

A solid orange right-angled triangle pointing downwards and to the right.

Kenneth Gibson MSP
Convener
Finance and Public Administration Committee
The Scottish Parliament
Edinburgh
EH99 1SP

15 December 2022

Dear Convener,

Today the Scottish Fiscal Commission has published [Scotland's Economic and Fiscal Forecasts – December 2022](#), giving our latest forecasts for the economy, tax revenues and social security to inform the Scottish Budget.

We think that inflation is peaking at around 11 per cent at the end of this year, but still expect that over this year and next Scottish households will see the biggest fall in their real disposable income since records began in 1998. Even once inflation returns to lower levels, and real household incomes start to grow again in 2024-25, living standards will take time to recover to the pre-crisis 2021-22 level. Our forecast suggests that, by 2025-26, real disposable income per person will be no higher than its level a decade earlier.

Despite this challenging background for the Scottish Budget, we do see an improvement in the net contribution from income tax, which is up by over £500 million compared to our projection last year, partly due to the income tax changes announced today, which we estimate will generate £129 million of additional revenue.

The Block Grant from the UK Government will also increase and in total the Scottish Government's resource funding for 2023-24 will be £1.7 billion higher in cash terms than the latest view of this year's funding. But once we account for rising prices it will only represent a marginal real terms increase.

Social security is also a growing pressure on the Budget. We now estimate that by 2027-28, spending will be £1.4 billion higher than the corresponding funding received from the UK Government.

I have also written to you today to give an update on progress on the provision of data to support our forecasts of new disability payments and highlight new challenges emerging from the timing of the Non-Domestic Rates revaluation process.

I look forward to giving evidence next week on my first set of forecasts as Chair of the Commission, and am happy to discuss any aspect of our forecasts or the issues discussed in my other letter.

Yours sincerely,

A handwritten signature in black ink that reads "Graeme Roy".

Professor Graeme Roy