



Fiscal Sustainability Report



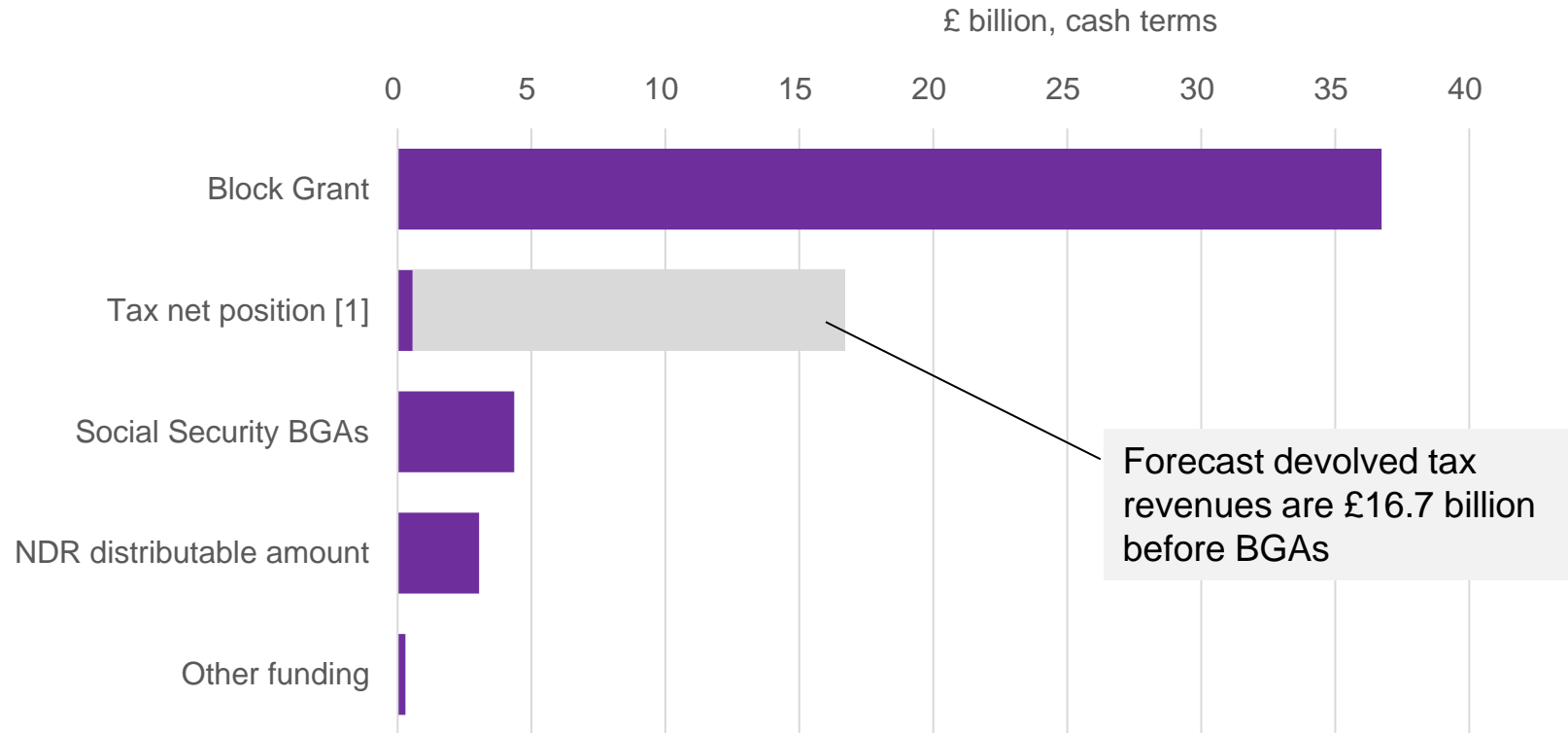
Media Conference

24 March 2023

Introduction

- We project Scottish Government spending and funding out to 2072-73.
- We assume policy is unchanged to focus on the effects of demographic change and the fiscal framework.
- The fiscal framework means Scottish Government sustainability is interlinked with that of the UK Government.
- The report is intended to highlight long-term challenges and provide an indication of the scale of adjustments needed to achieve fiscal sustainability.

