' money applied that has continuing public benefit, as detailed in [Exhibit 3](#). It also details how much of this has arisen from the application of parliamentary funding (from the Scottish Block Grant, borrowing and devolved taxes) and how much resulted from changes in the value of assets over time.

49. Taxpayers' equity has increased in each of the last five years from £33.6 billion to £47.3 billion, largely due to an increase in physical assets (such as property and roads) and financial assets (such as loans and investments). Total liabilities (such as payments for private-financed projects) have increased at a much slower rate from £9.9 billion in 2020/21 to £10.5 billion in 2024/25.

50. I note that in the last two years the increase in value has largely been attributable to the financial non-current assets relating to student loan debt and the voted loans provided to Scottish Water and Transport Scotland. These therefore reflect the associated spend that should result in future repayments.

Exhibit 3 Financial position



Source: Scottish Government Consolidated Accounts

The Medium-Term Financial Strategy highlights the unsustainable financial position of the Scottish public sector

51. In June 2025, the Scottish Government published a new [Public Service Reform Strategy](#) (PSRS), its seventh [Medium-Term Financial Strategy](#) (MTFS) and the first [Fiscal Sustainability Delivery Plan](#) (FSDP).

These documents provide a framework for the future of Scottish public sector finance and public service reform.

52. The 2025 MTFS presents a stark picture with gaps in resource projected to grow from a balanced budget in 2025/26, to a gap of £2.6 billion in 2029/30. Scottish Government policy choices, along with higher workforce costs, are contributing to a divergence in the growth in spending relative to the growth in funding.

53. The capital budget has faced significant challenges in recent years, creating a backlog of infrastructure projects. A new infrastructure pipeline, and a draft of the next Infrastructure Investment Plan, will be published alongside the 2026/27 budget. The MTFS highlights that capital spending is forecast to exceed the available budget by £1.1 billion in 2026/27, rising to a gap of £2.1 billion in 2029/30.

54. The projections indicate that significant further action is required, for both resource and capital, to move the Scottish public sector to a sustainable position. The FSDP focuses on the resource position and draws together current activity and future actions with the following cashable savings to be delivered over the next five years:

- A workforce target of an average 0.5 per cent reduction per annum, protecting frontline services, with savings growing from £100 million to £700 million per annum.
- Wider public sector efficiencies and productivity, reform, and revenue raising, with savings growing from £600 million to £1.5 billion per annum.
- Increasing public value, to be set out in the Scottish Spending Review, with a savings target of between £300 million and £700 million per annum.

55. I agree with the recommendation within the annual audit report that more detailed delivery plans need to be developed to support the realisation of the savings outlined in the FSDP.

Workforce reform is critical to the delivery of sustainable public services

56. The PSRS sets out how the Scottish Government aims to increase the pace and scale of reform. The public sector in Scotland is a larger proportion of the employed population than in the rest of the UK and therefore presents additional financial challenges. The PSRS acknowledges that workforce reform is a critical component of public service reform.

57. Workforce controls have been in place within the Scottish Government since the Resource Spending Review in 2022. These have resulted in a significant reduction in the contingent workforce, but there has been no

similar reduction in directly employed staff. I recognise that the costs associated with **contingent workers** were, and continue to be, significant but there has not yet been the necessary focus on restructuring of the Scottish Government's directly employed workforce.

Contingent workers refers to staff not on the Scottish Government payroll, including agency workers, contractors or secondees.

58. The [Public Sector Pay Policy](#), published in December 2024, was designed to provide a fiscally sustainable basis for pay negotiations. However, none of the pay deals subsequently agreed by the Scottish Government meet the expectation within the policy of either covering the three-year period or being restricted to a maximum three per cent pay uplift for 2025/26. This introduces additional recurring financial pressures in the short term and has not mitigated the future year risks given many of the two-year deals agreed include inflation guarantees.

59. Last year I reported that the Scottish Government was making short-term decisions to balance the budget, and I am concerned that this remains the case. I welcome the recent publication of the MTFS, FSDP and PSRS, but for them to be successful, they need to result in real change to move the Scottish public sector to a more sustainable position.

Sponsorship

Further action is required to fully embed the actions identified by the Ryan Review

60. The independent review of public bodies, Eleanor Ryan's [Progress Review of Scottish Government relationships with Public Bodies](#) was published in 2022 and included 14 recommendations. The Scottish Government provided a formal response to the review including details on each recommendation, an indication of next steps as well as timescales for completion.

61. During 2025, the Public Bodies Sponsorship Unit (PBSU) completed a full review of progress against the recommendations to ensure that the action initially taken was still appropriate. I note that this review has identified areas for further action and the audit team agree with this assessment.

Sponsorship of public bodies remains a key focus, with opportunities to further strengthen arrangements

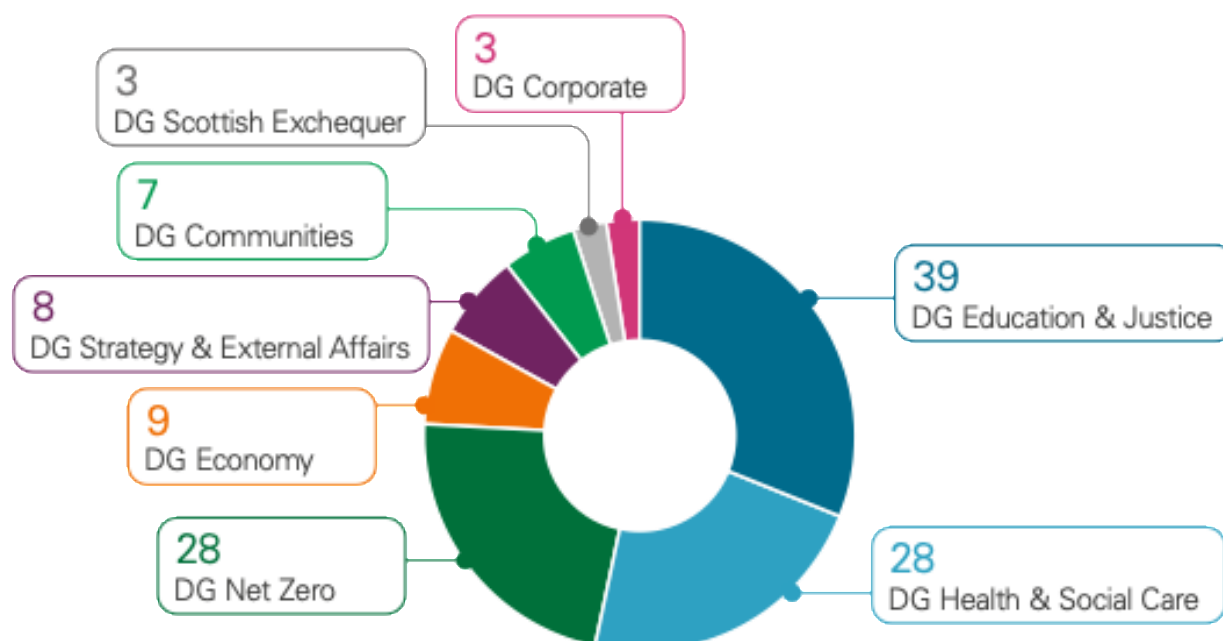
62. Following my 2022/23 report on the significant weaknesses in the Water Industry Commission for Scotland (WICS), the Scottish Government completed a review of sponsorship arrangements and are implementing the recommendations:

- Sponsorship is to be viewed as a specialism, with Sponsorship Team and Senior Civil Service objectives in place for 2025/26.
- A peer-led Sponsorship Forum is now established, with representatives from across the Scottish Government. This provides a community to discuss issues and develop best practice.
- Establishment of the Public Body Advice and Support Network, enabling sponsorship teams and Directors General to access central resources to ensure consistency in support for live issues.
- Annual Deep Dives are part of the reporting of strategic sponsorship for each Director General portfolio.

63. There are 125 devolved public bodies aligned to each Director-General as shown in [Exhibit 4](#).

Exhibit 4

Public bodies for each DG portfolio



Source: Audit Scotland

64. The health sponsorship team have a different approach to monitoring performance and managing risks across territorial boards in the NHS in Scotland. The [NHS Scotland: support and intervention framework](#) sets out a process for the Scottish Government to support and intervene in territorial NHS boards that are struggling to meet delivery standards or services.

65. The framework sets out a number of issues which would result in boards being escalated, including those associated with specific services or organisational issues. I reported earlier this year on the need for NHS governance arrangements to improve to deliver the scale of reform needed across the health service in Scotland.

66. I expect the Scottish Government to continue to work to ensure that sponsorship gets the visibility and scrutiny it requires. I have asked the audit team to closely monitor sponsorship arrangements. Key to this is ensuring they strike the right balance between oversight and assurance, and the responsibilities of the appointed Accountable Officers.

Governance and transparency

Governance and risk management arrangements are operating effectively, but cross-government priorities need a renewed focus

67. A Governance Statement prepared by the Permanent Secretary is a key feature of the 2024/25 Scottish Government Consolidated Accounts (pages 41 – 59). It forms part of the wider accountability report and summarises how the Scottish Government is controlled and directed. The statement highlights the main risks and opportunities and any significant internal control issues in 2024/25. I am satisfied that the Governance Statement is consistent with the financial statements and has been prepared in accordance with guidance issued by the Scottish ministers.

68. The Scottish Government has established assurance arrangements in place, involving both Executive Team and Non-Executive Directors. There have been significant changes in the Scottish Government leadership team during 2025, and new Non-Executive Directors are joining to increase the capacity following a number of departures.


69. Risk management is key to the Scottish Government's assurance arrangements and is a standing agenda item across the governance framework. The audit team noted that they have observed robust discussions on risk reporting, with risk management arrangements being well developed across the Scottish Government.

70. The Director-General portfolio structure within the Scottish Government can effectively support focused action on key areas. However, it presents some challenges when tackling issues that impact across government such as child poverty or public service reform. This should remain an area of focus for the Scottish Government.

The cost to complete the MV Glen Rosa has increased to £185 million, and the estimated delivery date has now been pushed back to between April and June 2026

71. I have reported in recent years about the escalating costs and extended timelines for the delivery of MV Glen Sannox and MV Glen Rosa. [Exhibit 5](#) outlines the timeline, associated costs to complete the vessels and due diligence processes that have taken place since the initial decision to acquire the vessels. This does not include any previous costs incurred.

