

Finance and Public Administration Committee
Tuesday 29 April 2025
14th Meeting, 2025 (Session 6)

The Scottish Fiscal Commission's Report on Fiscal Sustainability – April 2025

Purpose

1. The Committee is invited to take evidence from the Scottish Fiscal Commission (SFC) on its [Fiscal Sustainability Report – April 2025](#), which has a particular focus on health—

Professor Graeme Roy, Chair,
Professor Francis Breedon, Commissioner,
Dr Caroline Carney, Senior Analyst, and
Claire Murdoch, Head of Fiscal Sustainability and Public Funding.

2. An accompanying letter to the Committee from the SFC is included at Annexe A.

Background

3. The SFC report explores projected devolved spending and funding up to 2074-75. It analyses how changes in the size and age structure of the population will affect economic growth and the Scottish Government's spending and funding.
4. The report has a particular focus on health and discusses trends in spending on health, social care and disability payments. The report also shows how different scenarios of Scottish population health could affect public finances.
5. The report explains that “with a population which will age over the next twenty-five years, health spending is expected to increase significantly. [...] If improvements in health could be achieved [...] the public finances could benefit”.
6. The SFC's assessment suggests that “the Scottish Government will face significant challenges funding devolved public services in the future”. The challenges are both:

a) Scottish-specific challenges

The SFC projects that over the next twenty-five years the population in Scotland will age earlier than in the rest of the UK. The funding received from UK Government depends on the UK population, which, it expects, will be younger on average compared to that in Scotland. This, it suggests, means that Scotland will account for a greater share of populations associated with higher public spending.

b) UK fiscal sustainability matters

The Office for Budget Responsibility (OBR), in its baseline scenario, [notes](#) that without fiscal tightening, UK debt rises from 98% of GDP in 2023-24 to 274% in 2073-74. The SFC report explains that “the fiscal framework means that, if the UK Government changes its spending or tax plans to address the UK’s fiscal sustainability challenges, there will be implications for the Scottish Government’s fiscal sustainability. These will come through changes to the funding it receives from the UK Government”.

7. The report further notes that “the ageing of the Scottish population over the next twenty-five years is largely inevitable, but the costs associated with that are not. With growth up to 2050 in the number of people aged 75 to 85, and 85 and over, there is potential to act now to improve the health of those cohorts as they age”.

Population trends

8. The SFC report projects that the population will increase from “5.6 million in 2029 to 5.8 million in 2074-75, an increase of 2.1 per cent” primarily due to migration. The gap between births and deaths is projected to widen. Deaths are predicted to outnumber births by 29,000 in 2074-75.
9. The report also notes that “Scotland’s life expectancy is projected to increase but remain at lower levels than in the UK as a whole”. At the same time “the median age in Scotland is projected to increase from 43 years in 2029-30 to 49 years in 2074-75”. These trends result in a fall of 5.2 per cent of people aged 16 to 64 whilst “the share of the population aged 65 and over in Scotland is projected to grow over time”.
10. In the SFC projection “Scotland’s population is ageing earlier compared to the UK”. Scotland’s demographic structure will match more closely that of the UK after 2050-51 when “all older age groups are a more similar share relative to the UK”.

Economy

11. The report projects future economic growth in Scotland based on two determinants: (i) how many people are in work (participation rates) and (ii) their productivity.
12. The SFC states that Scotland’s participation rate is 4.7 percentage points per year lower than the UK’s and this remains “fairly consistent” throughout the projection period. This is influenced by the fact that “Scotland has lower immigration and population growth than the UK”. In projecting future productivity growth, the SFC mirrors OBR’s March 2024 projections.
13. The report states that “Scottish real GDP growth averages 1.5 per cent each year over the projection” with productivity being “the primary determinant of long-term economic growth”.

14. The SFC's projection is that "UK GDP growth averages 1.7 per cent each year, 0.3 percentage points higher than for Scotland". The difference in growth rates is mainly driven by a lower increase of the population aged 16 and over in Scotland compared to the UK.

Scottish Government funding and devolved spending

15. The report estimates that "total devolved funding will more than double in real terms, growing from £65 billion in 2029-30 to £159 billion in 2074-75." The block grant "grows as a share of total funding throughout the projection period, growing from 76 per cent of all funding in 2029-30 to 79 per cent in 2074-75".
16. The SFC notes that as Scotland's population ages, there are more taxpayers aged 45 and above and that taxpayers in their 40s and 50s earn the most of all taxpaying age groups, and pension incomes are projected to grow faster than other incomes. The report explains that "taken together the increased number of people aged 45 and over means that the number of taxpayers paying the intermediate rate or above rises from 42 per cent in 2029-30 to 45 per cent in 2074-75. This means that tax revenues in Scotland rise in all years of the projection".
17. The report also notes that "total devolved spending (by both the Scottish Government and Scottish local authorities) is projected to grow from £65 billion in 2029-30 to £160 billion in 2074-75 in 2024-25 prices, a growth of 145 per cent". Health spending increases the most, reaching 46% of total devolved spend at the end of the projection period.