Current Scottish Government Funding

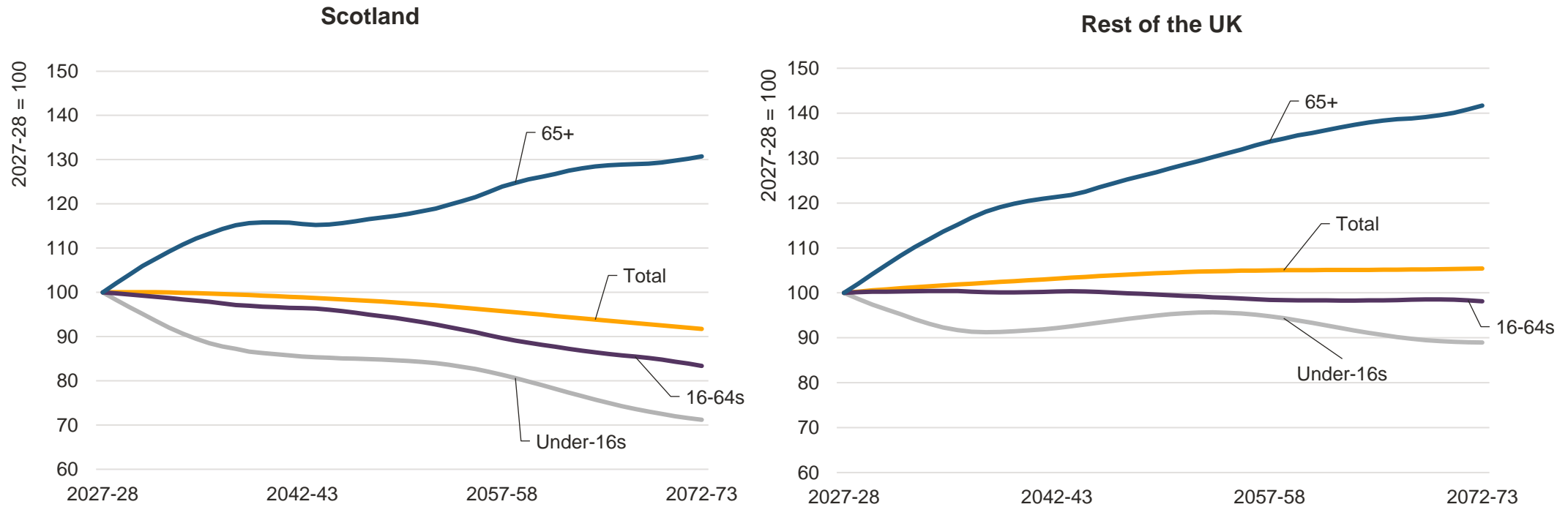


Source: Scottish Fiscal Commission

[1] Tax net position is devolved tax revenues less tax BGAs

Council tax is not shown in the chart as it is not part of funding for the Scottish Government budget, but it is included in our projections for fiscal sustainability as it contributes to devolved spending.