Exhibit 5**MV Glen Sannox and MV Glen Rosa: timeline and due diligence**

 Date	MV Glen Sannox timeline	MV Glen Rosa timeline	Total cost to complete both vessels (public ownership)	Due diligence process
Dec 2019	Dec 2021	Oct 2022	£110m – £114m	Initial decision to acquire
Aug 2020	June 2022	Feb 2023	£110m – £114m	-
June 2021	Sept 2022	July 2023	£110m – £114m	-
March 2022	May 2023	Dec 2023	£119m – £123m	High-level AO assessment
Sept 2022	May 2023	Jan 2024	£203m	Full AO assessment commenced
March 2023	May 2023	March 2024	£210m	-
June 2023	Dec 2023	Dec 2024	£223m	-
Sept 2023	March 2024	May 2025	£240m	FMPG detailed scrutiny
February 2024	May 2024	Sept 2025	£299m	-
November 2024	MV Glen Sannox officially handed over to CMAL			
December 2024	-	Sept 2025	£299m	Updated AO Assessment signed
January 2025	MV Glen Sannox begins operating on the Troon to Brodick route, serving the Isle of Arran			
May 2025	Nov 2024	April to June 2026	£334m	-

Source: Audit Scotland

72. I reported last year that, following detailed scrutiny by FMPG, further cost increases and delivery delays were announced in February 2024, however a Portfolio Accountable Officer Assessment had not been completed. I can confirm that this was completed in December 2024 based on the cost estimates provided by FMPG which had been subject to

due diligence by the Scottish Government, but had not been scrutinised by external consultants.

73. The Scottish Government included a risk premium in the delivery schedule and costs associated with MV Glen Rosa in the options appraisal undertaken as part of the value for money assessment. I note that the outcome of the options appraisal was that the value-for-money standard was not met, as it remained cheaper to purchase a new vessel than for FMPG to finish building the MV Glen Rosa. On 18 December 2024, the Director-General Economy was provided with confirmation from the Deputy First Minister and Cabinet Secretary for Economy and Gaelic that the previous written authority continued and the build of MV Glen Rosa should continue at FMPG.

74. Further cost increases and delays were reported in May 2025 taking the total cost to complete both vessels to £334 million, up £35 million from the December 2024 Accountable Officer assessment. Due to these latest revisions to the completion date and costs of the MV Glen Rosa, a further Accountable Officer assessment is being completed.

The lack of accurate projections for the cost and completion dates of the vessels has undermined Accountable Officer assessments

75. The continual slippage and cost overruns throughout the build process for MV Glen Sannox and MV Glen Rosa represents a poor use of public money. MV Glen Sannox was officially handed over to CMAL in November 2024, three years after the original completion date, with MV Glen Rosa now projected to be delivered almost four years late. Further, the combined costs of the vessels have increased from an original upper estimate of £114 million to the latest projection of £334 million, a £220 million or 193 per cent overspend.

76. The lack of accurate projections for the cost and completion dates of the vessels has undermined the previous Accountable Officer assessments. I intend to publish a further report on the delivery of the vessels following the completion of the MV Glen Rosa.

There are opportunities to enhance the consolidated Scottish public sector financial information

77. In October 2024, the Scottish Government collated 2022/23 financial information for the Scottish public sector and provided this to Parliament for consideration. The information focused on the assets and liabilities across the Scottish public sector and provided a more complete picture of the financial position associated with the powers and responsibilities devolved to the Scottish Parliament.

78. I provided my views in May 2025 on how this information could be further enhanced to support public understanding. I highlighted that the

real value would be established once trend information could be included to show the growth or decline of assets and liabilities over time. The audit team are due to receive the next version of the Scottish public sector financial reporting in October 2025 to enable them to fully assess the progress that has been made.

The Performance Report does not provide a complete view of the Scottish Government's performance

79. The 2024/25 Scottish Government Consolidated Accounts include a performance report (pages 4 – 39) in line with the requirements of the Government Financial Reporting Manual (FReM).

80. Last year I reported that improvements had been made to the performance reporting within the Consolidated Accounts. It is disappointing to note that the 2024/25 performance report presented for audit did not address the prior year recommendation for improvement and represented a step backwards in terms of the overall standard and transparency of reporting on performance outcomes.

81. The performance report contained only limited outcome data which focused on areas of positive performance and therefore did not contain the required balance. Further, the report did not include the new enhanced sustainability disclosures required for 2024/25.

82. I am satisfied that the performance report has now been updated and meets the minimum requirements of the FReM, however more robust arrangements must be put in place for future reporting.

The Scottish Government cannot clearly demonstrate that public spending is delivering the intended outcomes

83. The National Performance Framework (NPF) was intended to be the foundation for how policy was developed and delivered in Scotland. It included 11 National Outcomes and aimed to combine economic performance with a broader range of wellbeing measures. These indicators incorporated a range of data from social attitudes and perceptions, to economic and environmental statistics, designed to show a broad picture of Scotland's performance.

84. The PSRS acknowledges that there are underlying systemic barriers and root causes which prevent faster progress and notes that to deliver a system that improves lives, reduces inequality and is fiscally sustainable, the public services system will need to:

- be efficient and effective with the right-size delivery landscape
- have better joined-up services and a focus on helping people
- prioritise prevention

- empower people and communities to shape the services that matter to them
- be fiscally sustainable.

85. Key to delivering these types of whole-system changes is having clear, reliable data on what activity is having the greatest positive impact on outcomes and driving improvement and efficiencies in public services.

86. Following recent reviews, it was confirmed that the Scottish Government would take further time to rethink and reform the NPF. In this intervening period there is no overarching framework to measure and report outcome data. The lack of a clear and consistent performance reporting framework makes it hard for the Scottish Government to demonstrate the extent to which it is using resources effectively to improve outcomes, and to direct resources to the areas of greatest impact.

Conclusion

87. The Consolidated Accounts remain a critical component of the Scottish Government's accountability to the Scottish Parliament and the public. The lack of available data means that the Scottish Government is not clearly demonstrating that public spending is delivering the intended outcomes, and there is a risk that the current portfolio structure is preventing the necessary focus on cross-government issues.

88. The key financial publications, published in June 2025, provide a framework to support the necessary changes to the Scottish public sector, but workforce pressures continue to increase. Real change is needed to move the Scottish public sector to a more sustainable position.

The 2024/25 audit of the Scottish Government Consolidated Accounts



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Financial sustainability and taxes



AUDITOR GENERAL 

Prepared by Audit Scotland
November 2025



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Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Audit team

The core audit team consisted of: Richard Robinson, Kirsty Ridd, James Troy and Thomas Charman, under the direction of Carole Grant.

Key facts



April 2015

Introduction of Land and Buildings Transaction Tax and Scottish Landfill Tax



April 2017

Introduction of Scottish Income Tax



£21,562m

Forecast amount of tax revenue raised through devolved taxes in 2025/26



32.3%

Proportion of the 2025/26 Scottish Budget funded through Scottish Income Tax



1.6%

Proportion of the 2025/26 Scottish Budget funded through Land and Buildings Transaction Tax



0.1%

Proportion of the 2025/26 Scottish Budget funded through Scottish Landfill Tax

Key messages

- 1 Devolved taxes are making a positive contribution to the Scottish Budget, but lower earnings and employment growth in Scotland compared to the rest of the UK are reducing their overall impact.** Altogether, the net benefit to Scottish Budgets since the introduction of devolved taxes in 2015/16 is around £4.1 billion. But this is significantly less than the additional tax raised over the same period. This trend is set to continue. For example, in 2025/26 alone, the Scottish Government expects to raise up to £1.7 billion from Scottish Income Tax through its policy choices, yet the Scottish Budget is only projected to benefit by £616 million. The Scottish Government has not been transparent enough about this difference, why it exists and how it arises through block grant adjustments. The relative performance of the tax base, such as growth in wages and employment, in Scotland compared to the rest of the UK is a main driver of these differences. The Scottish Government has not set out clearly enough how it plans to address this economic challenge in future years, and what this would do to support fiscal sustainability.
- 2 Despite tax and economic growth being key pillars of the Scottish Government's overarching fiscal strategy, its approach to addressing the projected funding gap focuses on controlling public spending. The Scottish Government has not been clear enough about the degree to which tax is expected to contribute.** The Scottish Government is facing significant budget pressures, with the gap between its funding and spending for day-to-day activity expected to increase from

£1 billion in 2026/27 to £2.6 billion in 2029/30. Its financial plans do not sufficiently address the fiscal risks arising from devolved taxes, including significant budget reconciliations, the impact of behavioural change and UK policy changes, and how it plans to manage these. Public understanding of devolved Scottish taxes is limited, and the Scottish Government has a key role to play in improving this to support greater scrutiny of its plans.

3 The alignment of the Scottish Government's tax and economic strategies is not sufficiently detailed to support its fiscal sustainability strategy. The Scottish Government has made tax policy choices, such as decisions not to introduce any new income tax bands or rates in the current parliamentary term. These choices mean that improving relative economic performance is crucial to grow tax revenues. But the Scottish Government has not done enough to assess to what degree differences in the performance of Scotland's tax base compared to the rest of the UK can be addressed. As such it is unclear when, or if, it expects taxes and improved relative economic growth to become a more active lever in delivering fiscal sustainability.

Recommendations

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.

Introduction

Background

1. The Scotland Acts of 2012 and 2016 devolved significant new powers to the Scottish Parliament. These Acts resulted in the Scottish Parliament becoming responsible for raising a proportion of the funding it needs to support its spending plans. In devolving tax powers, it was recognised that this would require the Scottish Government to consider the connection between its economic and tax policy choices and be accountable for the impact of these on public finances.
2. The Scotland Act 2012 devolved responsibility for Stamp Duty Land Tax and Landfill Tax to Scotland. The Scottish Government's devolved replacements for these, Land and Buildings Transaction Tax and Scottish Landfill Tax, were introduced in 2015. Land and Buildings Transaction Tax is the tax paid when you buy property or land in Scotland. Scottish Landfill Tax applies to waste disposed of at landfill and is paid by operators of landfill sites.
3. The Scotland Act 2012 gave the Scottish Parliament the powers to set a different rate of income tax for **non-savings non-dividend income** in Scotland.¹ The Scotland Act 2016 extended these devolved powers, and the devolved Scottish Income Tax was introduced in 2017. The extended powers give the Scottish Parliament the ability to set the number of tax bands, the tax rates that apply to these bands, and the thresholds where bands begin and end. Key aspects of the income tax system remain reserved to the UK Government, including the personal allowance, which sets the rules and thresholds for money which can be earned before tax is applied.
4. The Scotland Acts also devolved responsibility for Aggregates Levy, Air Passenger Duty, and made provision for VAT Assignment.² Progress on implementing these has been slower than planned ([Exhibit 1, page 8](#)). This reflects a number of issues specific to each of the taxes and also the wider impact on Scottish Government priorities during the Covid-19 pandemic and the UK's exit from the European Union.



