

Summary of the UK Economic and Fiscal Outlook

Introduction

The Scottish Budget will be published on 19 December setting out spending and tax plans for 2024-25. The Budget is being set in an extremely challenging economic and fiscal environment, underlined by the latest Office for Budget Responsibility (OBR) forecasts which accompanied the UK Autumn Statement in November.^{1,2}

The latest forecasts come on the back of the shocks of the pandemic and cost crisis, but more broadly at a UK level, the combined effects of a decade of low growth and the negative economic impact of Brexit.

For example, new modelling by the National Institute of Economic and Social Research suggests that compared to EU membership, the UK economy is 2.5% smaller in 2023, and it expects this to increase over time to 5.7% by 2035. This equates to around £69 billion in output and £28 billion in public revenues lost as a consequence of Brexit in the UK in 2023. In Scotland, this equates to a reduction in devolved spending power of around £1.6 billion in 2023.^{3,4}

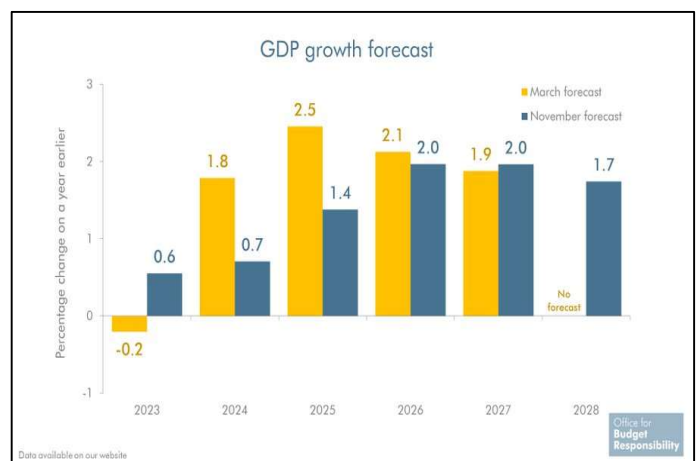
In addition, recent research by the Resolution Foundation set these challenges out in stark terms, concluding that the UK has the highest income inequality of any major European economy. Real wages grew by an average of 33% a decade from 1970 to 2007, but have flatlined since, costing the average worker £10,700 per year in lost wage growth.⁵

UK Economic Outlook

In November, the OBR downgraded their economic growth forecasts for 2024-2026, presenting a more challenging economic outlook than previously, with slower growth and inflation and interest rates expected to remain higher for longer.

The OBR UK forecasts show:

- GDP growth to average 1.5% over 2024-27, 0.6 percentage points weaker than forecast in March.
- Inflation to average 3.6% in 2024, 2.8 percentage points higher than forecast in March, and to more gradually return to the 2% target in 2025.
- Markets expect Bank Rate to settle at 4% by the end of the forecast, up from 3% assumed in the March forecast.



¹ [Home - Office for Budget Responsibility \(obr.uk\)](https://obr.uk/)

² [Autumn Statement 2023 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/)

³ [Revisiting the Effect of Brexit - NIESR](https://www.niesr.org.uk/). Estimates based on a population share and the proportion of spending which is devolved.

⁴ The Centre for European Reform provide an alternative estimate that the UK economy is 5.5% smaller today, equating to a reduction in devolved spending power of around £3.7 billion. [The cost of Brexit to June 2022 | Centre for European Reform \(cer.eu\)](https://www.cer.eu/). These figures pre-date revisions to UK GDP.

⁵ [Ending stagnation - The Inquiry \(resolutionfoundation.org\)](https://www.resolutionfoundation.org/)

UK Fiscal Outlook

At the Autumn Statement, the Chancellor inherited an improved fiscal position of £27 billion by 2027-28 largely due to inflation leading to higher than expected tax receipts. He chose to spend virtually all of this (£22 billion) on National Insurance tax cuts and full capital expensing.

As a result, departmental spending is largely unchanged meaning that the real value of departmental spending is £19.1 billion lower by 2027-28 than was forecast in March.

