

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

22 March 2023

Dear Convener

The Scottish Fiscal Commission published its first Fiscal Sustainability Report this morning.

The report shows that over the next 50 years spending on public services by the Scottish Government will increase because of pressures from an ageing population and from rising costs of delivery. Spending on health is projected to grow more quickly than that on other services, increasing from around a third of total devolved spending at present to about half in 50 years' time.

The increased spending on public services will run ahead of the likely increases in the funding available to the Scottish Government from the UK Government's Block Grant and from the revenue from devolved income tax and other taxes.

We show that under current Scottish and UK fiscal policies, if public services in Scotland are to continue to be delivered as they are today, Scottish Government spending over the next 50 years will exceed the estimated funding available by an average of 1.7 per cent each year.

However, in addition many of the fiscal sustainability challenges that Scotland faces are common across the UK. The Office for Budget Responsibility (OBR) have suggested that current UK wide tax and spending policies are not sustainable in the long term. We estimate that the average budget gap in Scotland would be 10.1 per cent each year if future UK Governments were to move towards a more sustainable position as projected by the OBR.

Our consultation paper last August covered the scope of future work on fiscal sustainability.

The long term nature of the analysis means that the substantive conclusions do not change sufficiently to justify annual reports along the lines of the one we have just published. However, I hope today's report can support a wider and more informed conversation about public services and tax policy in Scotland. The Commission intend to play their part by ensuring that the report's conclusion are available to a broad range of public bodies and other interested parties.

Over the course of the next year the Commission intends to focus on two aspects of fiscal sustainability.

Following the recommendation in your Pre-Budget Scrutiny 2022-23 report, the first area is climate change. The Scottish Government faces three sets of costs associated with climate change. These are those from mitigating emissions in line with its legislative targets, the costs of adapting infrastructure to combat changes in environmental conditions, and thirdly the disruption costs such as increased flooding that result from these changes. Our aim would be to produce an initial qualitative assessment of the impact on the Scottish Government's fiscal sustainability as well as an audit of the information that would be needed to produce a full assessment.

The second is to look in more detail at the issue of health spending by the Scottish Government and its likely path over the next 50 years. Today's report identified health as the major pressure on the Scottish Government's long term budget with projected growth from £19 billion in today's prices in 2027-28 to £60 billion in 2072-73, an increase of 218 per cent. Our initial analysis identified the impact of rising costs and the increasing prevalence of long-term health conditions as factors in this growth as well as an ageing population.

Yours sincerely

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

Professor Graeme Roy