

**Finance and Public Administration Committee**  
**6<sup>th</sup> Meeting 2026 (Session 6)**  
**Tuesday 10 February 2026**

## **Session 6 legacy issues and key themes – finance**

### **Purpose**

1. The Committee is invited to take evidence from the following witnesses to inform its Session 6 legacy report—
  - Stephen Boyle, Auditor General for Scotland
  - Lindsay Scott, Technical Officer, Chartered Institute of Taxation
  - Dr João Sousa, Deputy Director and Senior Knowledge Exchange Fellow, Fraser of Allander Institute
  - Michael Clancy, Director of Law Reform, Law Society of Scotland
  - Professor David Heald, Emeritus Professor, Adam Smith Business School, University of Glasgow
  - Professor David Bell, Professor of Economics, University of Stirling
2. Legacy reports are intended to pass on knowledge and experience, both in terms of policy and Committee working practices, and inform the successor Committee's priorities for scrutiny.
3. The evidence session will focus on financial issues within the Committee's remit. A second evidence session, focusing specifically on issues related to public administration, will take place on 17 February.
4. This paper provides an overview of the Committee's financial scrutiny over Session 6, summarising the key pieces of work and recommendations made in successive Committee reports.
5. Written submissions have also been received from the following witnesses, and are available in the annexe to this paper, and on the Committee's [legacy report webpage](#)—
  - [Written submission from the Auditor General for Scotland](#)
  - [Written submission from the Chartered Institute of Taxation](#)
  - [Written submission from Professor David Bell](#)
  - [Written submission from Professor David Heald](#)

### **Budget scrutiny**

6. The budget process, as recommended by the [Budget Process Review Group](#) (BPRG) in its 2017 report, is centred around four core objectives:
  - to have greater influence on the formulation of the Scottish Government's budget proposals,

- to improve transparency and raise public understanding and awareness of the budget,
- to respond effectively to new fiscal and wider policy challenges, and
- to lead to better outputs and outcomes, as measured against benchmarks and stated objectives.

7. The process involves taking a strategic year-round approach to budget scrutiny, starting with pre-budget scrutiny, typically conducted during autumn, with a view to influencing the draft budget.

8. The Committee conducted pre-budget and budget scrutiny in each of the Session 5 parliamentary years. The focus of its inquiries, as well as the recommendations in its reports, increasingly reflect the Committee's focus and concern in relation to fiscal sustainability and long-term financial planning<sup>1</sup>.

## Long-term financial planning

9. In its pre-budget 2025-26 report, the Committee found "little evidence that the Scottish Government is carrying out sufficient medium- and longer-term financial planning. Year-to-year budgeting has also become more challenging, with emergency in-year savings announced in each of the last three years." While recognising the challenges faced by the Scottish Government in meeting immediate financial pressures, the Committee warned about the risks of using non-recurring revenue to fund recurring expenditure and asked for "effective strategic financial planning" to avoid this practice in the future. We noted "the Cabinet Secretary [for Finance and Local Government]'s focus on the 'here and now' and her view that multi-year plans arising from the UK Government's Spending Review in late Spring 2025, may provide an opportunity to 'do things differently'."

10. Concerns around long-term planning were reiterated in the Committee's last pre-budget report (2026-27), where "The Committee urges the Scottish Government to place much greater emphasis on longer-term financial planning in order to start mitigating the potential significant impact of future trends."

11. The Committee's increased focus on long-term financial trends coincided with the publication of the Scottish Fiscal Commission (SFC)'s first [Fiscal Sustainability Report](#) in March 2023. Looking ahead 50 years (the SFC projects spending and funding up to 2072-73), the Report focused on demographic trends and highlights

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<sup>1</sup> [Pre-Budget Scrutiny 2022-23: Scotland's public finances in 2022-23 and the impact of COVID-19](#)

[Pre-Budget Scrutiny 2023-24: Scotland's public finances in 2023-24: the impact of the cost of living and public service reform](#)

[Pre-Budget Scrutiny 2024-25: The Sustainability of Scotland's Finances](#)

[Pre-Budget Scrutiny 2025-26: Managing Scotland's Public Finances: A Strategic Approach](#)

[Pre-Budget Scrutiny 2026-27: Responding to Long-Term Fiscal Pressures](#)

[Budget Scrutiny 2022-23](#)

[Budget Scrutiny 2023-24](#)

[Budget Scrutiny 2024-25](#)

[Budget Scrutiny 2025-26](#)

[Budget Scrutiny 2026-27](#)

that the forecast changes to population structure will “translate into different levels of demand for public services, with higher pressure on health services and reduced demand for services used by younger people, such as education”.

12. Two years later, the SFC updated these demographic trends in its [Fiscal Sustainability Report – April 2025](#) and included a specific focus on health spending, highlighting that “the Scottish Government will face significant challenges funding devolved public services in the future, particularly over the next twenty-five years [...] because the population in Scotland will age earlier than in the rest of the UK”. The SFC identified an ‘annual budget gap’, which it described as “the Scottish specific fiscal sustainability challenge”, averaging -1.5% between 2030-31 and 2049-50 and -0.9% between 2050-51 and 2074-75 “... because demographic pressures in Scotland are greater than in the rest of the UK over the next twenty-five years”.
13. The SFC further explained that “under a scenario of worse population health, we project the annual budget gap to reach minus 4.0 per cent by the end of the projection”, but if the gap “is improved by better population health,” it could be a “positive 6.2 per cent”. During evidence to the Committee on 29 April 2025, the SFC stated that— “It is worth emphasising that the fiscal gains are really coming from healthy life expectancy. Having people in good health for longer reduces your spend per head. If we were to put on only our fiscal hats, how to improve healthy life expectancy is the thing that we would focus on.”
14. In between publishing these full fiscal sustainability reports, the SFC on 14 March 2024 produced a paper on Fiscal Sustainability Perspectives: Climate Change which explored “how climate change could affect the Scottish Government’s fiscal sustainability”. It considered “the potential effects on Scottish public finances from damage created by climate change, the costs of adapting to a changing environment and taking action to meet Scotland’s statutory emissions targets to reach net-zero by 2045”, as well as looking at “how the sustainability of the devolved public finances is affected by the interaction of the fiscal framework with the policy choices made by both the UK and Scottish Governments”.
15. The Committee therefore urged the Scottish Government, in its pre-budget reports, “to place much greater emphasis on longer-term financial planning in order to start mitigating the potential significant impact of future trends”. In the first instance, the Committee called on the Scottish Government to provide full responses to the SFC’s 2023 and 2025 Fiscal Sustainability Reports. The Committee also asked the Scottish Government to schedule an annual debate to enable a broader discussion across Parliament about longer-term fiscal challenges.
16. The Scottish Government has not committed to providing full responses to the SFC’s reports. In response to the Committee’s initial request relating to the 2023 SFC report, the Cabinet Secretary for Finance and Local Government announced, during a debate held in October 2024, that a new Fiscal Sustainability Delivery Plan (FSDP) would be published for the first time alongside the 2025 Medium-Term Financial Strategy (MTFS), although this would only cover the same five-year period.

17. This led the Committee to conclude, in its pre-budget scrutiny 2026-27 report, that “We therefore remain in the dark on the Scottish Government’s longer-term financial plans”.
18. The Committee repeatedly highlighted the long-standing challenges of demography, low productivity and the need to grow the tax base especially in high-wage industries. It asked the Scottish Government to set out its ambitions for increasing labour market participation and productivity levels in the workforce in Scotland, with a view to growing the tax base, and to outline detailed steps it would take to meet these ambitions, including any pilot projects to support specific groups of society.
19. In its Budget 2024-25 report, the Committee sought “further details of the Scottish Government’s plans to produce a labour market participation plan. This should include proposals to reduce economic inactivity and set out how the Scottish Government is engaging with business and the further and higher education sectors to ensure the plan addresses current and future skills challenges.”, noting that “We consider this work to be overdue and therefore ask that development of both the plan and its delivery progress at pace.”
20. Concerns were also raised in relation to the Scottish Government’s prioritisation. In its Budget 2024-25 report, the Committee stated— “The Scottish Government has said that its taxation and spending plans have been prioritised to deliver its three Missions of Equality, Opportunity and Community. However, the Committee is unclear from the information provided that a rounded strategic approach has been taken to assess and prioritise those areas of spend that will make most impact in delivering these Missions.” It asked for “a more detailed explanation of the Scottish Government’s assessment of spend against its overall priorities, along with the trade-offs it has had to make”.
21. It reiterated these concerns in further reports, highlighting the need for spending decisions to be properly aligned with Government priorities, and asking the Scottish Government to explore whether a zero-based budgeting approach might be suitable in a Scottish context, learning from the experience of countries such as Estonia, which the Committee visited in 2024.
22. The demographic challenges highlighted by the SFC in its 2023 Fiscal Sustainability Report led to the Committee considering social security spending in particular as a particular long-term financial risk. The SFC, in its [January 2026 report](#), forecasts spending on social security to rise from £7.4 billion in 2026-27 to £9.2 billion in 2030-31, which it states, “is driven by annual increases in payment rates with inflation and an ongoing rise in the number of people receiving disability and carer payments”.
23. The Committee had previously asked the Scottish Government, in its budget 2024-25 report, how it would continue to assess the long-term affordability and sustainability of its social security policies and their impact on other areas of spend. In its pre-budget 2026-27 report, the Committee concluded that “It is not convinced that the Scottish Government has set out sufficient evidence to support its argument that the future social security budget is sustainable.” It

therefore requested that the Scottish Government should carry out a review of the fiscal sustainability of social security spending, alongside a review of the extent to which the level of social security assistance provided supports economic activity, and a review of the spending and outcomes arising from universal payments and services.