Non-savings non-dividend income

This relates mainly to income from a salary paid by an employer or from self-employment but also includes income from pensions and rental properties. It does not include income from savings or from dividends.

Exhibit 1.

Progress on implementing devolved taxes in Scotland has been slower than planned

Scotland Acts devolved taxes	Planned implementation date	Current status
VAT Assignment	1 April 2019 Transitional year 1 April 2020 Full implementation	No implementation date: To date there has been no agreement between the Scottish and UK governments on a way forward for the implementation of VAT Assignment.
Air Departure Tax	1 April 2018	No implementation date: The legislation for ADT was passed by the Scottish Parliament in 2017, but complications with keeping flights from the Highlands and Islands tax exempt have led to delays in implementation.
Scottish Aggregates Tax	No planned date published	Expected 1 April 2026: The Scottish and UK governments have agreed an approach for the corresponding block grant adjustment and are working to incorporate this into the regular block grant adjustment process.

Source: Audit Scotland, using information published by the Scottish Government

5. The implementation of the devolved assignment of VAT has faced significant challenges, mainly due to the complexities of reliably identifying Scottish VAT receipts, and there is still no clear plan for its introduction. If implemented, VAT assignment would be the second largest source of tax revenue for the Scottish Government, after Scottish Income Tax. Work was undertaken in 2018 between the Scottish Government, HMRC and HM Treasury to develop an appropriate methodology. Further consideration was given to this through the review of the Fiscal Framework in 2023. An agreement on the approach has not yet been reached. In July 2025, the Scottish Affairs Committee of the UK Parliament raised concerns over progress and called for clarity from both the UK and Scottish governments on whether continuing to pursue implementation is realistic.³

6. The Scottish Parliament has powers to introduce new devolved taxes, subject to approval from the UK Parliament. The Scottish Government introduced the Building Safety Levy (Scotland) Bill in the Scottish Parliament on 5 June 2025 and intends for the levy to come into force on 1 April 2027. The aim of the Bill is to seek a contribution from the housebuilding sector to support the funding of the Scottish Government's Cladding Remediation Programme, through charging a levy on the construction or conversions of residential properties. A similar tax is due to come into effect in England in autumn 2026.

7. While the implementation of a tax is inherently about applying an additional cost to an action or event, the aim of doing so is not always or solely about raising revenue. Taxes can be used to influence behaviour in support of wider policy objectives. For example, the key aim of the Scottish Landfill Tax is to support sustainability through disincentivising the disposal of waste to landfill and encourage recycling and reuse of materials instead.

8. We have reported previously on the powers devolved through the Scotland Acts 2012 and 2016, and the Scottish Government's management of this process. These reports are available on the [financial devolution pages of our website](#).

About this audit

9. Tax policy is a key part of the Scottish Government's approach to sustainable and affordable public services over the medium term, alongside managing public spending and growing the economy.

10. This audit focuses on taxes devolved through the Scotland Acts 2012 and 2016 and does not assess existing taxes controlled by the Scottish Government, such as Non-Domestic Rates, or local authority taxes, such as Council Tax. Scottish Income Tax and, to a lesser extent, Land and Buildings Transaction Tax, are the main revenue-raising devolved taxes. We focus mainly on these taxes in this report.

11. This audit sets out the impact of devolved taxes on fiscal sustainability to date. It 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. It considers the following audit questions:

- What is the Scottish Government's current approach to tax?
- What has been the fiscal impact of tax devolution, and how does the Scottish Government intend to use its tax powers to meet its fiscal sustainability goals?
- What risks does the Scottish Government face in terms of devolved taxes?
- How well is the Scottish Government managing the risks and opportunities of tax as a lever for fiscal sustainability?

12. Our findings and recommendations are based on evidence gathered through reviewing documents, analysing data and interviews with Scottish Government officials.

13. This audit builds on our previous work looking at the sustainability of Scotland's public finances, including our reports on [The Scottish Government's workforce challenges](#), published in October 2023, and on [Fiscal sustainability and reform in Scotland](#), published in November 2024.

1. The impact of the Scottish Government's current approach to tax

Devolved taxes in Scotland have supported the Scottish fiscal position to date

14. In 2016, the Scottish Government and the UK Government agreed a Fiscal Framework, setting out how the new devolved tax and social security powers will operate. The framework was later reviewed and updated in 2023. The Scottish Government has used these fiscal powers to implement different tax policies in Scotland compared to the rest of the UK.

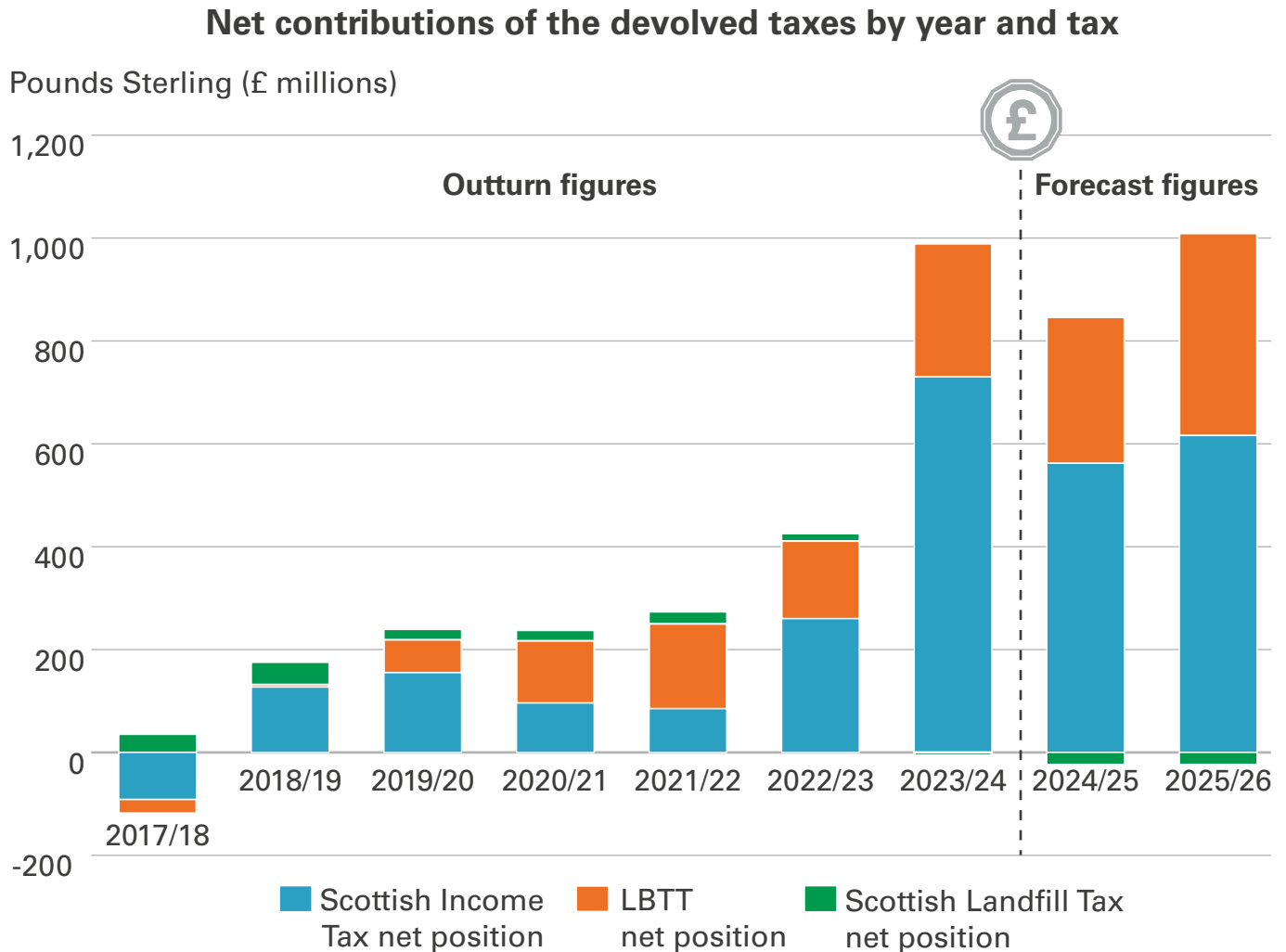
15. Where the Scottish Government's economic policies successfully grow the tax base in Scotland, such as by increasing wages or employment levels, the Scottish Budget will benefit through increased tax revenues. As such, the Scottish Government's economic strategies and tax policies both matter to the size of the Scottish Budget.

16. Since the introduction of devolved taxes in 2015/16, the Scottish Budget has benefited cumulatively by around £4.1 billion.⁴ [Exhibit 2 \(page 11\)](#) sets out the annual additional contribution to the Scottish Budget from each of the devolved taxes. The taxes that have most impacted the fiscal position are Scottish Income Tax and Land and Buildings Transaction Tax (LBTT). The impact on the Scottish Budget of these taxes is projected to increase markedly from 2023/24, when the Scottish Government diverged more significantly from UK tax policies than in previous years.

Exhibit 2.

Net impact of devolved taxes on the Scottish Budget

An overview of the contributions made by each devolved tax to the Scottish Budget.



Note: We set out context to the changes in revenue from Scottish Landfill Tax at [paragraph 47](#).

Source: [Scotland's Economic and Fiscal Forecasts, Scottish Fiscal Commission, December 2024](#), and [May 2025. Fiscal Framework Outturn Report, the Scottish Government, 2020, 2021, 2022 and 2023. Fiscal Update, Scottish Fiscal Commission, August 2024](#) and [August 2025](#)

The Scottish Government's tax policies relative to the rest of the UK are increasing the size of the Scottish Budget

17. Most of the Scottish Government's funding is determined by what the UK Government spends in areas that are devolved, which is calculated through the Barnett formula. The funding provided by the UK Government to the Scottish Government on this basis is called the block grant.

18. The additional tax powers devolved through the Scotland Acts 2012 and 2016 mean that revenue from some taxes now flow directly to the Scottish Government instead of the UK Government. To account for this, the block grant is adjusted to reflect that these revenues are now foregone by the UK Government. For tax, these block grant adjustments reduce the block grant by the amount it is estimated that the UK Government would have raised had devolution not occurred and Scottish tax revenues performed at the same rate as the rest of the UK. The amount of tax raised through the Scottish Government's devolved policies is then added to the block grant in its place.

19. If the block grant adjustment is less than the tax revenues added, the Scottish Budget benefits by the net difference. If the block grant adjustment is greater than the revenues added, the Scottish Government must manage the net reduction to the Scottish Budget ([Exhibit 3](#)).

Exhibit 3.