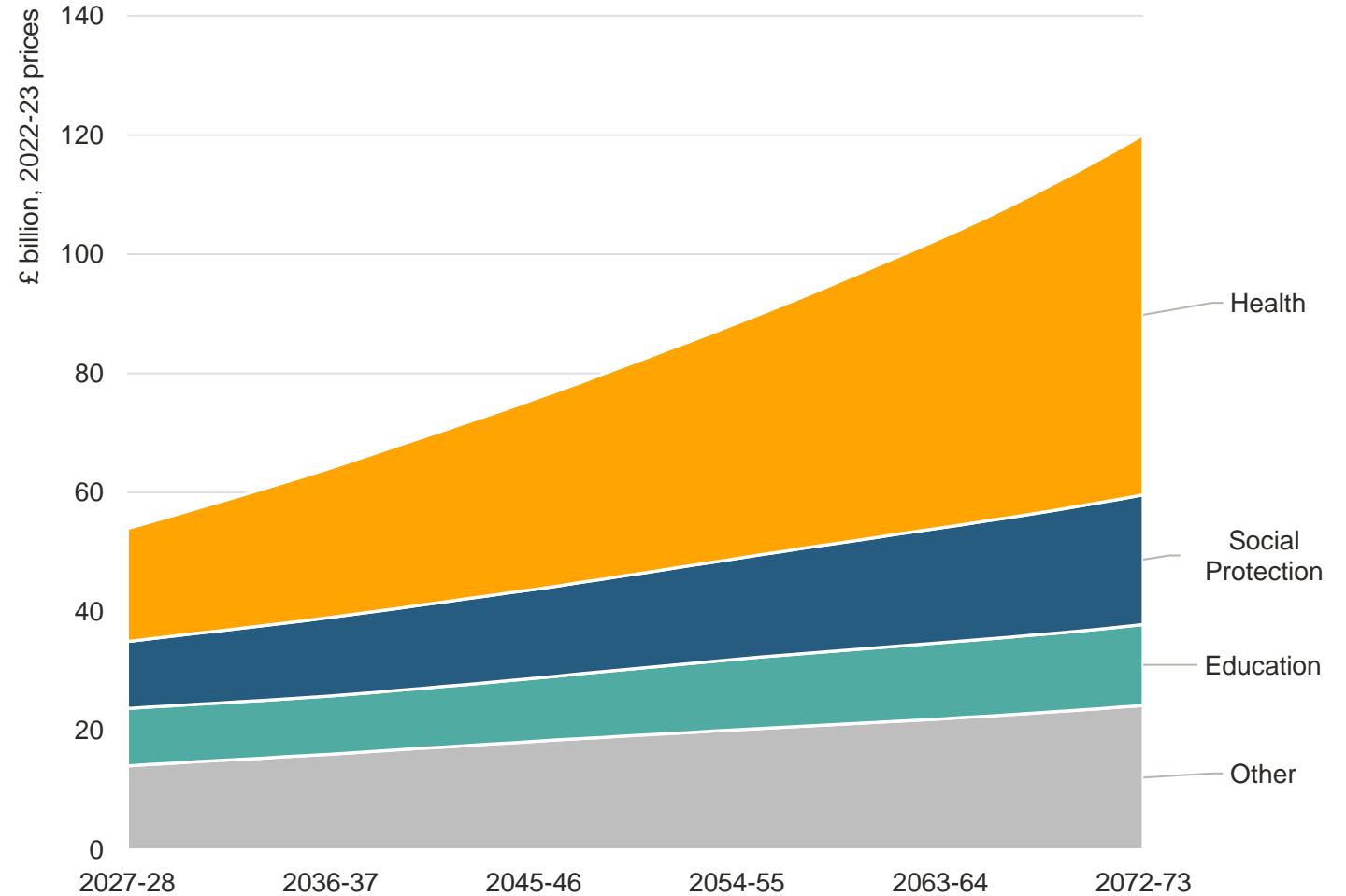
Demographic projections



- In both Scotland and the rest of the UK the group aged 65+ grows, with a fall in the number of people aged under 16 and aged 16 to 64. The fall in the younger age groups is more significant in Scotland.
- The overall Scottish population falls by 7 per cent in the next 50 years, while the population for the rest of the UK grows by 10 per cent.