24. The Scottish Government said, in its response to the Committee, that it is developing its approach to public value which “will embed a framework for understanding spending proposals through a lens which considers the delivery of government outcomes, delivery risk, impact assessments, the financial implications and other key factors and drawing upon this information to make decisions about government spending plans”.

### Financial transparency

25. One of the BPRG’s core objectives for the budget process is to improve transparency. This aligns with the Scottish Government’s [Scotland’s Open Government Action Plan 2021-25](#) published on 25 March 2022, which aims to “promote Open Government values of openness, accountability, transparency and involving people”, across three policy areas it identifies as priorities, one of which is Financial Transparency.

26. A consistent theme in the Committee’s financial scrutiny this session has been the need for greater transparency and more data in relation to budgetary information. The Committee, as well as the SFC, Fraser of Allander Institute, Institute for Fiscal Studies and SPICe, have each recognised that the Scottish Government has made improvements in this area. This includes providing data by Classification of the Functions of Government (COFOG), an internationally approved and consistent way of identifying spending under set definitions, for example, health, education, housing, economy, etc.

27. This information provides parliamentary committees with improved transparency in terms of budget information by area of government rather than by Ministerial portfolios, enabling more accurate comparison between the following year’s proposed Budget against the latest spending position in the current year’s Autumn Budget Revision. COFOG data was first published alongside the Scottish Budget on 19 December 2023.

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29. In its report on the budget process, the Committee welcomed the progress made in relation to transparency of budgetary information and the Cabinet Secretary’s willingness to continue discussions on where further improvements can be made. It however noted that “it is clear from the evidence we received that gaps in information still persist”.

30. The Committee asked in successive reports that regular transfers are baselined in the Scottish Budget, to allow a more sensible comparison between the latest budget position and the current in-year position from the Autumn Budget Revision. It also raised questions regarding the reasons why Public Private Partnership payments appear in some portfolios in the Scottish Budget and not in others and sought clarification of the reasons for this “inconsistent presentation”.
31. Similarly, the SFC acknowledged that “a lot has been done over the past few years to improve the level of information that is provided in budget documents and to make it more transparent”, including presenting the budget document for 2025-26 based on the change between the Autumn Budget Revision (ABR) and the following year’s spend. The SFC argued that further improvements could include publishing additional information on internal transfers or presenting the Budget with all spending shown at the outset under the portfolio where it will ultimately incur the spending.
32. The Scottish Government’s response to the Committee’s pre-budget 2026-27 report states that “some progress has been made, [...] with £786m of baseline transfers actioned”, adding that “not all the regular transfers will be baselined”. The SFC notes that a remaining £606m of resource internal transfers between portfolios contained in the 2025-26 ABR have not been reflected in the Scottish Budget 2026-27. The SFC has therefore baselined all routine in-year transfers within its Forecasts, providing “a more accurate picture”.

### Timing of fiscal events

33. In its pre-budget 2022-23 report, the Committee noted that “Recent publication of the UK and Scottish government budgets has followed a different timeline than was envisioned when the fiscal framework was agreed, which has created additional volatility and uncertainty for the budget process. We believe that greater co-ordination regarding the two governments’ budget timings is needed.”
34. The timing of fiscal events remains an area of concern, leading to truncated parliamentary scrutiny of the Budget, including in the last year of the session.
35. The UK Government’s 2024 commitment to “one major fiscal event a year and more regular Spending Reviews” was welcomed, the latter of which the Scottish Government said provides “the certainty it needs to put Scotland’s public finances on a more sustainable footing”. In its pre-budget 2025-26, the Committee welcomed “confirmation that a more collaborative and constructive relationship is being developed between the UK and Scottish Governments, which we hope continues in relation to the timing and nature of future UK Budget and Spending Review announcements.”
36. By spring 2025, however, this initial positive engagement appeared to have waned. The Cabinet Secretary for Finance and Local Government stated, in a [letter to the Finance and Public Administration Committee](#) of 16 May 2025, that—“Following the commitment to reset the relationship between the Scottish and UK Governments after the UK General Election last year, we have seen welcome

improvements in information sharing and I was optimistic that the approach to the UK Spending Review (UKSR) would build on this and demonstrate a genuine willingness to work together. I expected, when I originally set the date for the MTFS, that we would have had more extensive dialogue on our priorities and a clearer understanding of the UK Government's intentions for their Spending Review, but this has regrettably not been the case."

37. In its latest pre-budget scrutiny report, the Committee again urged "the UK Government to place greater emphasis on the impact on devolved budgets when considering the timing of its fiscal events".
38. It also "committed to engaging further with the Scottish Government and the Scottish Fiscal Commission to explore whether an optimal time can be secured for both budget formulation and scrutiny."

## **Key financial planning documents**

39. One area where the Committee has repeatedly expressed concerns is the extended delays in publishing key strategic financial documents, which the Committee considered to be "indicative of a wider problem where vital medium- and longer-term financial planning within the Scottish Government is lacking."

### **Medium Term Financial Strategy**

40. In its 2017 report, the BPRG recommended the introduction of an annual MTFS to the budget process, the purpose of which would be "to provide a means of focussing on the longer-term sustainability of Scotland's public finances".  
The [written agreement between the Finance and Public Administration Committee and the Scottish Government](#) states that the MTFS should normally be published at least four weeks before the summer recess, and following the publication of the UK Spring Statement.
41. Of the five MTFS that should have been published in Session 6, only two were published in May as intended.

## When did the Scottish Government publish the Medium Term Financial Strategy?

The Scottish Government is meant to publish the Medium Term Financial Strategy in May each year.

	May	June	July	August	September	October	November	December
2021	✗							📄
2022		📄						
2023		📄						
2024	✗		No MTFS published in 2024					
2025	✗	📄	Expected June 2025					

Source: SPICe

42. The 2021 publication was delayed to December due to the Scottish election which took place on 6 May 2021. In 2022 and 2023, the MTFS was published as expected in May, but the 2024 publication was first delayed due to the change of First Minister, then again due to the UK election. The Scottish Government opted not to publish an MTFS at all in 2024, due to a change in First Minister and thereafter a UK general election being called. The Scottish Government later advised that the 2025 MTFS would not be published as intended on 29 May 2025, and would instead be scheduled for 25 June 2025, following the UK Spending Review on 11 June.
43. The Committee considered the absence of an MTFS in 2024 “undermined our ability to consider how the priorities for the next Budget sit within this longer-term context”. The Committee previously stated, in its report on the Budget 2024-25, that “We are not convinced by the reasons provided for delays in publishing multi-year spending plans, the public sector pay policy 2024-25, an updated infrastructure project pipeline and a financial strategy for public service reform. The impression given is that the Scottish Government is procrastinating on important decision-making that would help support medium- and longer-term sustainability of Scotland’s public finances”.
44. The most recent MTFS was published on 25 June 2025, alongside a new document – the FSDP – “bringing together the key actions the Scottish Government is taking to deliver the fiscal strategy over the next five years, from now until financial year 2029-2030”.
45. The purpose of the MTFS is to provide a medium-term perspective on the sustainability of Scotland’s public finances, supporting a broad approach to budget evaluation and formation. It is intended to ensure that both Parliament and Government have foresight of the financial challenges and broad financial plans for the next five years.

46. At the beginning of the session, the Committee undertook a focussed [review](#) of how well the MTFS delivers on its purpose. It concluded that “the MTFS in its current form does not sufficiently encourage or support meaningful committee scrutiny, in the way originally intended. We further believe that more detailed information is needed to build up an overall picture of Scotland’s medium-term public finances.”

47. This view was reiterated in the Committee’s report on the budget process, which stated that— “The Committee shares the view of the Auditor General for Scotland that “done properly [the Medium-Term Financial Strategy (MTFS)] can be an incredibly helpful and powerful tool to support committees’ programmes of work and scrutiny of Government”. We also believe that in setting out a five-year view, the MTFS should help support the Scottish Government to develop a strategic approach to financial planning. However, in its current form, the MTFS performs neither of those roles effectively.”

48. The Committee’s report asked that future iterations of the MTFS “should therefore not only include the challenges and pressures the country faces over the next five years; it must also set out:

- how spending projections have been arrived at,
- how medium- and longer-term financial pressures will be managed in practice,
- the Scottish Government’s understanding of the risks that may materialise, and
- how these risks can be mitigated.

49. It noted that “The inclusion of this level of detail is particularly important in these increasingly uncertain times and should help to limit the need for emergency budget controls in-year” and further asked the Scottish Government “to minimise the political narrative included in the MTFS, which is unnecessary and distracts from the important issues ahead.”

50. Following the publication of the 2025 MTFS and FSDP, the Committee welcomed improvements in the level of information provided, however, it noted that “we do not believe that a separate document is necessary to set out how the Scottish Government is responding to these medium-term pressures. The information could just as simply be included in the MTFS, enabling better clarity and cohesion. [...] We do not share the Scottish Government’s view that the two documents “set out a credible plan” to ensure it can continue to deliver its priorities. In future iterations, we seek more detail on the cumulative impact the measures will have in closing the fiscal gaps set out in the MTFS, along with a timetable for implementation to allow monitoring of progress.”

## Scottish Spending Review

51. The Scottish Government's Resource Spending Review 30 (RSR) published in May 2022 was the Scottish Government's first resource spending review since 2011.
52. The Scottish Government is required under the Budget Process Agreement to set out a framework when proceeding with a spending review. A '[consultative framework document](#)' was published alongside the Scottish Budget on 9 December 2021. The Committee carried out a short, focussed [inquiry](#), to inform its response to the Scottish Government consultation, which raised a number of points on the priorities for the RSR, the economic and political context, cross-cutting issues and preventative approaches, and links with the National Performance Framework outcomes.
53. The RSR was published in May 2022 and set out the high-level parameters for resource spend within future Scottish Budgets up to 2026-27. Priorities in the RSR were to improve outcomes for children living in poverty, progress in achieving the just transition to net zero, reforming public services, and transforming the economy "to enable growth, opportunity and a sustainable outlook for our future".
54. By the time the Committee published its report on the Budget 2023-24, it already expressed concern "that the RSR no longer provides the level of certainty or a clear planning scenario that was intended when it was published in May 2022."
55. A new Scottish Spending Review (SSR) was published with the Scottish Budget 2026-27, setting out the Scottish Government's indicative spending plans up to 2028-29 for resource, and up to 2029-30 for capital. The SFC commented in its January 2026 Forecasts that the SSR is less detailed than the 2011 spending review, which provided level 3 figures for all portfolios. It goes on to say, "given that many public policy budgets are at level 3, it is not possible to look at the document and see the funding outlook for key public bodies like Skills Development Scotland and SEPA, or to see how level 2 budgets are split between resource and capital".

