

Siobhian Brown MSP  
Convener  
COVID-19 Recovery Committee

The Scottish Parliament  
Edinburgh  
EH99 1SP

31 May 2022

Dear Convener,

Today the Scottish Fiscal Commission has published two reports. [Scotland's Economic and Fiscal Forecasts – May 2022](#) gives our latest forecasts for the economy, tax revenues and social security spending to inform the Scottish Government's Medium Term Financial Strategy and Resource Spending Review. Our separate [Fiscal Update](#) sets out the latest position for the 2021-22 and 2022-23 Scottish Budgets in light of changes since December, including the UK Spring Statement and revised Scottish Government borrowing plans.

The outlook for the Scottish economy is much more uncertain, with the Russian invasion of Ukraine, rising energy prices and further global supply chain disruptions in China all presenting a challenge. We expect wage growth to increase income tax revenues in cash terms, but stronger growth in the rest of the UK will mean a larger deduction from the Block Grant, and put pressure on the Scottish Budget in the early years of the Spending Review. This pressure should ease from 2024-25 because of the planned 19 pence income tax rate in the rest of the UK, and our new assumption that the higher rate threshold will remain frozen in Scotland.

On the spending side, we now include indicative forecasts for all the Scottish Government's social security policy commitments, and expect the gap between Block Grant Adjustment funding and devolved social security spending to reach £1.3 billion by 2026-27. Social security will rise from 10 per cent of the resource Budget this year to 14 per cent in 2026-27, putting pressure on the other portfolios.

Our December forecasts were finalised before the outbreak of the Omicron variant, which meant far higher spending on the Self-Isolation Support Grant than we had forecast. However, recent developments have been broadly in line with our assumption that Scotland would be able to move out of pandemic restrictions. Our new forecasts are based on the assumption that infection rates remain low and stable, with only voluntary public health guidance. The possibility of a new vaccine-resistant variant is of course a risk, and would pose difficulties for the Scottish Budget if Scottish Ministers wanted to impose tighter public health restrictions than were in place in England.

This is my last set of forecasts as Chair of the Commission. I am sure my successor, Professor Graeme Roy, will be happy to work with you on anything that the Commission can do to aid your scrutiny of the Scottish Government's approach to recovery from the pandemic.

Yours sincerely,

A handwritten signature in cursive script that reads "Susan".

**Dame Susan Rice DBE**