An illustration of how the Scottish Budget will increase or decrease depending upon how taxes in Scotland perform compared to the rest of the UK

Calculating the net impact on the Scottish Budget



Scenario 1

Net cost to the Scottish Budget

The block grant adjustment is larger than the amount of devolved revenue raised



The funding for the Scottish Budget will be reduced

Scenario 2

Net benefit to the Scottish Budget

The block grant adjustment is smaller than the amount of devolved revenue raised



The funding for the Scottish Budget will increase

20. The net amount added to, or deducted from, the Scottish Budget for tax depends on two main factors:

- The relative tax policy of Scotland compared to the rest of the UK (ie, whether tax is higher or lower). For example, if the Scottish Government has higher tax rates than the UK Government, they will raise more tax revenue than the UK Government would have raised under its tax policies.
- The relative performance of Scotland's tax base compared to the rest of the UK. For example, if wages and employment levels grow faster in Scotland than the rest of the UK, the tax revenue raised would grow faster than the block grant adjustment, and the Scottish Budget would benefit.

21. The Scottish Government has not changed Scottish Landfill Tax to diverge from the UK Government's rates and has matched changes made at a UK level. The Scottish Government has, however, made different tax choices for Scottish Income Tax and LBTT in Scotland.

Scottish Income Tax

22. Since the introduction of devolved Scottish Income Tax in 2017, the Scottish Government's income tax policy choices have diverged from arrangements in the rest of the UK.

23. From 2018/19, the Scottish Government introduced two new tax bands, a starter rate at 19 per cent and an intermediate rate at 21 per cent. The 2024/25 budget included a sixth band, an advanced rate at 45 per cent.

24. The thresholds of the different bands have also diverged. For example, the higher rate of tax in Scotland currently begins at £43,663, compared to £50,271 in the rest of the UK ([Exhibit 4, page 14](#)).

25. The Scottish Government's income tax approach seeks to deliver a **progressive** system as well as generating revenue to support public finances. The Scottish Government has committed to ensuring that more than half of Scottish taxpayers will pay less tax than they would in the rest of the UK. The relatively higher amount paid by taxpayers overall means that Scottish Income Tax policies generate higher levels of revenue compared to what would be raised if the Scottish Government had not diverged from UK Government income tax policy ([Exhibit 5, page 15](#)).



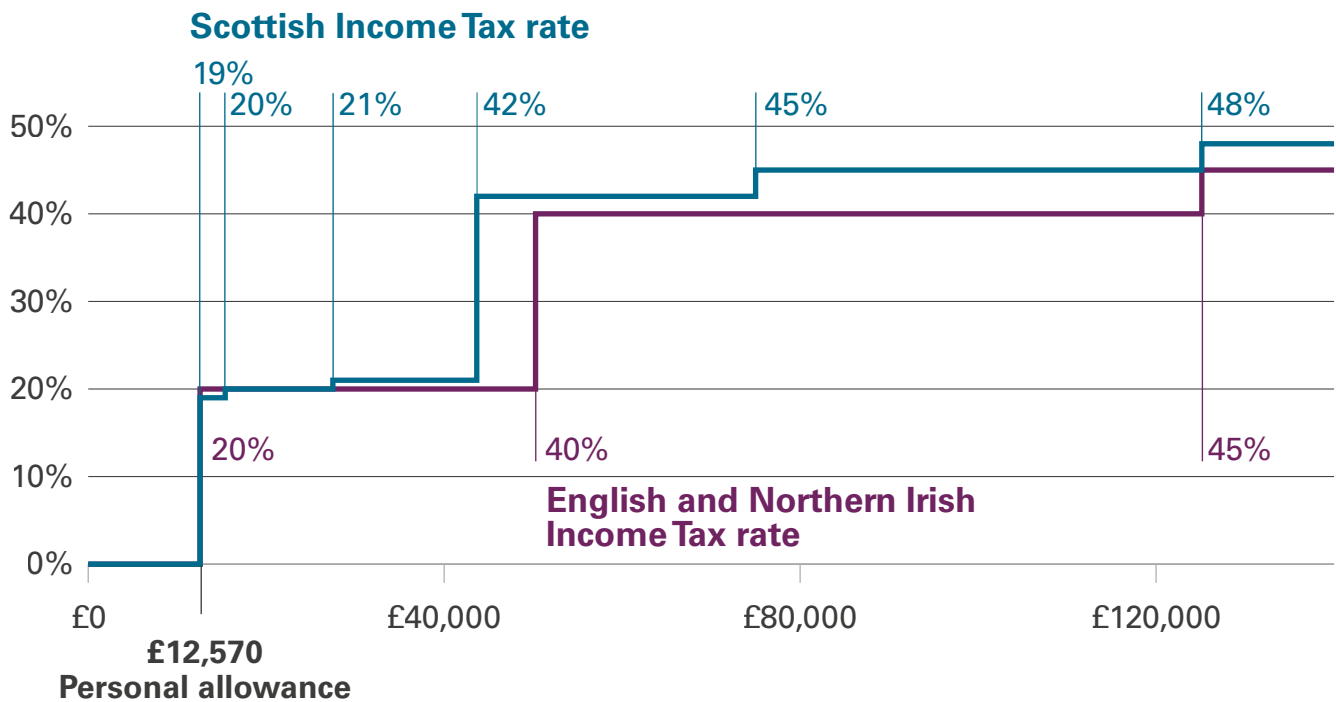
Progressive tax

A progressive tax system refers to one where the rate of tax paid increases as income increases. This means that people with higher incomes pay a higher proportion of their income in tax compared to those with lower incomes.

Exhibit 4.

Income tax rates and bands in Scotland and the rest of the UK

A comparison of the income tax rates and bands between Scotland and England and Northern Ireland for 2025/26.

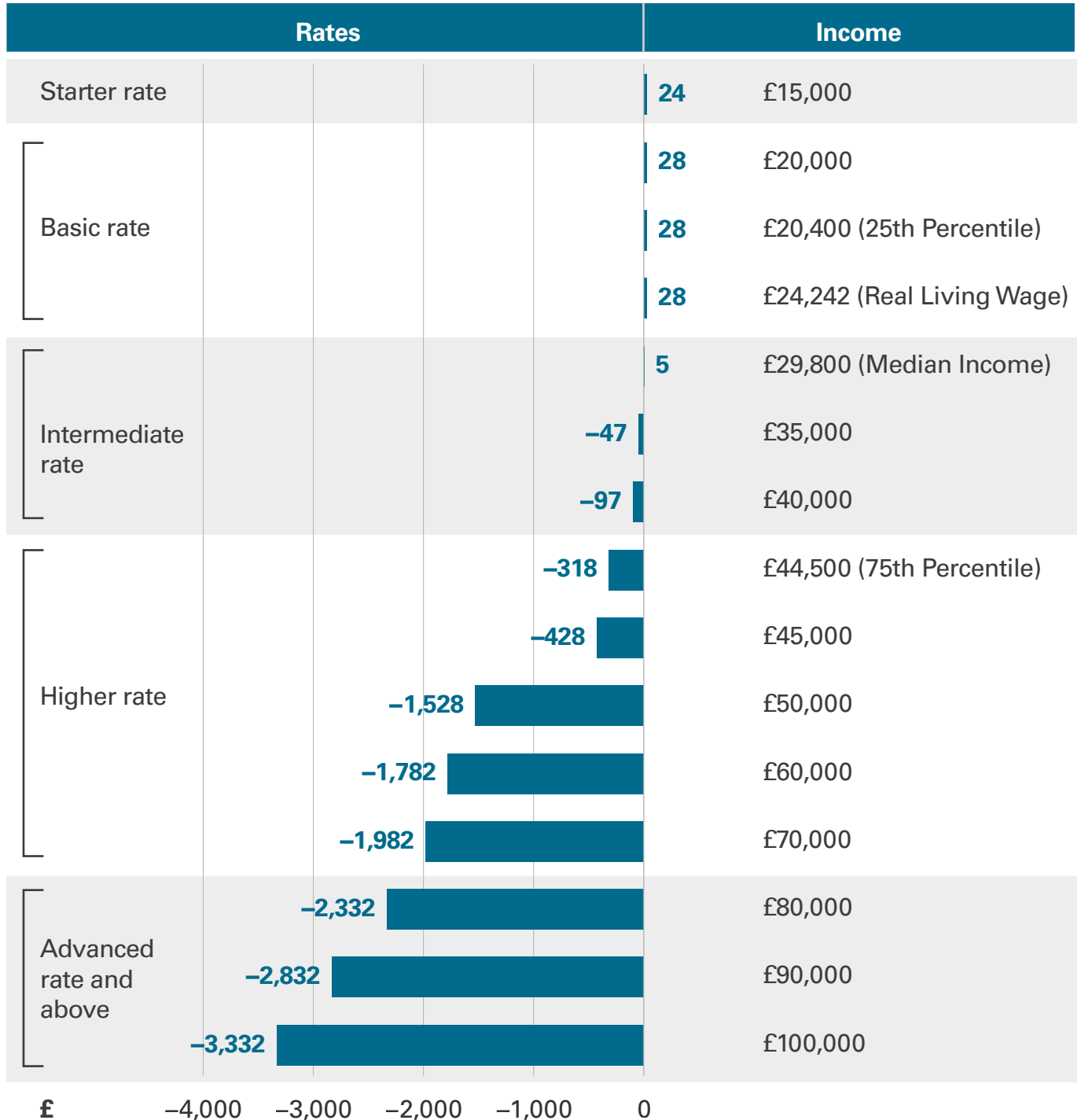


Note: Wales also has devolved income tax powers, and so the relevant comparison for budget purposes is against England and Northern Ireland only.

Sources: [UK Government, Income Tax in Scotland](#), [Income Tax rates and Personal Allowances](#)

Exhibit 5.

Impact on take home pay of 2025/26 Scottish Income Tax policy compared to UK tax policy



Note: The income percentiles used here are based on Scottish Fiscal Commission forecasts of the distribution of income in 2025/26.

Source: [Scottish Income Tax 2025 to 2026: factsheet, Scottish Government, December 2024](#)

26. The six-band structure has also supported tax receipts through increased **fiscal drag**. HMRC noted in its outturn publication report that fiscal drag has resulted in increases in the proportion of intermediate, higher, and top rate taxpayers in Scotland.⁵ Fiscal drag is more pronounced in Scotland than in the rest of the UK due to the higher number of tax bands.

27. In addition, recent periods of higher inflation have led to higher wage growth, increasing the amount of fiscal drag. This in part explains the increase in net contributions in recent years as set out in Exhibit 2.