The Institute for Fiscal Studies has highlighted that many aspects of day-to-day public service spending will be cut.⁷

Most departments have already seen a real terms cut in their budgets since 2022-23. In particular, Health and Social Care has seen a £8.1 billion real terms reduction in its budget, whilst there have also been significant reductions in funding for Transport, the Home Office, and Levelling Up, Housing and Communities.

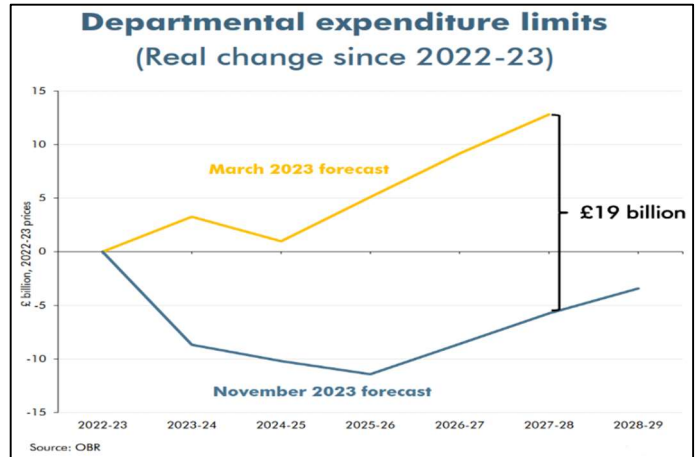
Furthermore, there were no detailed spending plans for 2025-26 onwards. The chart below shows that 4 out of the 5 years of the OBR forecast are not based on any detailed departmental plans from the UK Government.

The UK Autumn Statement and fiscal outlook have major implications for Scotland's budget.

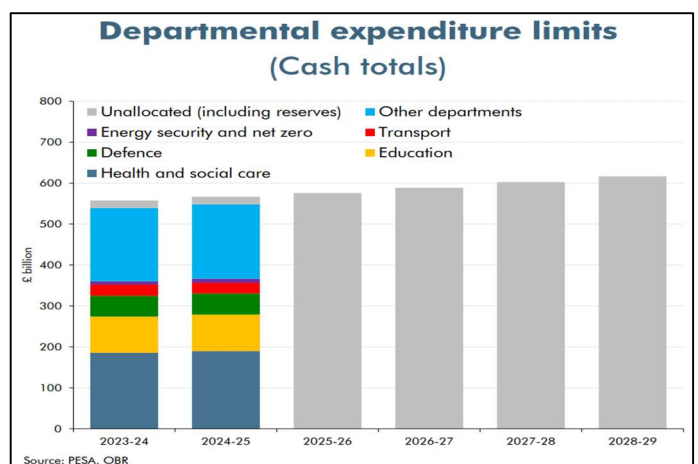
The Autumn Statement provided the Scottish Government with resource consequentials of £310 million in 2024-25, largely from business rates policy. There was additional capital funding of £10 million in 2024-25.

Of the resource, there was £10.8 million of additional funding for NHS in 2024-25 - an increase of less than 0.06% to Scotland's health budget in 2023-24 of £19.138 billion.

The UK Government's decision to freeze capital budgets in cash terms means that Scotland may see a 9.8% real terms cut in capital funding for infrastructure between 2023-24 and 2027-28.



Department	2022-23	2024-25	Change
Health and Social Care	185.3	177.2	-8.1
Home Office	18.1	15.5	-2.6
Transport	9.1	5.7	-3.4
Levelling Up, Housing & Communities	4.3	2.2	-2.1
Environment, Food and Rural Affairs	4.7	4.2	-0.5
Work and Pensions	8.7	8.0	-0.7
Culture, Media and Sport	1.9	1.4	-0.5
Energy Security and Net Zero	1.7	1.5	-0.2



Scottish Government December 2023

⁶ HM Treasury RDEL excluding depreciation and OBR GDP deflators.

⁷ [Autumn Statement 2023 | Institute for Fiscal Studies \(ifs.org.uk\)](https://www.ifs.org.uk/Autumn-Statement-2023)