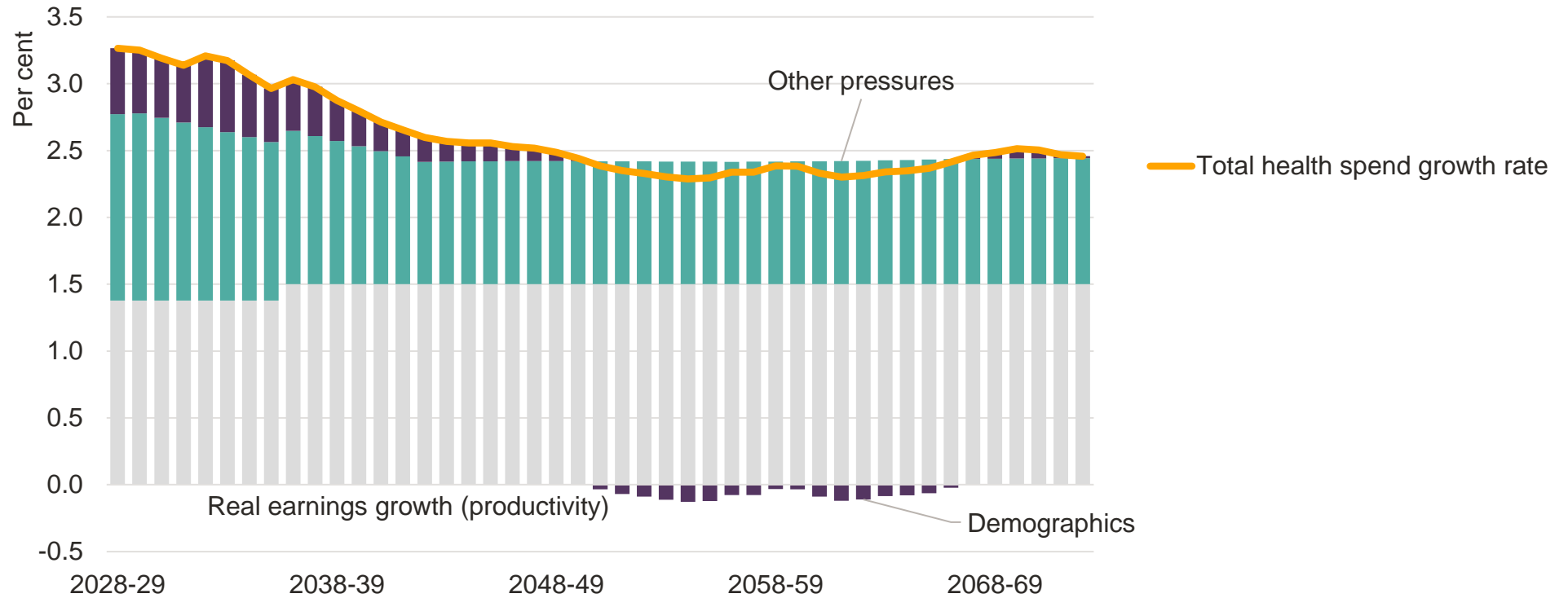
Spending projections

- Spending grows in real terms as a result of:
 - Increases in wage costs as economy grows
 - Population change
 - Additional pressure on health spending from technological advances and increased prevalence of long-term conditions
- Health is the largest component of spending, increasing from around a third of total devolved spending at present to about half in fifty years' time.