The annual budget gap

18. The report measures fiscal sustainability using what it describes as the 'annual budget gap', which it defines as "a hypothetical gap between funding and spending that highlights the Scottish Government's long-term fiscal challenges".
19. The SFC estimates that "the average annual budget gap is minus 1.5 per cent in the first twenty years (from 2030-31 to 2049-50), and minus 0.9 per cent in the second twenty-five years (from 2050-51 to 2074-75). This is because demographic pressures in Scotland are greater than in the rest of the UK over the next twenty-five years".
20. To balance the budget, it suggests that Scottish devolved spending "would have to be reduced by 1.2 per cent each year. [...] This is equivalent to minus £1 billion in 2024-25 prices".
21. The OBR projects that "the UK's public finances are not on a sustainable trajectory". Under certain SFC assumptions in which the UK Government decide to reduce its own funding gap, the Scottish annual budget gap grows from "an average of minus 1.2 per cent of spending each year to an average of minus 11.1 per cent each year. This equates to an average of minus £14 billion in 2024-25

prices. This gap is equivalent to 31 per cent of the average devolved public spending on health in each year, or 40 per cent of average devolved income tax revenues”.

Recent trends in population health

22. The report notes that “life expectancy in Scotland has increased over the long term”. Between 1990 and 2010 the increase in life expectancy “has been caused by lower mortality rates at older ages”. However, “the trend for life expectancy has been flattening in both Scotland and England. There is not a consensus of why the upward trend has flattened”.
23. There are some suggestions that the current trend is due to life expectancy gains being more difficult given the progress that has already been made. The report does however note that “other developed countries such as Japan continue to see improvements in life expectancy”.
24. It also highlights that “there has been a decline in Scottish healthy life expectancy since 2014-16, falling by over one year for both males and females”. In terms of mental health, the Scottish Health Survey reported in 2022 “the lowest scores of mental wellbeing since records began in 2008”.
25. The SFC report goes on to note that “in addition to health being worse in Scotland on average compared to England, health inequalities in Scotland are also more severe. People in the most deprived areas in Scotland can expect to die 12 years before people in the least deprived areas, and to have poor health 24 years earlier [...] The difference between Scotland and England’s gaps in the most and least deprived deciles was 3 years for life expectancy and 6 years for healthy life expectancy”.

Health spending

26. As the SFC notes, present “spending on health is the biggest share of the Scottish Budget. In the 2025-26 Scottish Budget, health spending accounted for 36 per cent of the budget. Health spending has increased by 21 per cent in real terms between 2013-14 and 2022-23”. The report further says that “key indicators of healthcare delivery in Scotland have worsened in the past few years while spending and staffing are at the highest levels recorded”.
27. The SFC projects “an average of 3 per cent real terms growth in health spending each year”. The growth in spending is driven by (i) cost pressures such as the increase in long term conditions and technological advancements, (ii) the ‘income effect’ and (iii) demographics. The ‘income effect’ refers to the fact that as “people become wealthier, they have a higher expectation of the level of public services”.
28. The report states that “the growth in health spending shown in our projections is likely to be unsustainable. Delivering an increase in health spending of this scale

while balancing the budget would likely mean a reduction in other areas of spending or increased tax revenues”.

Social care spending

29. The report explains that “social care can fall into three main categories: (i) care provided by the state, (ii) unpaid care – often provided by family members – and (iii) paid private care”.
30. The SFC projects that social care spending will increase “from £5 billion in 2029-30 to £11 billion in 2074-75” provided that the current levels of provision are retained. The increase in spending is partly related to demographics as “an ageing population means a higher number of people being eligible under the current criteria and requiring more care and thus more public spending”.
31. The SFC notes a related risk whereby there “might also be a rise in unpaid carers which can also have fiscal implications, for example, through labour market participation”.

Disability spending

32. The report explains that “disability payments differ from the other areas of health related spending such as healthcare or social care. Disability payments set a level of eligibility and if this is reached then everyone who applies receives the payment. This means that the payments are difficult to restrict if demand increases, unless the eligibility rules are changed”.
33. The report goes on to say that “there has been a long-term increase in the number of people claiming disability payments in both Scotland and the rest of the UK” and that “disability prevalence has risen from 19 per cent of the UK population in 2002-03 to 27 per cent of the population by 2022-23”.
34. The SFC forecasts that disability payments will increase from £4.2 billion in 2023-24 to £16 billion (current prices) at the end of the projected period.