Land and Buildings Transaction Tax

28. LBTT replaced Stamp Duty Land Tax (SDLT) in Scotland in 2015. The Scottish Government has made changes to tax band thresholds. The property value at which LBTT starts is now higher than that for SDLT, with rates thereafter increasing more steeply than in the UK system ([Exhibit 6, page 17](#)).

29. There are also different arrangements for first-time buyers in Scotland compared to the UK. In Scotland, first-time buyers do not pay LBTT on the first £175,000 of the property price, while in the UK this threshold is set at £300,000, with different qualifying criteria also applying.

30. The Scottish Government introduced the Additional Dwelling Supplement (ADS) in April 2016. This is an additional charge applied to second homes, rental properties and holiday homes. In December 2024, the Scottish Government increased the ADS rate from six to eight per cent. The UK SDLT system also includes a surcharge for additional properties.



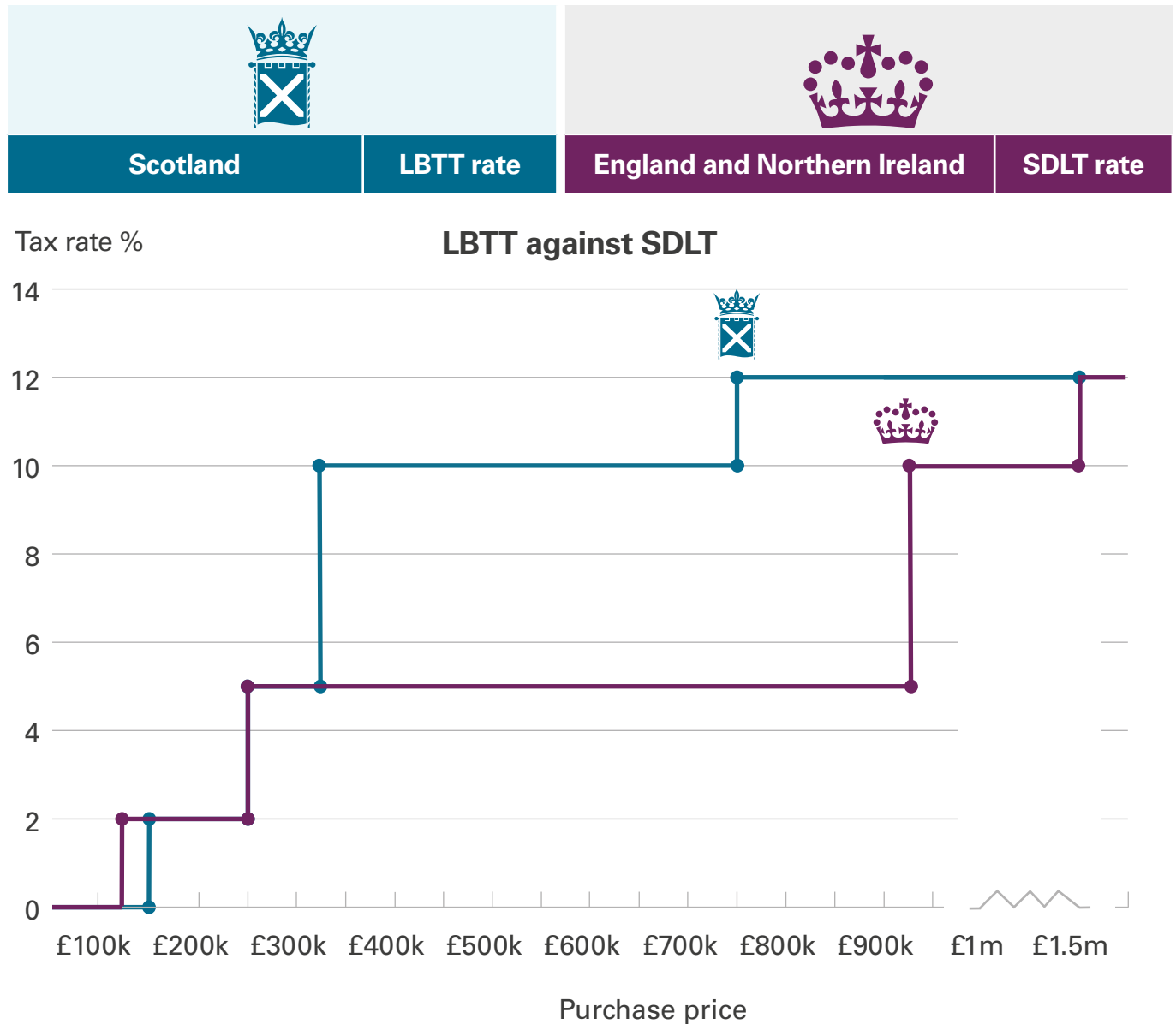
Fiscal drag

This term is used to describe when wages rise, due to factors such as inflation, while tax rates and bands remain unchanged or are increased by less than inflation. As their income grows, some taxpayers will become newly liable to pay income tax or to move between tax bands and consequently pay more tax.

Exhibit 6.

Comparing Land and Buildings Transaction Tax and Stamp Duty Land Tax

A comparison of the difference in rates between Land and Buildings Transaction Tax in Scotland and Stamp Duty Land Tax in England and Northern Ireland in 2025/26.



Sources: [Revenue Scotland, Residential Property Rates and Bands](#), and [UK Government, Stamp Duty Land Tax](#)

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

31. To date, the net benefit to the Scottish Budget relating to Scottish Income Tax has been significantly less than the additional tax revenue in Scotland. This is due in the main to an increased block grant adjustment driven by relatively better performance of the tax base in the rest of the UK compared to Scotland.

32. Since 2017/18, the growth in the tax base in Scotland has been relatively slower than in the rest of the UK. This is due to factors including:

- weaker earnings and employment growth
- behavioural responses from taxpayers to policy changes, such as choosing to work fewer hours or exiting the workforce
- 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
- a different distribution of incomes in Scotland compared to the rest of the UK.

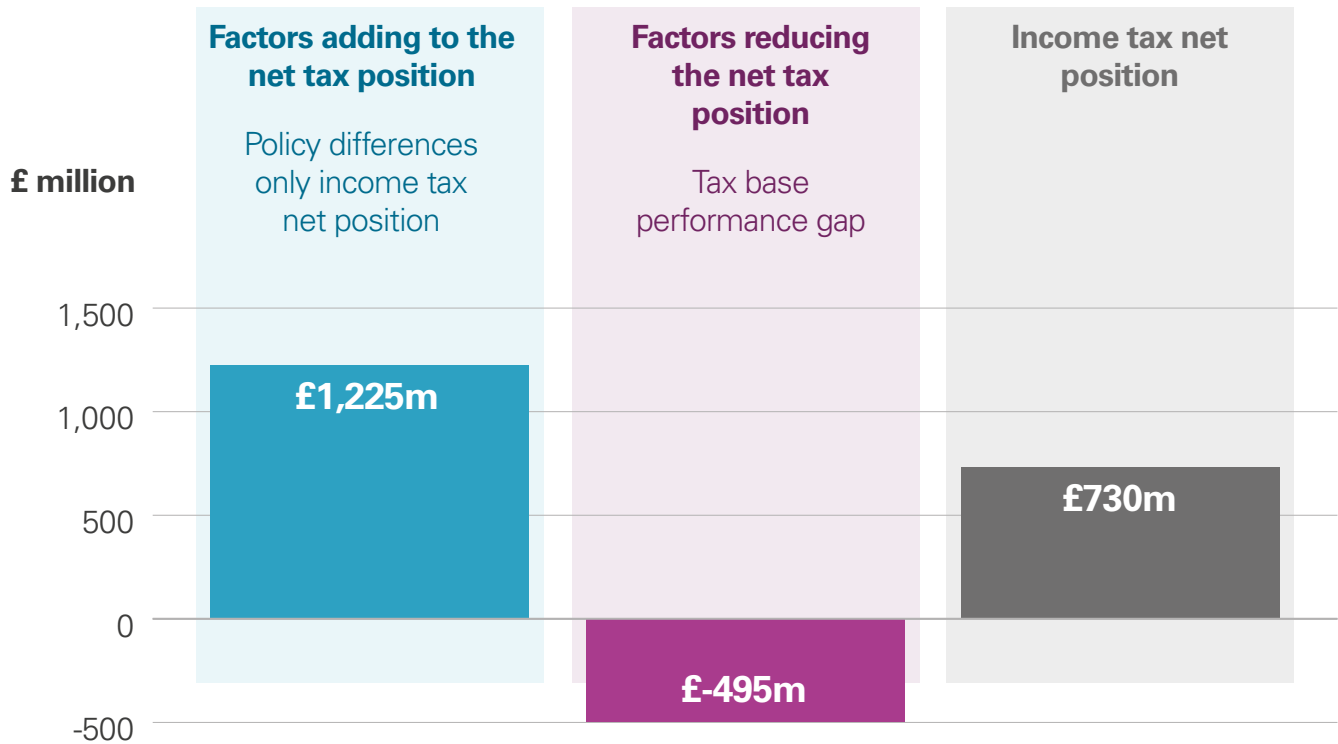
33. This relative lower growth in Scotland acts as a drag on the Scottish Budget position. This in turn means that some of the tax revenues paid in Scotland, rather than increasing the overall size of the Scottish Budget, are instead offsetting larger adjustments to the block grant.

34. The Scottish Fiscal Commission (SFC) refers to this difference between tax raised and the net impact on the Scottish Budget as the 'tax base performance gap'. Determining how different elements contribute to the tax base performance gap is complex, but the SFC have stated that relative earnings and employment growth is the largest contributor. SFC analysis states that in 2023/24, poorer performance of the tax base in Scotland reduced the potential income tax net position by £495 million, compared to what it would have been if performance in Scotland matched the rest of the UK ([Exhibit 7, page 19](#)).

35. The Scottish Government set out its own approach to analysing the tax base performance gap in a [letter](#) to the Scottish Parliament's Public Audit Committee in April 2025. It has not published an analysis for 2023/24. However, for 2022/23, it estimated that, of a £617 million tax base performance gap, £159 million of this was due to behavioural change by Scottish taxpayers, £320 million was due to differences in how income was distributed across the Scottish and UK tax bases (we cover the impact of distributional factors further in [paragraphs 65–67](#)), and £137 million was due to other factors. Both the SFC and Scottish Government analyses demonstrate that relative performance of the Scottish tax base is the most significant of the factors reducing the overall impact of tax on the Scottish Budget.

Exhibit 7.

The additional income tax raised in Scotland is partly offset by the relative performance of the tax base (2023/24)



Source: [Fiscal Update, Scottish Fiscal Commission, August 2025 – Figure 2.3](#)

36. Scottish Landfill Tax and LBTT make up a relatively smaller proportion of the Scottish Budget. While the same issues with block grant adjustments based on performance in the rest of the UK also apply, these taxes are less likely to produce larger or more significant changes to the Scottish Budget and do not have the same direct economic policy considerations as income tax.

