

24 April 2023

Dear Chief Executive

I am writing to you to highlight the [Fiscal Sustainability Report](#) recently published by the Scottish Fiscal Commission. The report considers the long term financial challenges faced by the public sector in Scotland. Thinking through now how we respond to these challenges is important for the future delivery of public services.

We show that over the next 50 years spending on public services by local authorities and the Scottish Government will increase because of pressures from an ageing population and from rising costs of delivery.

The increased spending on public services will run ahead of the likely increases in the funding available from the UK Government's Block Grant, the revenue from business rates, council tax, 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 and local authority 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.

I hope that our report will be the starting point for a conversation in Scotland about how we can collectively face these fiscal challenges and ensure the future delivery of high quality services across the public sector.

Yours sincerely

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

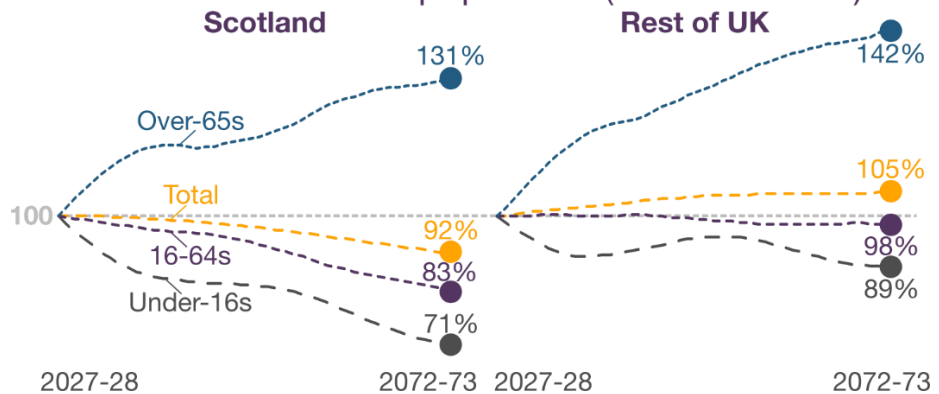
Professor Graeme Roy

Population

The population in Scotland and the rest of the UK will age over time, with fewer children and more over-65s.

The total Scottish population is projected to fall by 8 per cent by 2072-73, whilst the rest of the UK total will grow by 5 per cent.

Scotland and rest of UK population (2027-28 levels)

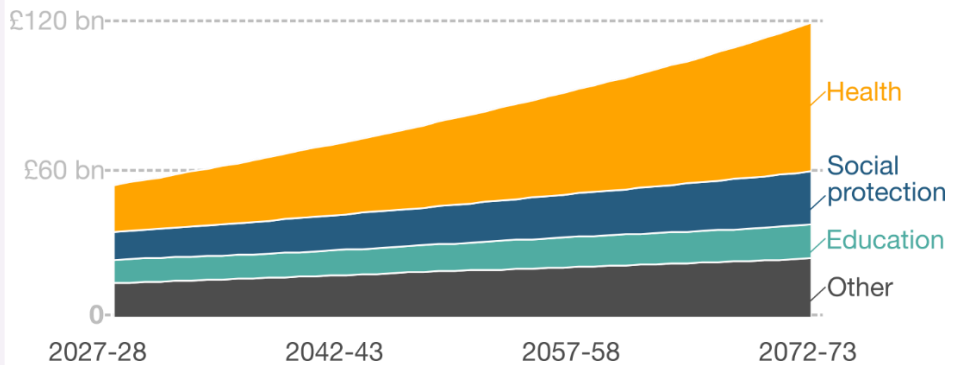


Spending

Health increases from 35 per cent of devolved spending in 2027-28 to 50 per cent in 2072-73.

Other areas of spending, such as education, grow more slowly.

Projected devolved Scottish spending (2022-23 prices)

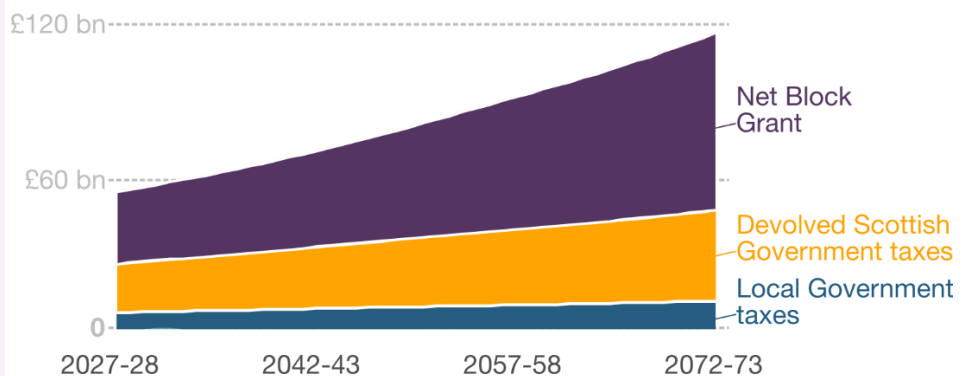


Funding

The Block Grant from the UK Government is the largest part of Scottish Government funding throughout the projections.

The main factor in the growth of the Block Grant is additional UK Government spending on health in England

Projected devolved Scottish funding (2022-23 prices)



Annual Budget Gap

We estimate the Scottish Government will have an average budget gap of 1.7 per cent over the next 50 years based on current tax and spending plans.

If the UK Government responds to UK fiscal pressures, as the OBR suggests, we estimate an average gap of 10.1 per cent

Annual Budget Gap with effect of UK response

