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Claire Baker MSP
Convener
Economy and Fair Work Committee
The Scottish Parliament
Edinburgh
EH99 1SP

19 December 2023

Dear Convener,

Today the Scottish Fiscal Commission has published [Scotland's Economic and Fiscal Forecasts – December 2023](#), giving our latest forecasts for the economy, tax revenues and social security to inform the Scottish Budget.

In our report we show that the Scottish Government's budget next year is set to increase by £1.3 billion from the latest figure for 2023-24. This is a rise of 2.6 per cent in cash terms or 0.9 percent after accounting for inflation. Most of this increase in funding comes from income tax. A combination of the Scottish Government's policy choices, high inflation, fixed tax thresholds in cash terms (i.e. fiscal drag) and relatively strong earnings growth in Scotland have all contributed to a sharp increase in income tax funding.

However, the ongoing consequences of Scottish Government changes to social security and the linking of payment rates to inflation have increased spending commitments. Other Scottish Government policies such as the Council Tax freeze and increasing public sector pay have further added to the Scottish Government's spending commitments. Capital spending is set to fall by 4 per cent in real terms between 2023-24 and 2024-25.

We forecast that economic growth will remain fragile in the near term with living standards set to fall between 2021-22 and 2023-24 by the largest recorded amount and not returning to their 2021-22 level until 2026-27.

The Scottish Government has introduced a new 45 per cent income tax band starting at £75,000 and also increased the top rate of income tax by 1 percentage point. These policies affect the top 5 per cent of taxpayers in Scotland. After taking account of behavioural changes, we estimate that these policies will raise an extra £82 million in 2024-25.

I am happy to discuss any aspect of our forecasts and anything the Commission can do to aid the work of the Committee.

Yours sincerely,

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

Professor Graeme Roy