## Infrastructure Delivery Pipeline

56. Capital investment plans were subject to delays throughout the current session.
57. The Scottish Government, in its 2023 MTFS, stated that "to help to address the difference between the capital funding and spending outlook, we plan to publish a reset of the project pipeline ... alongside the 2024-25 Budget – providing transparency over which projects may now be delivered over a longer timescale". Its Infrastructure Investment Plan (IIP) and Capital Spending Review were both also extended by one year to 2026-27. The updated pipeline was not published alongside the Scottish Budget 2024-25.
58. Following successive delays, the Scottish Government's [Infrastructure Delivery Pipeline 2026](#) (IDP) was published alongside the Scottish Budget 2026-27 and

SSR. It sets out the infrastructure projects and programmes the Scottish Government plans to fund over the next four financial years, “underpinned by over £30 billion of capital funding set out in the SSR”. It includes “specific investment plans totalling £11.1bn, as well as our plans to develop new revenue-financed programmes of investment” and makes references to Scottish Government plans to proceed with a £1.5bn Bond Programme over the next parliamentary term, “following the high Investment grade Credit Ratings received by Moody’s and S&P”.

## Public Sector Pay Policy

59. The Scottish Government published its Public Sector Pay Policy 2025-26 alongside the Scottish Budget 2025-26 in December 2024, the first time the two documents have been published together in four years.
60. In the 2022 RSR, the Scottish Government confirmed its intention to "return to the overall total public sector workforce broadly to pre-Covid-19 pandemic levels ... , helping to hold total pay bill costs – as opposed to pay levels – at 2022-23 levels". The Scottish Government's [response to the Committee's pre-budget 2023-24 report](#), received in December 2022, stated that the position had since changed to asking public bodies to manage the size of their workforces in an affordable way.
61. In a departure from previous years, the Scottish Government did not publish its Public Sector Pay Policy for 2023-24 alongside its Budget. When questioned by the Committee about the implications of not having a public sector pay policy for 2023-24, the then Deputy First Minister pointed to the shift in pay parameters that have occurred in 2022-23 as a result of rising inflation— "...having set a pay policy at 2 per cent when inflation was benign, we then found ourselves in a completely different situation. I question the value of having a pay policy, because I do not think that it actually provides much guidance. The 2 per cent policy provided zero guidance to people as to how they were to navigate this. During the financial year, we put a lot of arrangements in place within Government. I chaired a regular discussion between ministers across the Government to consider the current negotiations and give guidance as to what we considered acceptable in relation to resolving these questions. Given the volatility that we have, I do not think that a pay policy would help to shape the context." A Public Sector Pay Policy was then published in March 2023.
62. The policy for 2024-25 was published in May 2024. As discussed in the Committee's report on the Budget 2024-25, “the delay in producing the Scottish Government's public sector pay policy presented a challenge for the SFC in producing its December 2023 Forecasts and does not meet the requirements of the protocol between the SFC and Scottish Government for the provision of specific data within certain deadlines.”
63. In its pre-budget 2025-26 report, the Committee expressed disappointment that “the Scottish Government's Pay Policy 2024-25 [...] did not materialise until May 2024. We also note that the Cabinet Secretary now appears to be considering whether an annual Pay Policy is needed at all.” The Committee urged “the

Scottish Government to produce a Pay Policy each year, setting out realistic pay growth assumptions. This should wherever possible be published alongside the Scottish Budget to allow scrutiny of how these assumptions might impact on other areas of the Budget, and to inform the SFC's December Forecasts."

64. At the end of 2024, the Scottish Government set out a Multi-Year Pay Policy Framework from 2025-26 to 2027-28. The policy provided a framework for yearly pay deals to be limited to a 3% increase in 2025-26 or to a cumulative 9% over three years from 2025-26 to 2027-28.
65. The SFC notes however that "the pay deals agreed have all exceeded the Scottish Government's public sector pay policy" and further stated that "unless deals with nominal pay growth of around 1% are accepted for the final year, the policy of 9% pay increases over three years will be exceeded". The SFC further notes that if pay awards are higher than the Scottish Government has assumed, larger workforce reductions would be needed to keep the paybill at the level used in the SSR.
66. The Scottish Government published an [Integrated Pay and Workforce Policy](#) alongside the 2026-27 Budget. The Scottish Government says this "is the first step in operationalising the commitments in the FSDP to manage the public sector pay bill and workforce size through a co-ordinated approach to pay and workforce planning". The document notes "the Cabinet Secretary [...] has acknowledged that many multi-year deals cover only two years of the three-year [Public Sector Pay] Policy for 2025-26 to 2027-28, [and] to address this, the Cabinet Secretary has committed to review the pay policy as part of the 2027-28 Budget process".
67. In its last pre-budget scrutiny report, the Committee emphasised the importance of regular fiscal events and publication of key financial planning documents for robust and effective parliamentary scrutiny and once again expressed disappointment at the repeated delays that "have been a feature of this session of Parliament".

## Approach to taxation

68. [Scotland's Framework for Tax 2021](#) sets out the principles and strategic objectives that underpin the Scottish Approach to Taxation, as well as the Scottish Government's approach to decision making, engagement and how it "manages and sequences tax policy and delivery around the fiscal cycle".
69. The Scottish Government announced, in its Programme for Government 2023-24, that an updated tax strategy would be published alongside the May 2024 MTFS, "setting out how the Scottish Government intends to continue to deliver a progressive tax system". An external tax advisory group was created and the Scottish Government published [Scotland's Tax Strategy: Building on our Tax Principles](#) alongside the Scottish Budget 2025-26. The Tax Strategy is intended to expand on the Scottish Government's Framework for Tax 2021 and sets out the Scottish Government's approach to tax over the medium term across the devolved and local tax system.

70. The updated strategy however was not published in draft form as originally intended, which the Committee considered “would have been a more open and transparent process [...] ultimately leading to a better output”. The Committee’s initial observations, in its report on the Budget 2025-26, were that the strategy represented “a welcome first step in providing clarity regarding the overall approach to taxation in Scotland”, however it “should have included the Scottish Government’s plans for council tax reform, given this is long overdue”.

71. The Committee asked the Scottish Government, in successive reports, to work closely with the UK Government to address current anomalies relating to marginal tax rates in Scotland.

72. It also reiterated its view that VAT assignment would be of no benefit to the Scottish Budget and would be both expensive to administer and potentially confusing to those expected to pay it and emphasised the need for more detailed research on behavioural responses to tax policy.

73. New taxes were announced and introduced during the current parliamentary session. The Committee had a leading role in scrutinising the [Aggregates Tax and Devolved Taxes Administration \(Scotland\) Bill](#) and the [Building Safety Levy \(Scotland\) Bill](#). The first of these was passed by Parliament on 1 October 2024 and the Scottish Aggregates Tax is due to come into effect from 1 April 2026. This will be aligned to the equivalent UK tax rate in 2026-27 and is forecast to raise £42 million in 2026-27, increasing to £48 million in 2030-31. The Building Safety Levy (Scotland) Bill is currently undergoing scrutiny at Stage 2.

74. In the latest Budget, the Scottish Government announced plans to introduce an Air Departure Tax (ADT) to come into force in April 2027, alongside plans “to bring forward a Private Jet Supplement within ADT in 2028-29 and engage with the UK Government to seek further devolution to allow private jet ‘ghost flights’ to be addressed”. The Budget 2026-27 also includes plans for new council tax bands for properties with a 2026 market value above £1 million, to be introduced in 2028.

## The budget process in practice

75. In 2025, the Committee carried out a short [inquiry on how the Scottish budget process has worked in practice](#), during the current parliamentary session. The inquiry aimed to identify any improvements that can be made to the budget process, ahead of the next five-year session of Parliament and focused on the four core objectives that underpin the Scottish budget process.

76. The Committee’s intention was that its report would help inform a future review by providing a snapshot of how the budget process has operated this parliamentary session, in times of much volatility and uncertainty. It found that “while the Scottish budget process and its building blocks remain fit-for-purpose, the way in which it has operated in practice this session has been far from ideal, and improvements are now needed”.