The Scottish Government is not sufficiently transparent in explaining how taxes contribute to the Scottish Budget

37. Budget and fiscal information can be complex. This means that clear and consistent communication of this information is critical to support public understanding and scrutiny. 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.

38. For example, the section on tax policy in the Scottish Budget 2025/26 is clear in stating that the SFC projects that the Scottish Government's income tax policy choices will raise up to an additional £1.7 billion in tax. However,

it is not clearly stated alongside this figure that the net impact on the Scottish Budget was projected to be £838 million. Instead, a reader would have to refer to annex information in the Scottish Budget, where the total net figure for all devolved taxes is presented. No additional explanation is provided to help the reader understand how these figures relate to those presented in the section on tax policy earlier in the budget document, nor are the net positions for individual taxes presented. The SFC has since published its latest forecasts in May 2025. This further reduced the projected budget impact of Scottish Income Tax from £838 million to £616 million.

39. The amount of tax expected to be raised and the estimated net effect on the Scottish Budget should be presented alongside each other within fiscal documents. This would allow more informed and widely understood scrutiny about the importance of relative performance of the tax base in Scotland compared to the rest of the UK. Both Audit Scotland and the SFC have previously raised the tax base performance risk built into the Fiscal Framework. The Scottish Government has presented useful information on the tax base performance gap, and its impact on the funding available to the Scottish Budget, in its Medium-Term Financial Strategies. However, this has not been done consistently and it does not refer to it in the Scottish Budget or its Fiscal Sustainability Delivery Plan. We discuss the Fiscal Sustainability Delivery Plan in more detail at [paragraphs 55–56](#).

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

40. Within both its [Framework for Tax](#) and [Tax Strategy](#) the Scottish Government has said it believes that taxes should be transparent and understandable. It commissions an annual survey of Scottish public attitudes to tax as part of its budget process. This indicates that the percentage of people who state that they do not understand taxes well, or at all, has been consistent at around 50 per cent (53 per cent in 2024) for the last five years. For UK taxes, it states that this figure is consistently around 40 per cent (39 per cent in 2024). In its 2024 Tax Strategy the Scottish Government stated that it would publish its tax literacy outcomes in early 2025 to support improving public understanding of tax. It published these in August 2025 as a good practice guide for improving communication on tax. This provides a foundation for the Scottish Government to build on in providing clear, accessible and transparent information to help improve public understanding of Scottish taxes.

2. The future role of taxes in delivering fiscal sustainability

The Scottish Government faces significant fiscal challenges, with the gap between its funding and spending forecast to increase

41. The Scottish Government's latest Medium-Term Financial Strategy (MTFS), published in June 2025, forecasts that, without corrective action, there will be a gap of £1 billion between its resource funding and spending plans in 2026/27, growing to £2.6 billion by 2029/30. For capital funding and spending, this gap is forecast to be £1.1 billion in 2026/27, growing to £2.1 billion by 2029/30.

42. The Scottish Government faces multiple pressures on its budget ([Exhibit 8](#)).

Exhibit 8. Existing pressures on the Scottish Budget

Budget pressures	Implications for Government
Factors impacting the whole of the UK 	Inflationary pressures on public sector pay.
	Demand-led spending, such as social security, carries a degree of forecast risk which can be difficult to predict.
	Climate change places greater pressure on public spending through mitigation efforts, adaptation costs and damages from severe weather.
	Ageing infrastructure assets are expensive to maintain, increasingly so due to inflationary pressures.
Factors specific to Scotland 	Scotland's public sector workforce is proportionately larger and better paid when compared to the rest of the UK.
	Scotland's population is, on average, older and sicker when compared to the rest of the UK, increasing demand for health and social care at a faster rate than the rest of the UK.
	Spending on Scottish Government policy commitments, such as concessionary travel, free university tuition, or the abolition of peak rail fares.
	A real-terms cut in the Scottish Government's capital block grant between 2025/26 and 2029/30.
	A slow real-terms growth rate in resource funding through the block grant, at 1 per cent per annum between 2025/26 and 2029/30.

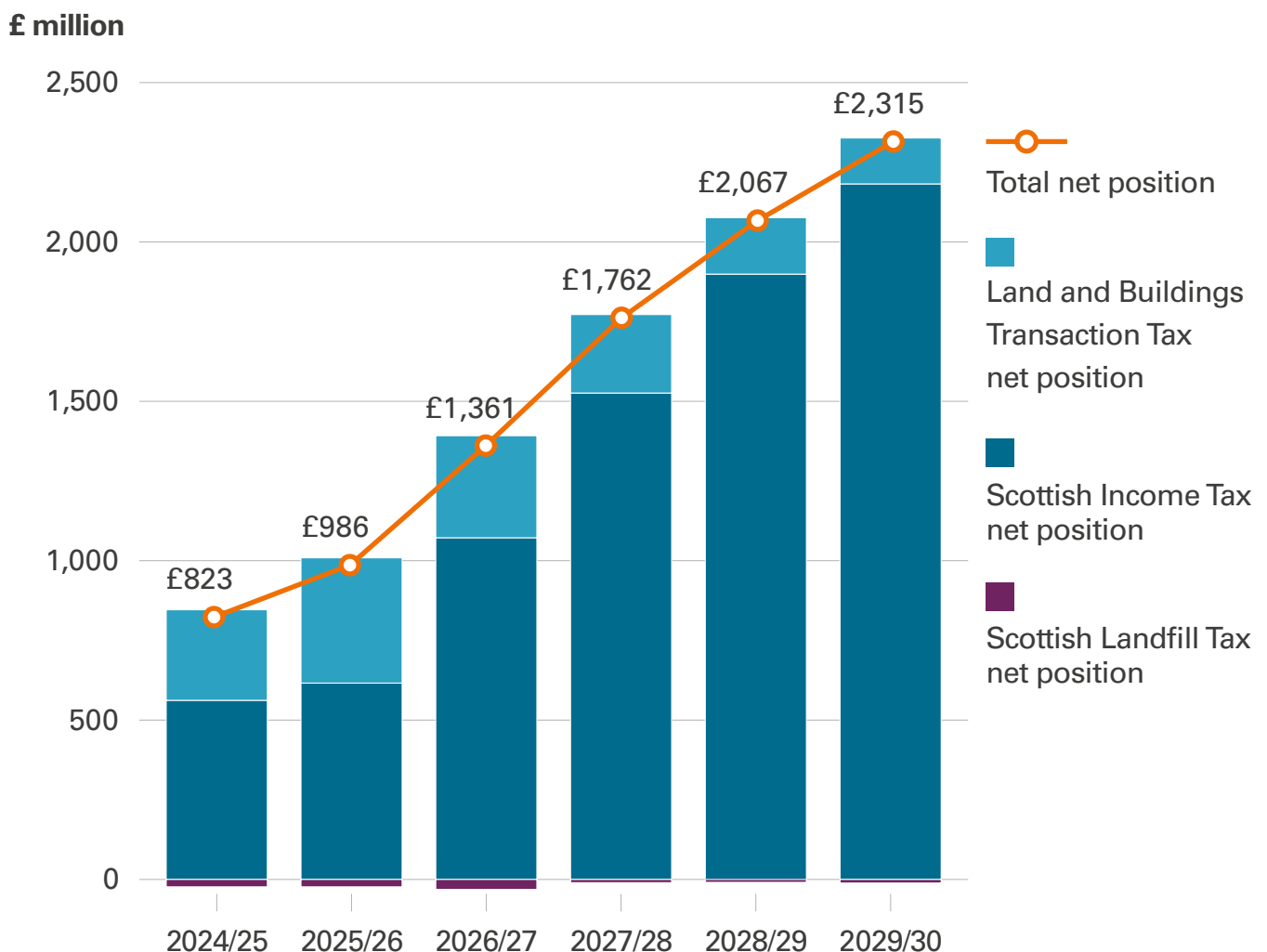
Sources: [Scotland's fiscal outlook: medium-term financial strategy, Scottish Government, June 2025](#)

The medium-term funding gap exists after projected tax contributions are taken into account

43. Devolved taxes are already expected to increasingly contribute to the size of the Scottish Budget over the next five years. This is included in the baseline projection of funding in the MTFS and does not affect the remaining £2.6 billion funding gap over the medium term. This means that any contribution devolved taxes will make to closing this gap will need to be over and above the baseline projections.

44. Currently, the net tax position is projected to grow from £986 million in 2025/26 to £2.3 billion in 2029/30. Most of this growth will be driven increasingly by Scottish Income Tax; the proportion of the net tax position made up of income tax is forecast to increase from 62 per cent in 2025/26 to 94 per cent in 2029/30 ([Exhibit 9](#)).

Exhibit 9. The net tax position is projected to increase over the medium term



Source: [Scotland's Economic and Fiscal Forecasts, Scottish Fiscal Commission, May 2025](#)

45. The SFC states that the strengthening Scottish Income Tax net position is a result of the divergence in income tax policy between Scotland and the rest of the UK. If the Scottish Government maintains higher rates and lower thresholds of income tax than the UK Government, the revenue it collects will be increasingly larger than the associated adjustment to the block grant. This, combined with the effects of fiscal drag as rates are kept frozen, will drive an increase in the net tax position.

46. The LBTT net position is forecast to remain positive over the medium term, but the scale of the contribution to the overall net tax position will decrease. The SFC note that this is driven by several different factors, such as forecast faster growth in property transactions in England than Scotland.

47. The Scottish Landfill Tax net position is forecast to be negative across the medium term. This is primarily as a result of the introduction of the biodegradable municipal waste ban regulations in Scotland in December 2025, which will reduce the amount of waste being sent to landfills in Scotland and subsequently the amount of tax paid.

Forecasts are by their nature subject to change, which means that the net tax position is not certain

48. Forecasts are by their nature subject to change, as the underpinning assumptions can be revised over time. This leads to changes in forecasts from one publication to the next, which makes the Scottish Government's financial planning more complicated. The forecasts which are used to set the Scottish Budget are produced by two different organisations, the SFC and the Office for Budget Responsibility (OBR). This adds complexity to the impact of forecast changes, as movements in the two sets of forecasts can either offset or compound each other.

49. Due to the way the Fiscal Framework accounts for relative tax base performance between Scotland and the UK, the assumptions the SFC and OBR make about earnings growth are a crucial part of projecting the net tax position. In its May 2025 forecasts, the SFC reported a £222 million reduction in the projected net income tax position for 2025/26 compared to its December 2024 forecasts. This was the result of the OBR, in its March 2025 forecasts, changing its assumptions about UK earnings growth to a more positive position. In its December 2024 forecasts the SFC had raised concern about the scale of difference between its and the OBR's earnings growth assumptions. It noted that this was out of line with historic trends and, as such, the projected net tax position was uncertain.