Population health and fiscal sustainability

35. The report provides modelling on the effects of population health on several fiscal indicators. To perform the modelling, the SFC report analyses fiscal results in three health scenarios (better/baseline/worse) that have different levels of (i) healthy life expectancy, (ii) disability rates, (iii) economic participation and (iv) life expectancy.
36. The baseline scenario is based on long-term trends in life expectancy and healthy life expectancy. If the Scottish health outlook follows these recent trends in the past decade “then the outlook for health spending may be closer to the worse health scenario”.

37. Scotland's GDP growth is projected to increase "by an average of 1.6 per cent per year over the projection in the better health scenario compared with 1.3 per cent per year in the worse health scenario".
38. The report further states that "better population health can improve the outlook for the public finances, with the annual budget gap reaching positive 6.2 per cent by the end of the projection". In contrast, "the total effect of the worse health scenario is a widening in the annual budget gap by 3.4 percentage points".
39. It goes on to suggest that if the UK government was to apply fiscal tightening to address its sustainability issues, then "the better health scenario results in an annual budget gap of minus 18 per cent and the worse health scenario results in an annual budget gap of minus 27 per cent by the end of the projection period".
40. The report further notes that changes to life expectancy in Scotland would have implications for the UK Government, highlighting the OBR's 2024 Fiscal risks and sustainability report which showed that, in an improved health scenario, improvements to the UK Government's borrowing and debt would be partially offset by increased pensions spending. The SFC explains that "how the UK Government would manage that increased cost through changes to other areas of spending or tax would in turn affect Scottish Government funding".

Next Steps

41. The Committee will consider any next steps at a future meeting. It is expected that the SFC's report will inform the Committee's ongoing scrutiny of Scotland's public finances.

Committee Clerking Team
April 2025

Letter from the Chair of the Scottish Fiscal Commission dated 8 April 2025 to the Committee regarding its Fiscal Sustainability Report

Dear Convener,

The Scottish Fiscal Commission has this morning published our second Fiscal Sustainability Report, which focuses on health. Our assessment suggests that future Scottish Governments will face significant challenges funding devolved public services because of an ageing population and rising health pressures. Health is the largest area of spending in the Scottish Budget, and it is projected to grow faster than any other area. This is because of an ageing population, growing demands as society becomes wealthier, less scope for saving on labour in the health sector than in the wider economy, and a rise in the prevalence of long-term health conditions.

We use the latest population projections published by the ONS in January 2025. Our 2023 Fiscal Sustainability Report projected that the Scottish population would fall over the next fifty years. Since then, migration has been higher than expected, and is projected to continue at a higher level in the future. As a result, the Scottish population is now projected to continue to grow over the next twenty-five years, stabilising from 2050 onwards at around 5.8 million.

The fastest demographic growth in Scotland will be in the older age groups, with the population aged 85 and over projected to almost double over the next twenty-five years. Since spending on health, social care and social security increases with age this will result in higher spending.

There is more ageing in Scotland in the next twenty-five years than in the rest of the UK. As a result, in our baseline scenario we project Scottish Government spending across all areas will exceed funding by an average of 1.5 per cent each year between 2030-31 and 2049-50. As the age structures of the Scottish and UK populations become more similar around 2050, the fiscal pressure eases and the average annual budget gap is projected to be minus 0.9 per cent between 2050-51 and 2074-75.

Our report presents better and worse health scenarios to show how changes to population health in Scotland could affect fiscal sustainability. Under a scenario of worse population health, we project the annual budget gap to reach minus 4.0 per cent by the end of the projection. In contrast the annual budget gap is improved by better population health, so much so that it turns to a positive 6.2 per cent by 2074-75. Scottish GDP and tax revenue is also higher in the better health scenario and lower in the worse health scenario.

Our analysis highlights the demographic and health challenges facing the Scottish Budget. Improvements in public health in Scotland which lead to lower requirements

for health related spending as people age have the potential to help address the Scottish-specific fiscal sustainability challenges from demographic change. Rising health costs and an ageing population are not unique to Scotland however, and also affect the UK public finances. The Office for Budget Responsibility has shown that the long-term path for the UK public finances is not sustainable. The Scottish Government's spending would be far greater than their funding if the UK Government were to take action to reduce its debt. The projected difference over the period 2030-31 to 2074-75 would increase from an annual average of minus 1.2 per cent to minus 11.1 per cent.

We are looking forward to giving oral evidence to the Committee on 29 April 2025.

Yours sincerely

Professor Graeme Roy