77. The BPRG's final recommendation was that the Scottish Parliament and Scottish Government review the revised budget process following the outcome of the review of the Fiscal Framework. The Committee's report notes that "This review was later and much narrower than originally envisaged, and agreed changes were announced without prior consultation. This, and the uncertainty around fiscal events and key financial publications this session, has led us to the conclusion that the new process and Fiscal Framework changes should have more time 'to bed in' before a formal joint review of the budget process takes place. Although the timing will be for our successor committee and the new Government to decide, our view is that this joint review could add most value if it were to take place in the mid- to late session." The Committee also undertook to consider whether the Budget Process Agreement requires updating for the next parliamentary session.
78. The report made a number of recommendations intended to ensure that the objectives of the process can be fully met, through improved transparency and awareness, responding to new fiscal and wider policy challenges, and greater influence and better outcomes.
79. The Committee restated its view that "improvements are [...] required in the strategic financial planning by the Scottish Government, supported by improved quality of data and key documentation published within the required timescales." It also expressed support for the idea of a Committee for the Future, following the examples of similar committees in Finland and Lithuania.
80. In relation to pre-budget scrutiny, the Committee expressed concern that "stakeholders consider their input has minimal influence on the Scottish Budget", asking that the Scottish Government provides more information on the areas where its decisions have been influenced by stakeholders within the documents accompanying the budget, to help build more confidence, and encourage more engagement, in the budget process.
81. The Committee asked the Scottish Government to improve the quality of its responses to committees' pre-budget letters and reports and to set out measurable practical steps that it is taking to implement committee recommendations, for a more transparent and impactful process. It also highlighted improvements that could be made to the annual parliamentary debate where Conveners set out how their committees have sought to influence the budget, including piloting new approaches.
82. During its inquiry, the Committee heard that "enhancing the fiscal literacy of all MSPs would help to support more effective scrutiny of budgetary matters and potentially encourage a more mature wider debate around the spending and tax decisions taken by Government". Following the inquiry, the Committee wrote to the Scottish Parliamentary Corporate Body to ask that a comprehensive fiscal literacy training programme be put in place through the induction of new MSPs elected at the 2026 Scottish Parliament elections, and through continuous development for all Members throughout the five-year cycle.

## Evolution of the fiscal framework

83. The Fiscal Framework agreed by the UK Government and the Scottish Government in 2016, provided that it should be reviewed after the Scottish Parliament elections in 2021 and be informed by an independent report with recommendations presented to both governments by the end of 2021. Last session, the previous Finance Committee, alongside the Social Security Committee and the Cabinet Secretary for Finance, produced a joint report intended to inform the scope and terms of reference of the body tasked with delivering this independent report.

84. In October 2021, the then Cabinet Secretary for Finance and the Economy and the then Chief Secretary to the Treasury agreed to commission an “independent report on the Block Grant Adjustment arrangements, including a call for stakeholder input, prior to a broader review of the Fiscal Framework”. The Committee noted, in its Budget 2022-23 report, that “the scope of the independent report to precede the Fiscal Framework review will focus on Block Grant Adjustments only, but that the review itself will be broader and that stakeholder views will be sought as part of both processes.”

85. On 2 August 2023 the review was completed when a [revised Fiscal Framework agreement](#) between the Scottish and UK Governments was published, alongside the [independent report](#).

86. In its pre-budget 2024-25 report, the Committee stated that it was “surprised that the Fiscal Framework Review was concluded without the opportunity for the Committee and others to consider the independent report and submit responses to inform the Review.” The Committee welcomed “the modest but permanent gains in fiscal flexibility achieved through the Review. Nevertheless, the lack of transparency in the process was disappointing, particularly given our calls for a more open approach than that taken with the original Fiscal Framework agreement in 2016.”

87. In its report on the budget process, the Committee restated its position that there would be merit in carrying out a wider review of how the fiscal framework between the UK and Scottish governments is operating, including how adjustments based on relative growth with the rest of the UK impact on income tax revenues in Scotland.

88. The SFC also noted that larger negative reconciliations could happen more regularly, explaining that the “huge growth in nominal income tax revenues … means that even the slightest error matters more”. It suggested that while the Scottish Government could add more money in the Scotland Reserve to draw down to offset negative reconciliations, “the limit on the size of the Reserve has become a binding constraint, too, so there is rather limited room to adjust for these big numbers”. This, the SFC suggested, “is where constant reviewing of the fiscal framework to see how it is operating and working entirely makes sense”, adding there may be an argument for scaling the borrowing limit and the Scotland Reserve to a metric other than inflation.

89. The Scottish Government and HM Treasury are currently in discussions regarding the scope of a future fiscal framework review. As requested, the Committee submitted views on what should be included within scope of the review on [19 December 2025](#), including borrowing and the Scotland Reserve, the timing of fiscal events and forecasts, and block grant adjustments and forecasting.

90. In its pre-budget 2026-27 report, the Committee also asked "that lessons are learned from the August 2023 fiscal framework update, to enable the process for the next review to be as open and transparent as possible to support robust parliamentary scrutiny."

## Public Service Reform

91. The 2022 RSR identified five key areas of focus for reform over the lifetime of this Parliament:

- digitalisation
- maximising revenue through public sector innovation
- reform of the public sector estate
- reform of the public body landscape, and
- improving public procurement.

92. The RSR included a Scottish Government commitment to "return the public sector workforce broadly to pre-Covid-19 levels". Further information on the government's plans for reform, including workforce levels, were expected in the Scottish Budget 2023-24 but did not materialise.

93. The then Deputy First Minister later confirmed that, instead of targets and an overarching framework for reform, public bodies would be expected to "change the way that they operate in this financial year to ensure the sustainability of their public services". He explained that "those changes will become apparent as organisations take decisions in order to live within the resources that have been made available to them".

94. In May 2023, the Committee launched an [inquiry into the Scottish Government's public service reform programme](#), and sought written views from Scottish public bodies on their plans for public service reform in their sectors, and others with a view on how the reform programme is working in practice and how it is delivering effective and efficient services. The evidence gathered was used to inform the committee's pre-budget 2024-25 scrutiny and report.

95. In the report, the Committee stated that, while it "accepts that government policies will, of course, evolve and develop over time, we are concerned that the focus of the Scottish Government's public service reform programme has, since May 2022, changed multiple times, as have the timescales for publishing further detail on what the programme will entail."

96. The Committee's report found "a collection of disparate workstreams and sectoral reforms, with no overall strategic purpose and with limited oversight and direction from Government" and recommended that "the Scottish Government sets out a clear vision and strategic purpose for what it wants to achieve with its public service reform programme, including how it will provide leadership and oversight to support public bodies to deliver on this vision".

97. In its report on the budget 2024-25, the Committee found "few other signs of progress. This is disappointing given the urgent need for reform."

98. The Scottish Government's first Public Service Reform Strategy was published on 19 June 2025 and sets out "commitments to change the system of public services - to be preventative, to better join up and to be efficient - in order to better deliver for people". The strategy has three pillars: prevention, joined up services, and efficient services. It also includes a section setting out how the Scottish Government will measure and understand progress, which notes that each of the workstreams and programmes included has its own governance and evaluation framework. Monitoring and evaluation will also take place at a "system wide level to ensure coordination", through the Public Service Reform Board and a Theory of Change and Monitoring, Evaluation and Learning Framework is being developed to support this work.

99. Evidence received during the Committee's pre-budget 2026-27 scrutiny suggests the PSR Strategy is welcome in looking at Government strategies across the piece, however, witnesses highlighted that the higher the number of Government strategies, the higher the risk that they do not align.

100. The Committee had highlighted a complicated landscape of Scottish Government strategies and plans in its first pre-budget report of the session, calling on the Scottish Government to outline how it could streamline and link up its various strategies and plans. Following a request from the Committee, the Scottish Government confirmed that as of 22 August 2025 it had 100 live strategies in place.

101. The strategy commits to reducing annualised Scottish Government and public body corporate costs by £1 billion over the next five years, representing around 20% of the identified public body corporate and core government operating costs. The Scottish Government has since also committed to a public sector workforce reduction of around 0.5% a year over the next five years, with "frontline services remaining protected".

102. In its pre-budget 2026-27, the Committee welcomed "the Scottish Government's renewed impetus on public service reform" and asked for "a detailed plan on how it will meet its high-level targets on efficiencies and workforce while minimising the impact on public services", noting that "Evidence and trends suggest these targets will be incredibly challenging to meet".

## Scrutiny of Financial Memorandums

103. This session, the Committee has expressed concern about the quality and consistency of various [Financial Memorandums](#) (FMs). It repeatedly identified issues with the quality of information presented in FMs, as well as a general lack of consistency in how that information is presented, and it highlighted these concerns in successive reports and letters to lead committees and to the Scottish Government.

104. The Committee requested updated FMs for a number of Bills, and particular concerns were raised in relation to the FMs for the National Care Service (Scotland) Bill, the Circular Economy (Scotland) Bill and the Police (Ethics, Conduct and Scrutiny) (Scotland) Bill, among others.

105. In light of these concerns, the Committee wrote to the Minister for Parliamentary Business asking that guidance for Bill teams drafting FMs be updated to address quality and consistency issues. The Committee made an announcement in the Chamber on [10 September 2024](#) to inform Members of these ongoing issues and the actions the Scottish Government had taken to address them, with the Convener stating that— “It is hoped that the updated guidance and renewed focus on training will lead to improvement in the information that is presented to Parliament and, consequently, in the scrutiny of such documents in the future.”

106. The Minister for Parliamentary Business wrote to the Committee on [6 March 2025](#), advised that the finance guidance note on preparing FMs (which accompanies the Scottish Public Finance Manual (SPFM) has been reviewed and updated to ensure that the Committee’s recent feedback “has been given greater prominence”. In addition, the Minister emphasised “the importance of this matter has been highlighted [to] all Ministers and Bill teams, and this message continues to be reinforced”.

107. Earlier in the session, the Committee also undertook [post-legislative scrutiny of a Financial Memorandum](#), focusing on the early learning and childcare provisions in the Children and Young People (Scotland) Bill (now the 2014 Act). This particular Bill was selected on the basis of significant concerns raised by the Session 4 Finance Committee over the financial estimates. At the time, this led to a supplementary FM being published and recommendations that expenditure regarding the policy roll-out be monitored. The Committee’s conclusions and recommendations, summarised in a [letter to the Scottish Government](#), highlighted early concerns regarding the implementation of major policy expansions via secondary legislation. The difficulties associated with financial scrutiny of framework legislation were later explored through scrutiny of a number of FMs, including that for the National Care Service (Scotland) Bill.

## Next steps

108. The Committee will continue taking evidence on legacy issues, focusing specifically on matters related to public administration, at its meeting on 17 February. The Committee will then publish its legacy report in March 2026.