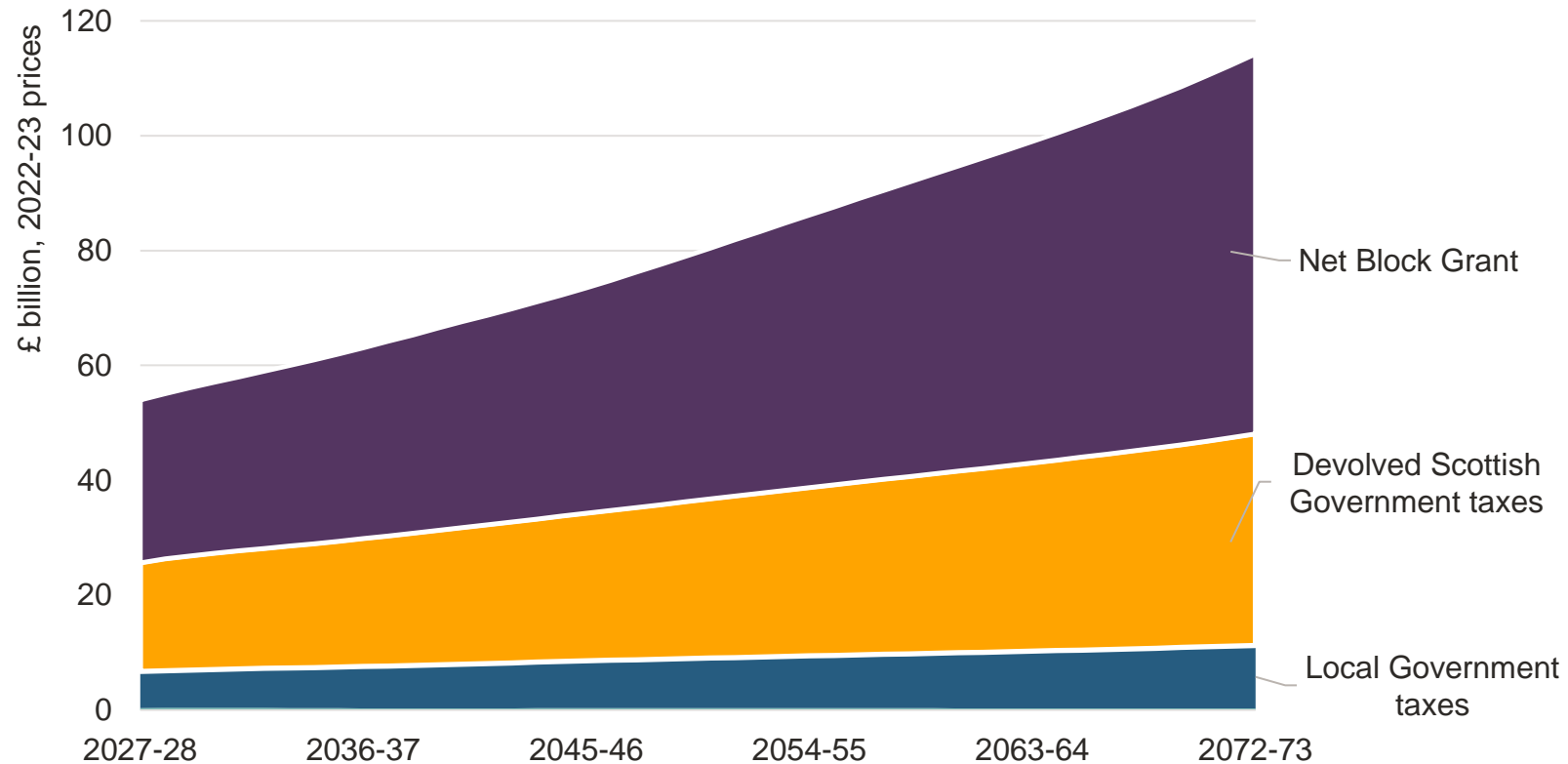
Other includes transport, public order and safety, environmental protection, and recreation and culture