50. The future net tax position set out in Exhibit 9 is also subject to significant uncertainty. The sharp increase in the net tax position projected over the medium term is primarily due to more optimistic forecasts of earnings growth in Scotland by the SFC compared to the OBR's forecasts for the rest of the UK. The divergence between these two earnings growth forecasts is greater than has historically been the case, and the Scottish Government's MTFS states that this means the

actual net tax position will likely be lower than what is currently forecast. To illustrate the potential risk to the budget, the MTFS states 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.

Certainty about the impact of tax on the Scottish Budget over the longer term is affected by the timescales for collection of income tax data

51. As tax revenues are based on forecasts, the Scottish Budget must be corrected, or reconciled, in future years once the actual amount of tax raised is confirmed. This is to ensure that funding is based on actual revenue raised. In the case of income tax there is a particularly long data lag, due mainly to the tax self-assessment process. This data lag means that this reconciliation happens, and is applied, three years after the financial year it relates to. For example, forecasts by the SFC in December 2022 were used for the 2023/24 Scottish Budget. Outturn data for 2023/24 was published in July 2025 to give the reconciliation which will be applied to the 2026/27 budget. These reconciliations are also affected by the corresponding outturn data for UK tax revenues. Higher or lower than forecast revenues in Scotland can be offset or compounded by higher or lower than forecast revenue in the rest of the UK.

52. These reconciliations can be significant in size, leading to uncertainty over the impact of tax on Scottish public finances over the longer term. This requires careful financial planning. We discuss the Scottish Government's approach to this at [paragraphs 79–82](#).

The Scottish Government is not clear about how much further taxes can go to address its medium-term fiscal sustainability challenge

53. The Scottish Government's approach to fiscal sustainability, as outlined in the MTFS is organised around three pillars:

- **Pillar 1: spending** – Ensuring public money is focused on delivering government objectives, underpinned by reform and prioritisation to maximise impact.
- **Pillar 2: economy** – Supporting sustainable, inclusive, economic policies with the greatest potential to grow Scotland's economy, expand and broaden the tax base to fund public services.
- **Pillar 3: taxes** – Ensuring a strategic approach to tax revenues, which considers the longer-term impact of our tax choices and competitiveness.

54. In the MTFS, the Scottish Government highlights the importance of all three pillars but notes that in the short to medium term, public spending will be the main lever by which it can improve fiscal sustainability.

55. Alongside its MTFS, the Scottish Government published its first Fiscal Sustainability Delivery Plan (FSDP) in June 2025. The plan follows the same three-pillar approach with most of the activities focused on spending decisions (Pillar 1), such as the public sector workforce reduction target. For these actions the Scottish Government includes timescales and milestones against which progress will be measured.

56. For the economy and taxes (Pillars 2 and 3), there is less detail, and it is unclear whether the associated actions are expected to have any additional impact on tax revenues and fiscal sustainability and, if so, over what timescales. 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.

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

57. The Scottish Government has recently made several policy commitments relating to tax, which will apply for the remainder of the parliamentary term, which concludes in mid-2026. In its December 2024 Tax Strategy, the Scottish Government committed to:

- not introducing any new bands or increased rates of Scottish Income Tax
- uprating the starter and basic bands by at least inflation. This will reduce the impact of fiscal drag on inflation-based increases to wages
- maintaining the higher, advanced, and top rate thresholds at current levels in nominal terms. This means that those paying tax in these bands may experience the impact of fiscal drag if wage increases bring them into higher tax bands
- maintaining its previous commitment that over half of Scottish taxpayers will pay less income tax than they would in the rest of the UK. In practice, this means that those earning £30,300 or less annually will pay slightly less tax.

58. In its December 2024 publication, the SFC forecast that these policy choices will increase tax revenues by £52 million in 2025/26, rising to £215 million by 2029/30. The 2025 MTFS is based on the assumption that policy commitments made up until the end of the parliamentary term will continue beyond this over the medium term. 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.

Behavioural change risks reducing the impact of any future tax policy changes

59. Behavioural change refers to how individuals alter their behaviour in response to government policy. Understanding potential **behavioural responses** of taxpayers and the impact of this on tax revenues is highly complex. It is difficult to determine whether people change their behaviour solely because of changes to tax policy or because of a range of other factors, including the status of the wider labour market. However, behavioural change in response to changes in tax policy has the potential to reduce the overall additional revenue raised.

60. The scale of potential behavioural response to previous Scottish Income Tax changes has varied. More minor changes, including freezing thresholds, have tended to result in lower forecast levels of behavioural responses. In contrast, the more significant changes made in 2023/24 and 2024/25 have led to larger forecast behavioural responses, with the SFC forecasting that more than half of expected additional revenue would be offset by behavioural responses in 2024/25. Modelling of behavioural responses has indicated more significant impacts at higher tax bands. Modelling of changes to the additional rate in 2023/24 and the top rate in 2024/25 indicated significant behavioural responses, with behavioural change assumed to offset most of the additional revenue forecast to arise from the changes ([Exhibit 10](#)).



Behavioural responses to tax policy changes

This 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.

Exhibit 10.

Modelled impact of behavioural change on forecast revenue from Scottish Income Tax policy changes

	+	–	=
Tax policy change	Initial revenue £ million	Loss due to behavioural change £ million	Final revenue £ million
2023/24: Additional rate increased and threshold lowered	65	54 (83%)	11
2024/25: Top rate increased	53	45 (85%)	8

Source: [Scotland's Economic and Fiscal Forecasts, Scottish Fiscal Commission, December 2022](#) and [December 2023](#)

61. The SFC has also considered the effect of behavioural change in relation to LBTT policy changes. For example, it assessed the Scottish Government's increase to the ADS in December 2024, from six to eight per cent. The SFC forecast that the increase would reduce transactions which were liable to pay the supplement. This was forecast to result in just over half of the additional revenue being lost to behavioural change.

62. Behavioural responses to tax policy can significantly limit, or even entirely negate, the revenue impact of tax increases, especially for higher earners. For example, the Scottish Government publishes tax ready reckoners alongside the Scottish Budget which show the impact of illustrative changes to devolved tax policy. For the 2025/26 Scottish Budget, the associated ready reckoner estimated 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. Furthermore, the ready reckoner states that any further changes to the top rate could end up reducing the amount of revenue collected due to behavioural change. The Scottish Government will need to carefully consider the potential behavioural responses to any future changes in tax policy.

The Scottish Government is not clear on the extent to which it expects economic interventions to support tax revenues

63. Because the Scottish Government has chosen to maintain its current rates and bands of income tax until the end of the parliamentary term in 2026, the main means of increasing tax revenues and contributing towards fiscal sustainability, aside from fiscal drag, is to improve economic growth. Increasing the employment rate and wage growth can lead to greater tax revenues through greater numbers of people earning money and increasing wages bringing people into higher tax bands.

64. The Scottish Government, in its 2025 MTFS and FSDP, has stated that increasing tax revenues through economic growth is a key pillar of its approach to closing the fiscal gap it faces. However, interventions in the labour market, such as supporting people into employment or investing in skills, take time, often many years, to feed through to the tax base and increasing tax receipts. While the Scottish Government has set out in the FSDP a range of actions it is taking with the aim of increasing employment and stimulating wage growth, it does not set out over what timescale it expects the benefits of these actions to materialise.

There are structural differences between the Scottish and UK economies, which may impact the net tax position and are difficult to address

65. The distribution of higher and lower earners within the tax base can have a significant impact on the Scottish Government's net tax position. In particular, the earnings performance of very high earners, due to the progressive nature of the tax system, can have a disproportionate impact on relative tax performance.

66. The Scottish tax base contains proportionately fewer higher earners than the rest of the UK. In [a letter to the Scottish Parliament's Public Audit Committee in April 2025](#), the Scottish Government set out some of the impacts this would be expected to have in terms of the contribution of taxes to the Scottish Budget. In particular, it highlighted the role that the financial services sector plays in the UK, noting that the rest of the UK contained significant numbers of very high earners in areas like investment management and financial trading. By contrast, Scotland's financial services sector focuses more on pensions and insurance, which contain fewer very high earners. If wages grow for these very high earners, the UK Government's tax revenues would perform better relative to the Scottish Government's, because the UK tax base contains a greater proportion of these higher earners.

67. The composition of the tax base can also interact with the distribution of earnings growth. Annual earnings growth is not always evenly distributed across all levels of income; the earnings of some groups, such as higher earners, may grow at faster rates than others. Analysis carried out by the Scottish Government for the 2021 MTFS suggests that, even if Scotland grew its economy and average earnings at the same rate as the rest of the UK, the Scottish Budget could still be worse off if earnings growth is not even across all income deciles. This is due to the differences in the proportions of higher and lower earners between the Scottish and UK tax bases.

68. Changes in the economic make-up of different areas of Scotland can also impact the relative composition of the tax base. The north-east of Scotland is historically one of Scotland's best performing regions for income tax receipts due to the highly paid oil and gas sector. But it has seen weakening tax receipts since 2015/16 due to the changing role of the sector and fluctuations in the price of oil and gas. Because of the disproportionate impact of higher-paid taxpayers on tax receipts, changes such as these can have a significant impact on the net tax position.

69. The Scottish Government has acknowledged the challenges that differences in the make-up of the Scottish and UK tax bases can have for devolved taxes. However, it has not clearly set out in its plans for devolved taxes and fiscal sustainability how it intends to manage the impact of these differences, or indeed to what extent these differences can be mitigated.

3. Managing the risks and opportunities of tax as a lever for fiscal sustainability

The Scottish Government has not set out sufficiently the challenges of using tax to support fiscal sustainability and how it plans to address these

70. In our November 2024 report on [Fiscal sustainability and reform](#), we reported that the Scottish Government has not been sufficiently transparent with the Scottish Parliament or the public about the scale of the challenging fiscal outlook and what this means for public services. We reported that the Scottish Government had not been clear enough in its communication of medium-term risks and what choices it will need to make to balance its budget. The MTFS and the FSDP, while providing further detail on the Scottish Government's plans, do not yet go far enough on setting out its understanding of the challenges and key fiscal risks related to devolved taxes and how it plans to address these.

It is not clear how fiscal risks associated with the relative performance of the tax base are being managed

71. The Scottish Government has only set out a limited assessment of the factors contributing to the weaker relative earnings and employment performance in Scotland compared to the UK, and this has not been done transparently enough. In its letter to the Public Audit Committee, setting out its assessment, the Scottish Government committed to providing further analysis within the MTFS, but this was not included in the May 2025 publication.