Committee Clerking Team  
February 2026

## Introduction

- 1.** I am pleased to submit my views to support the Committee's legacy considerations ahead of a round table I will attend on 10 February 2026.
- 2.** As Auditor General for Scotland, I am appointed by the Crown, on the recommendation of the Scottish Parliament. The independent post was created under the Scotland Act 1998 to help ensure that public money is spent properly, efficiently and effectively.
- 3.** The Auditor General for Scotland is responsible for the audit of most public bodies, except local authorities. This includes directorates of the Scottish Government, government agencies, NHS bodies, further education colleges, the Scottish Police Authority, the Scottish Fire and Rescue Service and most Non-Departmental Public Bodies. I am also the Accountable Officer for Audit Scotland, which provides audit services to both the Auditor General and the Accounts Commission.

## Budget scrutiny and transparency

- 4.** Managing the impact of the Covid-19 pandemic and reacting to cost-of-living pressures flowing from a period of high inflation have made the fiscal environment in Scotland notably volatile in recent years. This, in turn, made managing the Scottish budget more complex. The Scottish Government made significant levels of in-year budget changes, requiring on occasion, an additional budget revision, an emergency budget review and increasingly close management of day-to-day spending. Budget scrutiny in such an environment inevitably becomes more challenging, yet it remains a crucial part of the budget process.
- 5.** Throughout this period of volatility, I have reported extensively through both my financial and performance audits on the budget challenges the Scottish Government must navigate, making recommendations on how arrangements could be improved.
- 6.** In my 2022 report, [Scotland's financial response to Covid-19](#), I noted several positive budget developments, such as streamlining governance arrangements to direct funds more quickly. However, I also reported that the Scottish Government had struggled to manage transparency and it was not always clear how some financial decisions had been reached. This in turn, limited the quality of scrutiny that could be provided by Parliament. It became clear that episodic budget management - based around autumn and spring budget revisions - and scrutiny processes were not designed for high levels of change. I considered it essential that the Scottish Government should act quickly on the lessons learned to build resilience in budget processes to manage future shocks, including

knowing where it can flex its budget to accommodate short-term fluctuations.

**7.** I have frequently commented on the short-term focus of financial management and sustainability decisions taken by the Scottish Government. In my report, [Fiscal sustainability and reform in Scotland](#), published in 2024, I concluded that the Scottish Government continued to take short-term decisions, reacting to events and external shocks rather than making fundamental changes to how public money is spent. I have reported through my audits of [the Scottish Government's consolidated accounts](#), that many of the areas identified to achieve short term fiscal balance are based on non-recurring savings, rather than savings that will continue to feature in future years. This inevitably adds to the challenge in future years and risks perpetuating short-term decision making to address in-year pressures, rather than embedding recurring savings which will put the baseline budget on a more sustainable footing. Clearly identifying planned recurrent savings and efficiencies, and monitoring their progress over time, should be a core part of budget scrutiny over the coming years.

**8.** Delays in publishing medium-term plans and a lack of detail on delivery within those plans, both overarching and those relating to key areas such as infrastructure, workforce and the NHS, undermined their effectiveness. While a “three-pillar approach” to fiscal sustainability was established by the Scottish Government in 2023, detailed supporting actions, the impact on public services, and the milestones for action were missing. This restricted budget scrutiny to predominantly considering the annual picture, with less information available to scrutinise what this meant for longer-term service delivery and policy ambitions. Moving into the next parliament, the timely production of multi-year plans is needed to ensure that medium- and long-term strategies and plans can be effectively scrutinised alongside the annual budget.

**9.** The lack of effective medium- and long-term planning has potentially impacted progress and scrutiny of the necessary reform activity required. I noted in my Fiscal sustainability and reform report that while the Scottish Government had been clear about the potential scale of the fiscal gap, it had not set out a clear vision of how it will change public service delivery models to better support sustainable public finances and services.

**10.** Since the publication of that report the Scottish Government has published a series of medium- to long-term plans and strategies. In June 2025, the Scottish Government published a new Public Service Reform Strategy (PSRS), its delayed Medium-Term Financial Strategy (MTFS) and the first Fiscal Sustainability Delivery Plan (FSDP). I had [reported in November 2024](#) that the Scottish Government has not been sufficiently transparent with the Scottish Parliament or the public about the current fiscal situation. The publication of these documents is welcome step forward, providing a framework for the future of Scottish public sector finance and public service reform.

**11.** It nonetheless presents a stark picture, with funding gaps in resource projected to grow from a balanced budget in 2025/26, to a gap of £2.6 billion in 2029/30. More information will be needed on how intentions to reduce the public sector workforce and increase sector efficiencies will be achieved. I have recommended that more detailed delivery plans are needed to support the realisation of these savings.

**12.** This also applies to health and social care plans, notably the Population Health Framework and a Health and Social Care Service Renewal Framework. In my [NHS in Scotland 2025](#) report, I note that while the Framework is a welcome development, its ambitions are far reaching and will be both complex and challenging to deliver. I have recommended that the Scottish Government put in place detailed implementation and monitoring plans that include timeframes, monitoring and report arrangements and evaluation frameworks. If these are delivered, this will enable better budget scrutiny of how reforms are affecting costs over time.

**13.** Alongside the recent 2026/27 Budget, the Scottish Government published its infrastructure strategy, infrastructure pipeline, and spending review. Altogether, these documents present a more comprehensive picture of the Scottish Government's finances and the challenges it will face over the coming years, along with the broad actions that it plans to take in response. It also presents new issues for budget scrutiny which I have previously discussed with the Finance and Public Administration Committee and summarise further below.

### **Looking to the future**

**14.** Firstly, the number of plans and strategies will increase over time. Each will have its specific part to play in both fiscal sustainability and improving public services, such as the role of capital spending, or a changing workforce. As these plans are implemented, the Scottish Government must maintain a cohesive overall approach to reporting progress, assessing the impact, and identifying areas for improvement. Without this, there is a risk that monitoring and reporting arrangements become fragmented, making scrutiny of overall progress towards fiscal sustainability and reform more difficult.

**15.** Key publications such as medium-term financial strategies should maintain clear links back to annual budget documents, and vice-versa. There will need to be a clear connection between annual budget decisions and its impact on the medium- and long-term trajectories public finances are taking. Done well, this will support better scrutiny of the Scottish Government's reform and efficiency plans.

**16.** Secondly, effective budget scrutiny relies on good information and data for reporting how plans for reform are being achieved, what milestones and timescales are reasonable, and the difference they are making to both to public finances and service delivery. Over the coming years, I would expect to see an increase in this reporting detail against some of the Scottish Government's key areas of reform or redesign.

**17.** This detail in budget documentation is also needed to properly understand and scrutinise how the Scottish Government will use its fiscal levers together to deliver its priorities in a sustainable way. In my recent report on [Financial sustainability and taxes](#), I concluded that while the Fiscal Sustainability Delivery Plan includes useful information on spending activities, such as public sector workforce reductions, it has much less detail on the role that taxes and economic growth can play. Understanding how each of these three pillars of fiscal sustainability work together over time is necessary to enable budget scrutiny to consider in the round how the Scottish budgets are contributing to more sustainable public finances.

**18.** Budget scrutiny will benefit where the Scottish Government is clear on its priorities, and how this feeds through into its spending choices. In my report on [Adult Disability Payment](#), I note that while the Scottish Government was clear about the additional spending it was incurring compared to the direct funding received from the UK Government, it had not yet set out a detailed strategy for how it will manage the forecast gap between social security funding and spending within its overall budget. For budget scrutiny, the Scottish Government should be clear and transparent about the trade-offs it is making in prioritising spending in certain areas of the budget.

**19.** Part of this will be understanding the implications of spending decisions for public services and intended outcomes. The Parliament should be able to review how the Scottish Government have assessed changes to spending, and how these are expected to impact upon performance. For example, understanding how the proposed workforce reductions envisaged in the spending review feed through to impact on services and how this will be monitored is important. I set out my views on the importance of understanding the impact of the workforce on reform and efficiencies in my report on the [Scottish Government's workforce challenges](#). I note that the Scottish Government has committed to publishing a Workforce Management Governance Framework in spring 2026.

**20.** The National Performance Framework underpins the approach to long-term improvement, which has also been the subject of inquiry by the Finance and Public Administration Committee. I have reported that it is not clear how budgeted spending is meant to impact on outcomes, particularly where spending across a number of portfolios is intended to contribute to a shared wellbeing outcome. The budgets of the Scottish Government, and public bodies should more clearly set out the intended impacts of significant government interventions. For example, in my report on the [National Strategy for Economic Transformation](#), I found that while good connections had been established across the Scottish Government to support the NSET's delivery, it is not clear how directorates are working together to agree funding priorities.

**21.** I also noted in my most recent [audit of the Scottish Government's consolidated accounts](#) that while the Scottish Government is reviewing its

approach to national outcomes, 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. Once the Scottish Government has completed and agreed its renewed approach to outcomes, it will need to demonstrate how its financial decisions are contributing towards long-term goals and what difference it is making. Tracing financial decisions to the differences they are making for people and services is an essential part of budget scrutiny.

**22.** Maintaining transparency during periods of substantial volatility and change is a difficult task. However, without it, not only is it more difficult to scrutinise the budget, it is also more difficult for the public to understand the difference that public finances are making to their lives.

**23.** For example, in my report on [Financial sustainability and taxes](#), I found that the Scottish Government had not set out clearly enough how it plans to address its tax performance gap, and what this would do to support fiscal sustainability. I also recommended that the Scottish Government should more clearly present 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.

**24.** There remains limited understanding of how the Fiscal Framework operates, despite its significance to devolved taxes and social security spending. The Scottish Government will need to renew efforts in the coming years to improve public understanding in this area. This includes a better narrative in medium-term plans and annual budget about how plans for economic growth and tax strategies are intended to work together, for example.