Drivers of growth in health spending



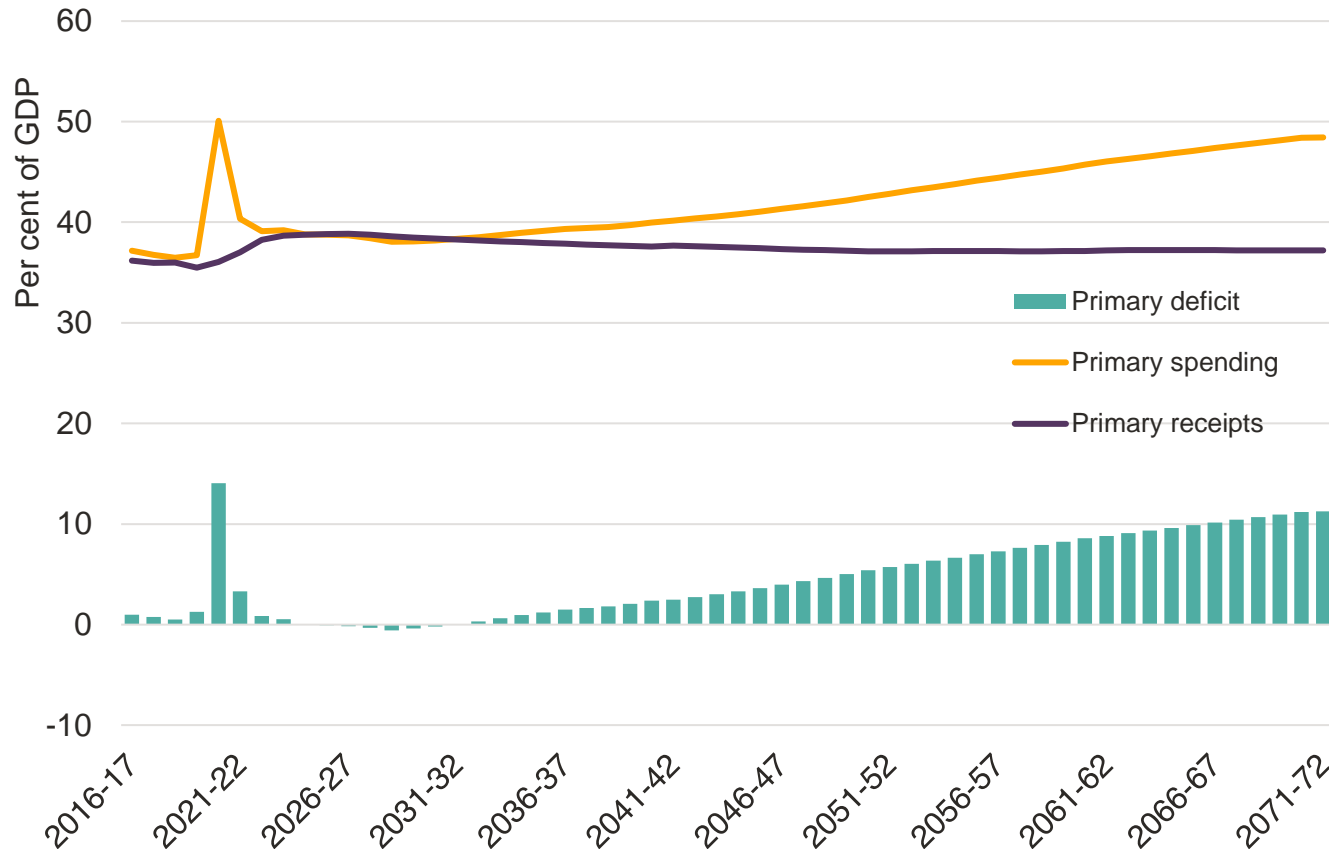
- Other pressures relate to costs associated with new treatments and the increasing prevalence of long-term health conditions.
- In the first 25 years the ageing population leads to upward pressure on health spending, but then the fall in the overall size of the population offsets this effect.
- Real earnings growth represents increased wage costs driven by productivity growth in the economy.

Funding projections



- Block Grant funding from the UK Government is the largest component of funding throughout our projections.
- The most significant factor in the growth of the Block Grant is the increase in the projected UK Government spending on health in England.