72. It is not clear whether the Scottish Government has assessed which of the identified contributing elements can be addressed through economic policy interventions. This is important to understand to what extent it can mitigate the impact of relative tax base performance and whether its economic interventions can be expected to generate additional tax revenues.

It is not sufficiently clear how the Scottish Government is considering its economic strategies and tax growth together

73. In March 2022, the Scottish Government published its ten-year National Strategy for Economic Transformation (NSET). We reported on [progress of the NSET](#) in February 2024. We found that the Scottish Government needed to better understand which NSET actions were making the most difference and demonstrate clearly how this is contributing to the outcomes it wants Scotland to achieve.

74. As the Scottish Government's overarching economic strategy, the NSET will need to work in alignment with the Tax Strategy to deliver the economic growth needed to support tax revenues. In the FSDP, all actions listed under the economy pillar relate to existing NSET actions, but the alignment of these strategies to Scotland's public finances is not as developed as it needs to be. Greater clarity and prioritisation are needed of the actions within the NSET which will directly support growth of the Scottish tax base and earnings. In its Tax Strategy, the Scottish Government commits to assessing the links between tax policy and the economy in greater detail. Its initial focus was to be on income tax, with a plan to publish an initial evidence review in 2025. To date, the Scottish Government has not provided an update on this work.

75. There is developing engagement across tax and economic strategy teams within the Scottish Government. Senior civil servants from Scottish Government's Director-General Economy are part of the core membership of the Exchequer Board, the **Tax Policy Coordination Group** and the Fiscal Programme Board. Engagement and sharing of data also take places through other forums and less structured connections across teams. For example, LBTT is an area of consideration for the Housing Investment Task Force. This is in recognition of the key role housing plays in both driving and facilitating economic growth. Continuing to strengthen these arrangements, alongside clearer strategy alignment, will be important to support the Scottish Government in delivering on the economy pillar of the FSDP.

Data on behavioural change is improving but is currently underdeveloped, and will be crucial to understand the future impact of taxation

76. In producing the tax forecasts which are used to set the Scottish Budget, the SFC build in a range of assumptions about behavioural change. But it acknowledges that the evidence base for behavioural change in Scotland is limited. Alongside the budget, the Scottish Government publishes tax ready reckoners, which illustrate the potential fiscal impact of a range of changes to tax bands and thresholds. These ready reckoners are based on SFC models and assumptions of behavioural change. It publishes these with the aim of improving transparency and public understanding of the tax system. These help to illustrate some of the potential behavioural impact of choices which affect different tax bands. There is general understanding that taxpayers in higher tax bands are both more incentivised to change behaviour in response to tax changes and are more likely to have the means to do so. Due to the smaller numbers of taxpayers in these higher bands compared to the basic and intermediate rates, the impact of behavioural change can have a disproportionately large impact on overall tax revenues.



Tax Policy Coordination Group

This group was established in October 2023 and meets quarterly to provide a forum for senior officials to discuss tax policy, risks, and economy and fiscal developments. The group's remit is to provide coordinated tax policy advice to ministers. Its membership includes officers from across exchequer, economy, local government and housing directorates.

77. HMRC has produced three studies of behavioural change in Scotland in response to tax policy changes between 2018/19 and 2021/22. It found some evidence of behavioural responses to Scottish tax policy choices but noted that its findings are subject to a high degree of uncertainty due to the complexities of analysing behavioural change. Due to the time lag in income tax outturn data, with 2023/24 being the most current available, data to support understanding of behavioural change are still developing.

78. In its tax strategy, the Scottish Government sets out areas of future research interest to support its understanding and evaluation of tax policy choices. Its areas of interest include behavioural change and tax policy. In setting out these areas, and high-level research questions, the Scottish Government hopes to attract collaboration with the wider research community to progress these areas over the next five years.

The Scottish Government must be clearer on its approach to reconciliations to support scrutiny of its medium- to long-term budget management

79. The Scottish Government has specific **borrowing and reserves powers** to allow it to manage the budget impact of reconciliations. Together, its borrowing and reserves powers are intended to allow the Scottish Government to smooth out the impact of tax volatility and forecast errors. To date the Scottish Government's approach has focused only on the management of negative reconciliations, which can result in the need for short-term budget responses.

80. In its MTFS, the Scottish Government highlights the budget management risk it faces in relation to negative reconciliation and the volatility of these. The Scottish Government sets out that it will continue its approach of using borrowing powers to smooth the impact of these negative reconciliations on budgets. It does not comment on its approach for managing positive reconciliations. To date these have been incorporated into the overall budget position, generating a windfall gain in relevant financial years.



Borrowing and reserves powers

Under the Fiscal Framework, the Scottish Government can borrow resource funding for in-year cash management purposes and to manage the impact of tax and social security reconciliations, which arise due to forecast error. It can borrow £600 million in 2023/24 prices annually, and can hold up to £1.75 billion of resource funding debt in total. These limits are updated annually in line with inflation to maintain their value in real terms.

The Scotland Reserve provides the Scottish Government with the power to carry forward funds between financial years. There is a cap on the amount which can be held in the reserve, set at £700 million in 2023/24 prices, which is updated with inflation annually. If the balance in the reserve exceeds this limit, the excess funding is lost to the Scottish Government. Under the 2016 Fiscal Framework, annual drawdowns from the reserve were capped at £250 million. This limit was removed as part of the 2023 review of the Fiscal Framework.

81. The May 2025 fiscal forecast from the SFC project a substantial negative income tax reconciliation for 2027/28. At £851 million, this forecast negative reconciliation would be higher than the 2027/28 borrowing limit of £663 million. As these figures are based on forecasts, they are likely to be revised over time. In its May 2025 MTFS, the Scottish Government states that it will use its full borrowing powers to offset the 2027/28 reconciliation but acknowledges this will not be sufficient. Any shortfall, beyond borrowing limits, will need to be managed as part of wider budget decisions.

82. 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 this 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

83. Due to the nature of the devolved tax arrangements, the Scottish Government will need to continue to understand and manage the impact of UK Government policy choices. This is the case not just for UK Government policy choices which directly relate to devolved taxes but also those which affect the wider tax landscape, such as changes to National Insurance or the treatment of dividends and savings.

84. Where the Scottish Government has diverged from UK tax policy, the impact of this on the Scottish Budget will be affected by UK Government choices which increases or decreases that divergence. For example, both the UK and Scottish Governments introduced reliefs to their respective residential property taxes during the Covid-19 pandemic with the aim of supporting housing market activity. The scale of changes and the length of time these were in place differed, which resulted in stronger relative LBTT revenue growth compared to SDLT during this period. Both LBTT and SDLT have moved back to their standard thresholds, reducing the relative performance of LBTT.

85. The Scottish Government has, to date, taken decisions to mirror some aspects of UK Government policy changes, such as the freezing of some tax band thresholds. Given the wider context of fiscal and economic challenges both in the UK and globally, it is likely that the Scottish Government will need to respond to further UK Government policy choices in the short-to medium-term. In responding to UK Government policy changes, 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.

Endnotes

- 1 When the Scottish Parliament was created, it was given the power to vary the basic rate of income tax in Scotland by up to three pence in the pound. This was known as the Scottish Variable Rate. This power was never used.
- 2 The Scotland Act 2016 stated that the receipts from the first 10p of the standard rate of VAT and the first 2.5p of the reduced rate of VAT in Scotland will be assigned to the Scottish Government's Budget. VAT being assigned rather than devolved means the Scottish Government would not have any policy control over VAT.
- 3 [The financing of the Scottish Government](#), House of Commons Library.
- 4 This is the cumulative budget position from 2015/16 to 2025/26. This includes both outturn data (up to 2023/24 for SIT and 2024/25 for LBTT and Scottish Landfill Tax) and forecasts which will be subject to revision through the reconciliation process.
- 5 [Scottish income tax outturn statistics 2023 to 2024](#), UK Government, July 2025.

Financial sustainability and taxes



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27 January 2026

Richard Leonard MSP
Convener
Public Audit Committee
Scottish Parliament
Edinburgh
EH99 1SP

Dear Convener

On 17 December 2025, I gave evidence to the Committee on my report, the 2024/25 audit of the Scottish Government Consolidated Accounts. During the session we discussed the financial position of Ferguson Marine (Port Glasgow) Holdings Ltd, and I confirmed that the £99 million current value detailed within my report related solely to the vessels, MV Glen Sannox and MV Glen Rosa.

Any valuation of Ferguson Marine (Port Glasgow) Holdings Ltd would not be based on the valuation of the vessels, as these transfer to Caledonian Maritime Assets Ltd on completion. It would be based on any number of factors that a buyer would consider including the value of specialist assets, any future contract work and associated cash flows, and the skills and capacity of the workforce.

Your sincerely

Stephen Boyle
Auditor General for Scotland

Annexe D: Letter from the Director of Economic Development, Scottish Government, 17 December 2025

Economic Development Directorate
Colin Cook, Director



E: Colin.Cook@gov.scot

Richard Leonard
Public Audit Committee
Room T3.60
The Scottish Parliament
EDINBURGH
EH99 1SP

17 December 2025

Dear Mr Leonard,

Publication of the Economic Impact Assessment of Glasgow Prestwick Airport

As you are aware, Scottish Ministers have recently undertaken a market testing exercise in relation to Glasgow Prestwick Airport.

As part of this wider work, the Strategic Commercial Assets Division worked with commercial advisers PwC to estimate the economic impact of Glasgow Prestwick Airport. This followed a commitment to the Public Audit Committee to carry out an independent review of the Economic Impact of the airport to both the local and Scottish economy.

This work has confirmed Glasgow Prestwick Airport's role as a vital national and regional aviation and economic asset. Some key highlights of the report include:

- Significant socio-economic benefits from core aviation activities, generating £26.6m GVA and 524 FTE jobs
- Secondary benefits generated by activities hosted on the site and in close proximity to it which add £161.4m–£230m GVA
- Wider impacts including tourism and apprenticeships contributing £65.4m–£65.8m GVA and an estimated 1,830 jobs.

The airport also fosters regional development via its Aerospace Cluster and strategic diversification into cargo, specialist handling, and tenant growth.

We decided not to publish the report whilst the sales process was ongoing, but now that the process has concluded, I am pleased to confirm that the report has now been published. A link is provided below:

[Glasgow Prestwick Airport: economic impact assessment - gov.scot](#)



I hope that the Public Audit Committee find the report useful and would, of course, be more than happy to explore any of the issues raised in greater detail.

Yours sincerely,

Colin Cook
Director of Economic Development