**25.** I have also noted that, on taxes, 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. I recommended that the Scottish Government provides clear, accessible and transparent information to help improve public understanding of the Scottish tax system.

**26.** There are opportunities to improve the transparency of financial information which the Scottish Government are acting upon. For example, 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. The audit team are currently considering the Scottish Government's proposals for future reporting. The more the Scottish Government can clearly report the assets and liabilities

available to it, the more transparency will be added to the scrutiny process.

**27.** I understand that maintaining transparency and understanding at the same time as reporting on increasingly complex public finances is challenging. It is encouraging to see that the Scottish Government has improved transparency in the last year both in terms of medium-term plans and better financial data. However, there remains more to do. Ensuring that the progress against financial sustainability and reform in public finances is clearly communicated, monitored, and reported against outcomes for people is an ongoing task, and should be published regularly for both public and parliamentary scrutiny.

## **Scottish Parliament's Finance and Public Administration Committee – evidence on legacy issues**

### **Response by the Chartered Institute of Taxation**

#### **1. Executive Summary**

- 1.1. The Chartered Institute of Taxation (CIOT) is the leading professional body in the UK for advisers dealing with all aspects of taxation. We are a charity and our primary purpose is to promote education in taxation with a key aim of achieving a more efficient and less complex tax system for all. We draw on the experience of our 20,000 members, and extensive volunteer network, in providing our response.
- 1.2. Our stated objectives for the tax system include:
  - A legislative process that translates policy intentions into statute accurately and effectively, without unintended consequences.
  - Greater simplicity and clarity, so people can understand how much tax they should be paying and why.
  - Greater certainty, so businesses and individuals can plan ahead with confidence.
  - A fair balance between the powers of tax collectors and the rights of taxpayers (both represented and unrepresented).
  - Responsive and competent tax administration, with a minimum of bureaucracy.
- 1.3. CIOT have provided written and oral evidence to the committee over the course of the 2021-26 Scottish Parliament session, and we welcome the opportunity to contribute to the Finance and Public Administration Committee's session on legacy issues, to inform a legacy report for its successor committee. CIOT's response is also informed by the work of our Low Incomes Tax Reform Group (LITRG).
- 1.4. We commend the committee for its strategic year-round approach to budget scrutiny. Through this work, the committee has continued to hold the Scottish Government to account

and help drive improvements in the quality and transparency of budgetary information. The committee's continued focus on more effective long-term financial planning is evident and welcomed.

- 1.5. We agree with many of the committee's recommendations during its work in the 2021-26 parliamentary session including, in particular: the need for a wider review of the fiscal framework; the ask to put in place a fiscal literacy training programme for new MSPs; greater emphasis on the timing of fiscal events; and recognition of the need for a collaborative and constructive relationship between the Scottish and UK Governments. The last of these especially pertinent ahead of UK Budget and Spending Review announcements, as recently evidenced by the uncertainty leading up to the UK Budget 2025 and lack of consultation on new property income tax powers.
- 1.6. We appreciate and acknowledge the work the committee has undertaken to scrutinise tax policy but note that its wider responsibilities may have limited time for broader pro-active work. Indeed, this was anticipated in the [Legacy Expert Panel's report](#)<sup>1</sup> to the Finance and Constitution Committee dated 12 February 2021 ('the 2021 Legacy Report').
- 1.7. Scotland's tax system has hit numerous milestones recently, with the ten-year anniversary of Scottish income tax rates fast approaching. More than ten years on from the Smith Commission, we have over a decade of experience, insight and hopefully data that can be used to inform reflection on what has worked well in Scotland's tax devolution journey, and what has not. Perhaps a starting point could be a review of the report of the Smith Commission.
- 1.8. Such reflection could help inform exciting, fresh discussions around what the future of tax looks like in Scotland. We believe that the committee could play a strategic role in shaping the future of the tax system in Scotland (capacity permitting), considering topics such as the future of tax devolution, the taxation of wealth and property, the scope and role of local taxation in Scotland, the administration and simplification of the devolved tax system, and engage with the thoughts and ideas that emerge at events such as the Scottish Government's tax conferences.
- 1.9. A review of the Smith Commission could also help new MSPs to understand how new taxes have been introduced in Scotland.
- 1.10. We would strongly urge the successor committee to take a role in progressing the review and consider the introduction of a legislative process that enables the regular maintenance of, and amendment to, devolved taxes (such as an annual finance or tax bill).
- 1.11. We are mindful that we are to some degree asking for a shift of focus in the committee's busy workload. Perhaps now is the time for the successor committee to take up the 2021 recommendation to look at the committee's 'pathway to impact', to help the committee decide on its role over the next session.

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<sup>1</sup> [\[ARCHIVED CONTENT\] Legacy Expert Panel - Parliamentary Business : Scottish Parliament](#)

1.12. We would like to thank the committee for their valuable work in the 2021-2026 parliamentary session and look forward to working with the next committee.

## **2. Budget Processes, Budget Scrutiny and Financial Transparency**

2.1. The committee's commitment to effective budget scrutiny, improving the quality and transparency of financial information and continuing to push for long-term financial planning is evident and welcomed.

2.2. We recognise that changes to UK tax policy have an effect on the block grant adjustment. This can have implications for individuals and businesses in Scotland which require the Scottish Government's budget to change reactively to maintain existing resource levels and spending commitments. Whilst the Scottish Government needs to respond in this way, greater care and collaboration around the timing of fiscal events is important, and we agree with the recommendations of the committee's pre-budget scrutiny report that the UK Government should place greater emphasis on the impact on devolved budgets when considering the timing of fiscal events.

2.3. Key to this should be a more collaborative and constructive relationship between the UK and Scottish Government in respect of future UK Budget and Spending Review announcements. The Minister for Public Finance has confirmed that 'there had been no prior consultation with Scottish or Welsh Governments' and they were informed on budget day<sup>2</sup> of plan to offer flexibility to separate out property income, to mirror the UK announcement.

## **3. Fiscal transparency and understanding of tax**

3.1. There are three key elements to the fiscal package in Scotland – tax, spending and the fiscal framework. Whilst others may be better placed than CIOT to discuss the fiscal framework in detail, we agree with the recommendation in the committee's report on the Scottish Budget process in practice that a 'wider review of how the Fiscal Framework is operating, including how adjustments based on relative growth with the rest of the UK impact on income tax revenues in Scotland'<sup>3</sup> should be undertaken. Some of the key areas of focus were highlighted at the 2025 Scottish Government's tax conference, including the impact that relative growth adjustments have on trying to maintain the same growth in tax base, concern that increased devolution of tax powers has led to increased dependency due to the need for knowledge of UK measures before the Scottish budget can be set, and whether the tools to manage the fiscal framework and funding that are available are sufficient.

3.2. Better public understanding of Scottish tax and funding (and therefore the fiscal framework) are vital for everyone to support effective budget scrutiny and tax debate in Scotland. LITRG was pleased to support the Scottish Government in its publication of its Tax Literacy guide<sup>4</sup>, which aims to provide a framework to improve communications on tax and tax policy. We do believe that the committee could scrutinise whether the Scottish Government is doing

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<sup>2</sup> [Meeting of the Parliament: pa/27/01/2026 | Scottish Parliament Website](#)

<sup>3</sup> [Report on the Scottish Budget process in practice](#)

<sup>4</sup> [tax-literacy-improving-communications-tax.pdf](#)

enough to raise awareness among Scottish taxpayers and whether they are raising awareness about the right things. One area for consideration is entitlement to reliefs for Scottish income tax because of the six-band structure: How are the Scottish Government measuring awareness? Is measurement limited to polling or can the Scottish Government obtain data, for example, on how many Scottish taxpayers have contacted HMRC to say they are an intermediate rate taxpayer and request for their relief at source pension contributions to be included in their tax code to get the extra tax relief they are due?

3.3. The committee wrote to the Scottish Parliamentary Corporate Body to ask that a 'comprehensive fiscal literacy training programme be put in place as part of the induction for MSPs elected at the 2026 Scottish Parliament elections, and through continuous development throughout the five-year parliamentary term'<sup>5</sup>. We support a measure such as this and have previously offered guidance to the committee on these terms. We would be happy to discuss whether and how CIOT and LITRG can help support such an induction programme following the election.

#### 4. Reviewing the effectiveness of tax policy making in Scotland

4.1. The 2021 Legacy Report acknowledged the 'need to evaluate the wider economic and social outcomes of tax policies over time, as part of a wider outcomes-based scrutiny approach'<sup>6</sup>. We are strongly in favour of post-implementation evaluations (such as that we are seeing with the Scottish Government's ongoing review of Land and Buildings Transaction Tax) for not only the rates, but in terms of how much a tax has raised and cost, its operational effectiveness and whether it has achieved its policy aims.

4.2. The committee is in a pivotal position to consider the effectiveness of tax policy making in Scotland, irrespective of cross-party desirability and can go further than scrutiny of the legislation. The committee could consider:

- scrutiny of the viability of introducing new taxes, for example, the introduction of Scottish Aggregates Tax (SAT) given relatively small level of aggregate imported into Scotland;
- post-implementation reviews of taxes that have been in place for a short time, for example SAT, Scottish Visitor Levy and Scottish Building Safety Levy;
- review/evaluation of taxes that have been in place for several years, for example, whether the design of Land and Buildings Transaction Tax (based on Stamp Duty Land Tax) fully reflects property law in Scotland or the impact of ten years of income tax divergence and whether the research undertaken by the Scottish Government is adequate to inform tax policy making decisions on divergence; and
- wider evaluation of tax policy undertaken before legislation is drafted, and such a draft consulted on.