OBR projections for UK Fiscal Sustainability

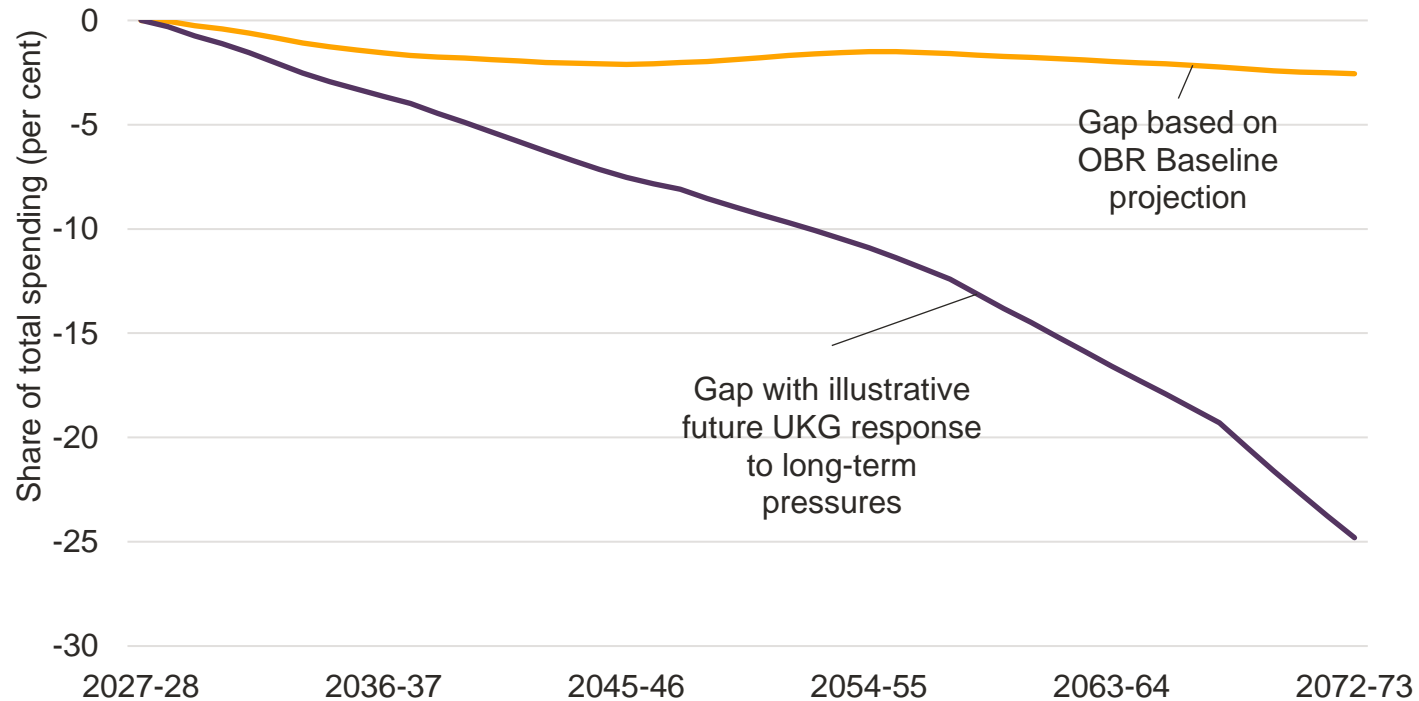


Source: OBR

In their fiscal risks and sustainability report in June 2022, the OBR stated:

...in the long run the pressures of an ageing population on spending and the loss of existing motoring taxes in a decarbonising economy leaves public debt on an unsustainable path in the long term.

Scottish Government Annual Budget Gap



- If public services in Scotland are to continue to be delivered as they are today, Scottish government spending over the next fifty years will exceed the estimated funding available by an average of 1.7 per cent each year.
- Were future UK Governments to move towards a more sustainable position, the average budget gap in Scotland would be 10.1 percent each year. This is based on an alternative projection by the OBR for the UK.

Conclusions

- The Scottish Government will face long-term challenges in funding the delivery of public services in line with current levels of provision.
- The fiscal framework means that managing these pressures is a shared endeavour between the Scottish and UK governments.
- Our work is intended to support a wider conversation about future public services and the tax policies necessary to sustain them.