

TOUGH SPENDING CONSTRAINTS AND GREATER ECONOMIC UNCERTAINTY

The Scottish Fiscal Commission has today published its latest forecasts alongside the Scottish Government's Resource Spending Review that sets out its spending plans up to 2026-27.

The outlook for the Scottish economy is much more uncertain than in the last forecast in December 2021. The Russian invasion of Ukraine, steeply rising energy prices and further global supply chain disruptions in China have led to a challenging economic outlook.

The Scottish Government uses the Commission's tax forecasts to determine how much it can spend on top of the grant from the UK Government. After adjusting for inflation, total funding is broadly flat from 2022-23 through to 2026-27.

Rising wages in Scotland means income tax will increase in cash terms, but stronger growth in earnings in the rest of the UK means there will be a larger deduction from the Block Grant. This will result in additional pressure on the Scottish Budget in the early years of the Spending Review.

This pressure is alleviated somewhat from 2024-25 because of the UK Government's commitment to cut its basic rate of income tax to 19 pence in the pound reducing the size of the Block Grant deduction. If as the Commission now assumes the income tax higher rate threshold remains frozen in Scotland from 2023-24 this will further improve the tax position.

On the spending side, the Commission forecasts the Scottish Government faces a growing funding gap for its social security payments. The gap is forecast to be £0.5 billion this year rising to £1.3 billion by 2026-27. It arises because of differences between the Scottish and UK Governments' approaches to social security, including the introduction of new Scottish payments. As the payments are demand led, the size of the gap in future years is determined by policies the Scottish Government has already set and the commitments in the Social Security Charter.

As a consequence, spending on social security will rise from around 10 per cent of the resource budget in 2022-23 to 14 per cent in 2026-27. This puts pressure on non-social security spending, particularly in the early years of the Spending Review.

The Commission's Chair Dame Susan Rice said:

"The difficulties the Scottish Government faces in managing its budget are illustrated by the eight percent fall in funding available by 2025-26 for areas other than health and social security after adjusting for inflation.

Scotland continues to be affected by challenging economic circumstances and uncertainty. Rising inflation means earnings aren't keeping pace with the cost of living. We expect inflation pressures to last into the middle of next year, with a return to positive real earnings growth in 2023-24."

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Notes to Editors

1. To support the Resource Spending Review, the Commission has included indicative forecasts of the additional spending arising from the Scottish Government's policy commitments over the spending review period. These include the introduction of Scottish Carer's Assistance, Pension Age Disability Payment, Pension Age Winter Heating Assistance and Employment Injuries Assistance. We also include an estimate for spending on services to replace the current Fair Start Scotland employability service. The inclusion of these indicative forecasts has increased spending by £344 million in 2026-27.
2. From 2023-24, the Commission assumes the higher rate threshold remains frozen as part of its forecast baseline, which is more in line with recent policy changes in Scotland. This adds around £129 million to our forecast in 2023-24, rising to £503 million by the end of the forecast.
3. The Scottish Fiscal Commission is the independent fiscal institution for Scotland, established by the Scottish Fiscal Commission (2016) Act. Our statutory duty is to provide the independent and official forecasts of Scottish GDP, devolved tax revenue and devolved social security spending for the Scottish Government to use in its budget and financial planning. The Commission's forecasts will also assist the Parliament's scrutiny of the Scottish Budget and Budget Bill.
4. Our forecasts represent the collective view of the Scottish Fiscal Commission, comprising the Commissioners at the time of publication 31 May 2022: Professor Francis Breedon, Professor David Ulph, and the Chair, Dame Susan Rice.
5. Professor Graeme Roy joins the Commission on 1 June and takes over from Dame Susan Rice as the Commission's new Chair on 1 July. Dr Domenico Lombardi starts as a Commissioner on 1 June.