4.3. Perhaps a starting point would be for the successor committee to review the implementation (or otherwise) of the tax powers delivered as a result of the Smith Commission. This would not only be a useful exercise for new members to help them understand how new taxes

<sup>5</sup> [Letter from the Convener to the Presiding Officer of 20 June 2025](#) and [Report on the Scottish Budget process in practice](#)

<sup>6</sup> [\[ARCHIVED CONTENT\] Legacy Expert Panel - Parliamentary Business : Scottish Parliament](#)

have been introduced in Scotland but also help the committee reflect on what has happened, what worked well and what less so. The committee's predecessor, the Finance and Constitution Committee, began an inquiry into the Scottish Approach to Taxation in 2016 but it was never completed due to a significant workload and the Covid pandemic.

## **5. The future of tax in Scotland – strategic, bigger picture, pro-active thinking**

- 5.1. We welcome that the committee has reiterated its views on VAT assignment; its ask that the Scottish Government work closely with the UK Government to address marginal tax rates in Scotland; the long-awaited progress on council tax reform; and the recent clarity and published consultation on Air Departure Tax. We also recognise the committee's role in scrutinising the Aggregates Tax and Devolved Taxes Administration (Scotland) Bill, the Building Safety Levy (Scotland) Bill and the Visitor Levy (Amendment) (Scotland) Bill.
- 5.2. More than ten years on from the Smith Commission, what does the future of tax in Scotland look like now? We believe there is a role for the committee to analyse (including building on its own review of the effectiveness of existing taxes in Scotland and experiences of other countries) and consult on issues of importance to the strategic direction of tax policy in Scotland. Whilst these may be sizeable, and difficult areas of debate, we now also have over a decade of experience and hopefully the data to reflect, inform and shape this discussion on the future tax system in Scotland. A review of the Smith Commission, discussed above, could also inform this work.
- 5.3. Examples of some of these bigger picture topics which could usefully be undertaken in the form of an inquiry could include:
  - The future of tax devolution.
  - The taxation of wealth and property, and its interaction with other areas of tax policy, such as Council Tax.
  - The scope and role of local taxation in Scotland (which could include a review of local taxes already legislated for, ie the Scottish Visitor Levy).
  - The administration and simplification of the devolved tax system (noting that devolution is inherently complicated) and considering how the Scottish and UK governments and HMRC can work together to make tax administration as simple as possible for taxpayers.

## **6. Scotland's legislative process**

- 6.1. The 2021 Legacy Report recognised that the Scottish Government and Scottish Parliament have received representations from stakeholders since 2015 on 'the suitability of existing policy and legislative procedures for tax'. The CIOT, and other key stakeholders, have continued to make these representations throughout the 2021-26 parliamentary session as it is a matter of continuing importance to effective tax policy making in Scotland. Of particular concern to the CIOT is the lack of an appropriate and regular legislative vehicle for making changes to tax policy. We remain of the view that tax law in Scotland should be set out in primary legislation, with secondary legislation reserved for operational and

administrative matters. The committee's work in this area has been largely paused since the Covid-19 pandemic.

- 6.2. Whilst our primary ask for the next committee remains the same – to take a role in progressing the review and consider the introduction of a legislative process that enables the regular maintenance of, and amendment to, devolved taxes (such as an annual finance or tax bill) – it is important to highlight that the tax landscape and the discussion on legislative processes has continued to evolve since this work was paused.
- 6.3. Changes to devolved tax policy have largely been managed via secondary legislation. However there are now several examples where primary legislation has been needed to progress legislative changes. Some of these legislative changes have taken a considerable length of time to resolve, because of the lack of a primary legislative vehicle. These experiences can (and should) inform any consideration of potential changes to the legislative process in Scotland.
- 6.4. We welcomed and supported the Welsh Government's consultation document, '[Views on the Appropriate Mechanisms for Making Changes to the Welsh Tax Acts](#)'<sup>7</sup> last year. This sought views on the current arrangements for making changes to Welsh devolved tax legislation and invited suggestions for any process that might be more appropriate. In addition a Welsh Government [consultation](#)<sup>8</sup> only recently closed on what will essentially be a Welsh tax maintenance bill, making technical changes to Welsh devolved taxes and changes to the Welsh Revenue Authority's governance and powers. It is important to note that the proposed legislative amendments included some that could have been made through regulations, but the proposal is to group both together in primary legislation through a tax maintenance bill. There may be the opportunity to consider any relevant findings from the Welsh Government's ongoing work exploring the appropriateness of different mechanisms for making changes to devolved tax legislation.
- 6.5. The 2021 Legacy Report recommended that the consideration of alternative legislative options for the devolved taxes was 'an important and challenging area of work which should be an early priority for the successor committee'<sup>9</sup>. While there is a commitment to consider changes to the legislative processes for the fully devolved taxes in Scotland's Tax Strategy<sup>10</sup>, we continue to await further updates on how this will be taken forward, and when. Therefore, we would urge that a priority of the successor committee in the new parliamentary session should be to take the lead and:
  - revisit the outcomes of the Devolved Taxes Legislation Working Group and summarise the key challenges that were identified by the committee in progressing this work and
  - agree between Revenue Scotland, Scottish Government and Scottish Parliament how to move forward with the introduction of a regular legislative mechanism.

<sup>7</sup> [Views on the Appropriate Mechanisms for Making Changes to the Welsh Tax Acts](#)

<sup>8</sup> [Legislative proposals relating to the Welsh Tax Acts White Paper](#)

<sup>9</sup> [\[ARCHIVED CONTENT\] Legacy Expert Panel - Parliamentary Business : Scottish Parliament](#)

<sup>10</sup> [Scotland's Tax Strategy: Building on our Tax Principles](#)

## **7. Finance and Public Administration committee's pathway to impact**

7.1. In summary, we welcome the work the committee has undertaken to scrutinise tax policy as part of its legislative and budget scrutiny function, but there may have been limited time for broader pro-active work. Indeed the 2021 Legacy Report anticipated the challenging workload in Session 6 and had recommended that there would be merit in the committee establishing a 'pathway to impact' which sets out what the committee seeks to achieve, influence and why. We believe that in the next session there is a strategic role for the committee to further shape the future of the tax system in Scotland. We look forward to continuing to work with the committee.

## **8. Acknowledgement of submission**

8.1. We would be grateful if you could acknowledge receipt of this submission and ensure that the Chartered Institute of Taxation and Low Incomes Tax Reform Group are included in the List of Respondents when any outcome of the consultation is published.

The Chartered Institute of Taxation

5 February 2026

### **About CIOT**

The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.

The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.

Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

### **About LITRG**

LITRG is an initiative of the CIOT to give a voice to the unrepresented. Since 1998, LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those who are least able to pay for professional advice. We also produce free information, primarily via our website [www.litrg.org.uk](http://www.litrg.org.uk), to help make a difference to people's understanding of the tax system.

LITRG works extensively with key stakeholders such as HM Revenue and Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the tax system. LITRG also considers the welfare benefits system, and other related systems, to the extent that they interact with tax.

# Legacy Lessons for the Finance and Public Administration Committee (2016–2026)

## Submission from Professor David Bell

### Summary

This paper analyses the main lessons from the work of the Finance and Public Administration Committee (FPAC) over the last parliamentary session, with a view to strengthening the effectiveness and influence of its successor committee after the May 2026 Scottish Parliament election.

The Committee's experience demonstrates that effective fiscal scrutiny in Scotland depends less on formal powers and more on *timing, focus, persistence* and *technical credibility*. The most binding constraints on the Scottish Budget are now medium-term and structural rather than annual, and many of the most significant risks—particularly in health, social care and social justice cut across portfolios and delivery bodies. Whereas issues with the annual budget can generally be remedied, this often comes at the cost of disruption to the medium to long-term planning that is vital for the successful development of public service provision.

Key lessons include: - scrutiny is most influential when it is early, continuous and agenda-setting, rather than reactive; - medium-term sustainability, not annual balance, should be the organising principle of scrutiny; - prevention, especially in health, social care and social justice, is central to fiscal strategy but remains weakly evidenced and poorly specified; - fragmented accountability and lack of data severely limit Parliament's ability to assess value for money; - the Committee's influence increases markedly where it demonstrates technical mastery of the Fiscal Framework and the mechanics of the budget mechanics; finally, clearer templates and earlier timing can materially improve budget submissions from other committees.

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## 1. Purpose and context

This paper brings together the main lessons emerging from the work of the Finance and Public Administration Committee (FPAC) over the last parliamentary session, with the aim of informing the approach, priorities and working methods of its successor committee following the dissolution of the Scottish Parliament ahead of the May 2026 election.

The analysis focuses on what the Committee has learned about how effective financial scrutiny works in practice in a devolved system characterised by tight fiscal constraints, growing medium-term pressures, and increasing policy complexity due to the incorporation of additional powers, such as social justice, within the budgetary framework.

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## 2. The fiscal environment: from annual balance to medium-term risk

### What the Committee has learned

- The binding constraint on Scotland's public finances now rests on medium-term sustainability rather than on the nuances of the single-year balance.
- Structural pressures—demography, health and social care demand, public sector pay, devolved social security—are cumulative and path-dependent.
- Public sector pay is the single largest driver of resource spending, accounting for more than half of total Scottish Government resource expenditure once the health service, local government and wider public sector are included.
- Annual budgets often obscure the nature of temporary decisions, particularly on pay and workforce, which embed long-term cost commitments through pay drift, pension liabilities and workforce expansion.

### Implications

- Scrutiny should prioritise medium-term affordability tests, with explicit treatment of pay and workforce assumptions.
- The Medium-Term Financial Strategy (MTFS) and forward workforce projections deserve at least equal weight from the Committee as does the annual Budget Bill. The production of the MTFS is, of course, dependent on the production of a similar template for medium-term finance by HM Treasury.

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## 3. Timing and continuity: why upstream scrutiny matters

### What the Committee has learned

- Scrutiny is most effective before formal budget publication, when assumptions are still contestable.
- This is particularly true for public sector pay and workforce planning, where bargaining positions and fiscal envelopes are often set well in advance of the Budget.
- One-off inquiries rarely shift behaviour; sustained attention over several years does.

### Implications

- Engage earlier in the fiscal cycle, especially ahead of the MTFS and pay policy statements.
- Treat workforce planning and pay bargaining as standing items of scrutiny, not episodic issues triggered by industrial relations pressures.

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## 4. Prevention and distributional effects: central to strategy, weakly evidenced

### What the Committee has learned

- Prevention is routinely presented as essential to managing long-term demand, especially in health and social care.
- Evidence is often insufficient to assess whether prevention is additional, effective, or fiscally material.
- The distributional effects of both means-tested and universal public services are not well understood.

Recurring weaknesses include: - no consistent definition or baseline for preventative spending; relabelling of existing activity rather than demonstrable new investment; weak quantification of avoided demand; lack of credible counterfactuals; limited longitudinal data and evaluation.

There is a strong case for more extensive use of general purpose longitudinal surveys linked to administrative data from service providers in health, social care and social justice. These could be used to explore the distributional and other implications of both means-tested and universal services provided by the Scottish Government.

### Implications

- Without stronger evidence, prevention risks becoming rhetorical rather than testable.
- Proper financial scrutiny require adequate longitudinal data to establish a baseline, construct logic models and determine policy outcome

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## 5. Health and social care: integration without integrated accountability

### What the Committee has learned

- Preventative and demand-management activity spans NHS Boards, local authorities, Integration Joint Boards and the third sector.
- Accountability, data systems and financial reporting remain fragmented.

As a result, the Committee has struggled to: trace funding flows end-to-end; identify responsibility for preventative outcomes; distinguish cost reduction from cost shifting or delay.

### Implications

- Scrutiny must be explicitly system-level.
- Spending should be followed from budget line to delivery body to activity to outcome.

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## 6. Outcomes, value for money and trade-offs

### What the Committee has learned

- High-level outcomes frameworks such as the National Performance Framework provide limited leverage for financial scrutiny.
- They are weak at illuminating cost drivers, unit costs and value for money.

### Implications

- Scrutiny should focus on trade-offs, opportunity costs and counterfactuals.
- Asking what would happen if a policy failed or did not exist is often more revealing than trying to link it with high-level outcomes.

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## 7. The Social Justice portfolio and risks to the Medium-Term Financial Strategy

### What the Committee has learned

- The Social Justice portfolio has become one of the fastest-growing components of the Scottish Budget, and a major source of medium-term fiscal risk.
- A large share of spending within the portfolio is demand-led, driven by caseload growth, eligibility criteria and take-up rates rather than fixed budgets.
- Devolved social security benefits, particularly disability-related and low-income payments, introduce material forecast and reconciliation risk under the Fiscal Framework.
- Policy divergence from the rest of the UK increases asymmetric fiscal exposure: Scotland bears the full cost of more generous eligibility or higher take-up, while Block Grant Adjustments reflect rUK trends and adjust with a lag.
- The Committee has consistently observed that:
  - Devolved social security is likely to provide continuing upward pressure on the Scottish Budget, with negative consequences for other components of the public sector such as local government or tertiary education;
  - once entitlements are established, they are politically and practically difficult to reverse;
  - short-term mitigations can embed long-term cost trajectories.

### Why this matters for the MTFS

- Growth in the Social Justice portfolio reduces fiscal headroom for the rest of the Scottish Budget. This might be mitigated by increased economic growth. This would increase employment opportunities for those currently receiving welfare payments and also boost tax revenues. However, the required increase in growth significantly exceeds current Scottish Fiscal Commission forecasts for the Scottish economy.

- Forecast error and reconciliations introduce medium-term volatility, even where annual budgets appear balanced. Mitigation of these risks should be given attention in any review of the Fiscal Framework.
- Demographic change and static or increasing prevalence of disability and long-term conditions will intensify pressures over the MTFS horizon.

## Implications for scrutiny

- Treat the Social Justice portfolio as a core pillar of medium-term fiscal risk, alongside pay and workforce planning.
- Require routine sensitivity analysis on caseload, take-up and reconciliation impacts over multiple years.
- Scrutinise explicitly interactions with UK policy changes and the opportunity costs imposed on other portfolios.
- Integrate social security scenarios systematically into MTFS scrutiny.

### How social security risk differs from health and pay

Social security (Social Justice portfolio). Largely demand-led: spending responds automatically to caseload and eligibility. High forecast error and reconciliation risk, with delayed budget impacts. Policy reversals are difficult once entitlements are established. Fiscal risk is amplified by policy divergence from the rest of the UK.

Health and social care. Predominantly supply-constrained, even where demand is rising. Cost pressures materialise through waiting times, unmet need and service quality. Greater short-term managerial control, but strong medium-term workforce and pay pressures.

Public sector pay and workforce - Discretionary at the point of settlement, but structurally persistent thereafter. Creates long-run commitments through pay drift, pensions and headcount. Interacts with service delivery, agency costs and retention rather than demand pressures.

Why this distinction matters: social security risk is immediate, automatic and fiscally volatile. Health and social care risk is often hidden in service pressure rather than budgets. Pay risk is gradual but cumulative, shaping the entire medium-term envelope.

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## 8. The Fiscal Framework and pay bargaining

### What the Committee has learned

- Block Grant Adjustments, reconciliations and forecast error now materially shape budget risk.
- Pay settlements interact directly with Fiscal Framework risk, particularly where Scottish pay policy diverges from that in the rest of the UK and affects workforce size, retention and demand for agency staffing.

## Implications

- Developing visible expertise in the interaction between pay policy, workforce planning and the Fiscal Framework strengthens authority.
- Scrutiny should test not only headline pay awards, but their cumulative effects on headcount, skill mix and medium-term affordability.

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## 8. Information asymmetry and analytical capacity

### What the Committee has learned

- Late data, limited scenarios and executive framing constrain the Committee's capability to challenge Scottish Government proposals.

## Implications

- Earlier access to assumptions and systematic use of the expertise provided by Audit Scotland and the Scottish Fiscal Commission can significantly enhance the strength of Committee reports.

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## 9. Budget submissions from other committees

### What the Committee has learned

- Submissions vary widely in quality and often focus on advocacy rather than fiscal risk.

## Implications

- Quality can be improved through:
  - standardised templates;
  - earlier timing;
  - risk-based framing;
  - explicit treatment of prevention and avoided demand;
  - provision of feedback.

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## 10. Increasing committee influence

### What the Committee has learned

- Influence depends more on timing, focus and persistence than on formal powers.

## Implications

- Be early and set the agenda.
- Focus on fewer issues both in greater depth and over longer periods (e.g. public sector pay, the social justice budget).

- Frame scrutiny around the implicit trade-offs that are not acknowledged in the budget documentation.

## Concluding message

The experience of the last five years suggests that Scotland's fiscal challenge is increasingly about managing long-term risk rather than balancing annual budgets. Pay, workforce planning, health and social care demand, and devolved social security now jointly determine the sustainability of the Scottish Budget.

A successor Finance and Public Administration Committee can strengthen its effectiveness by: making the case to both the Scottish and UK Governments that it should be able to engage earlier with the fiscal cycle; focusing on the medium-term sustainability of the Scottish budget; insisting on stronger evidence for prevention claims; making the case for better data to better understand the effects of Scottish Government budgetary decisions on desired outcomes for different groups within the population; integrating scrutiny of pay, workforce and social justice within the work plan; and building visible technical credibility with the Fiscal Framework.

Taken together, these lessons point to a model of scrutiny that is anticipatory, addresses the many risks that the Scottish Budget faces in the medium to long-term and continues to be embedded in a clear and critical understanding of the Fiscal Framework.

## Annex A: Selected references and sources

- Audit Scotland, *The 2023/24 and 2024/25 Scottish Budgets*
- Scottish Fiscal Commission, *Fiscal Sustainability Reports*
- Scottish Government, *Medium-Term Financial Strategy* (various years)
- Scottish Parliament Information Centre (SPICe), briefing papers on the Scottish Budget
- Public Health Scotland, analytical work on prevention and demand
- Accounts Commission, reports on integration and local government finance

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# **The Legacy of the 2021-26 Session: Memorandum by Professor David Heald<sup>1</sup> to the Finance and Public Administration Committee of the Scottish Parliament**

## **Introduction**

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

## **Demand-Led Public Expenditure**

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

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

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

## **Devolved and Local Taxation**

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

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

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

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

### **Intensified Interactions with UK Budget Timing and Decisions**

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

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

## **Revisiting Scotland's Fiscal Framework**

11. The revision of Scotland's Fiscal Framework (UK Government and Scottish Government, 2023) delivered the Scottish Government's bargaining objective of confirming the use of the Per Capita Indexation method for calculating Block Grant Adjustments. The '2 up, 2 down' briefings<sup>3</sup> in the run-up to the 26 November 2025 UK Budget highlighted the vulnerability of the Scottish Budget to UK decisions. The case for a higher limit on the Scotland Reserve and for more resource borrowing powers has been made above.

12. The intended purpose of devolving more taxation powers to the Scottish Parliament was to increase its fiscal autonomy and accountability. This would increase its fiscal legitimacy at the expense of taking on more fiscal risk. In practice, because of global and UK developments, the Scottish Budget has become more vulnerable to UK fiscal decisions and timings because Block Grant Adjustments depend on the relationship between UK and Scottish revenue changes. For example, if bonuses rise in the City of London and English Premier League footballers secure higher relative salaries, there will be increases in the income tax Block Grant Adjustment for Scotland. In the context of asymmetric devolution, there are no simple answers, so policy attention will be essential during the next Session of the Scottish Parliament.

## **Enhancing Parliamentary, Media and Public Understanding of Spending and Taxation**

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

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

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

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

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Professor David Heald

4 February 2026