



David Phillips

Scotland's fiscal outlook

12 October 2025

SNP Party
Conference

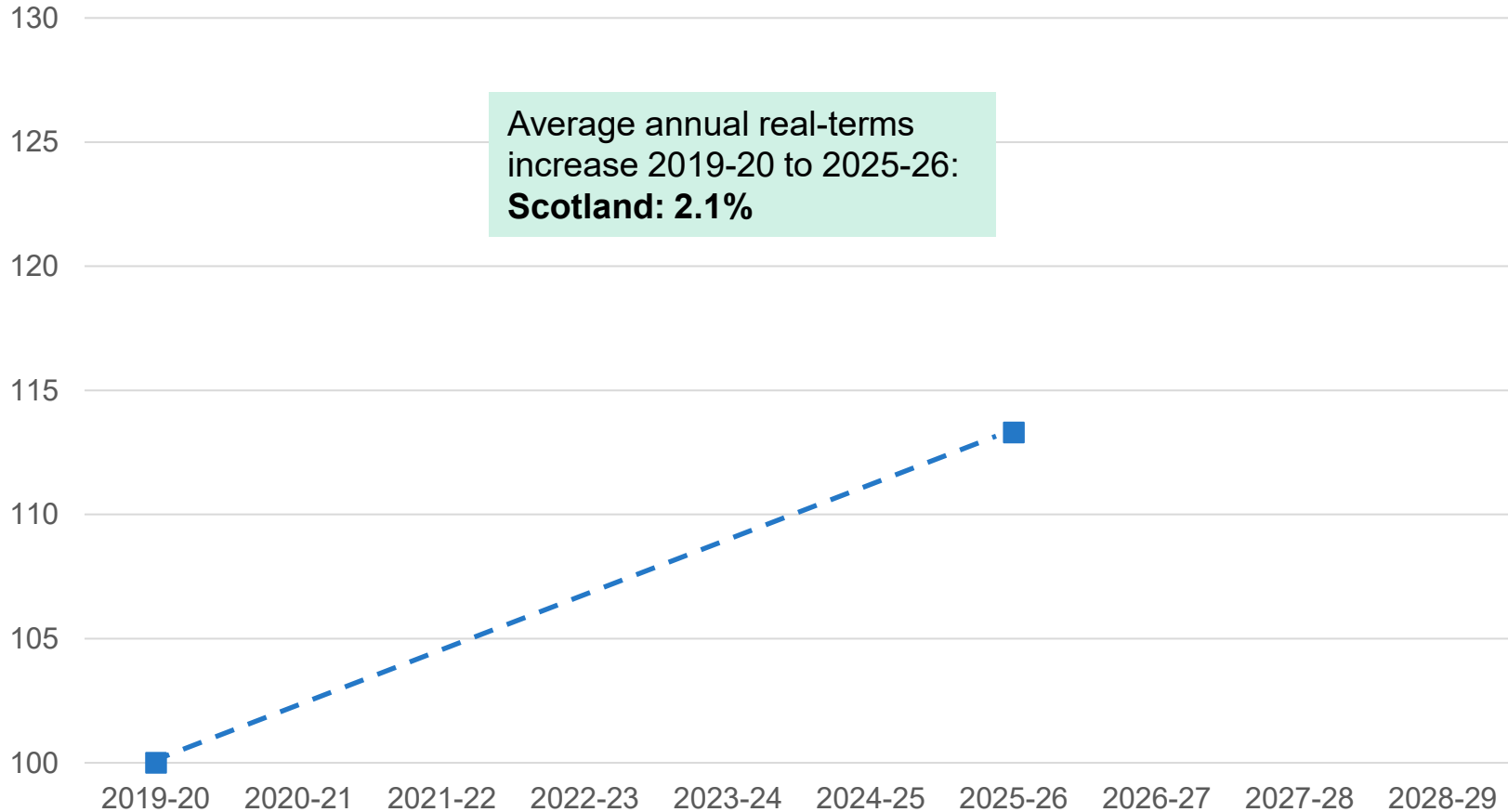
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UK govt funding set to slow down

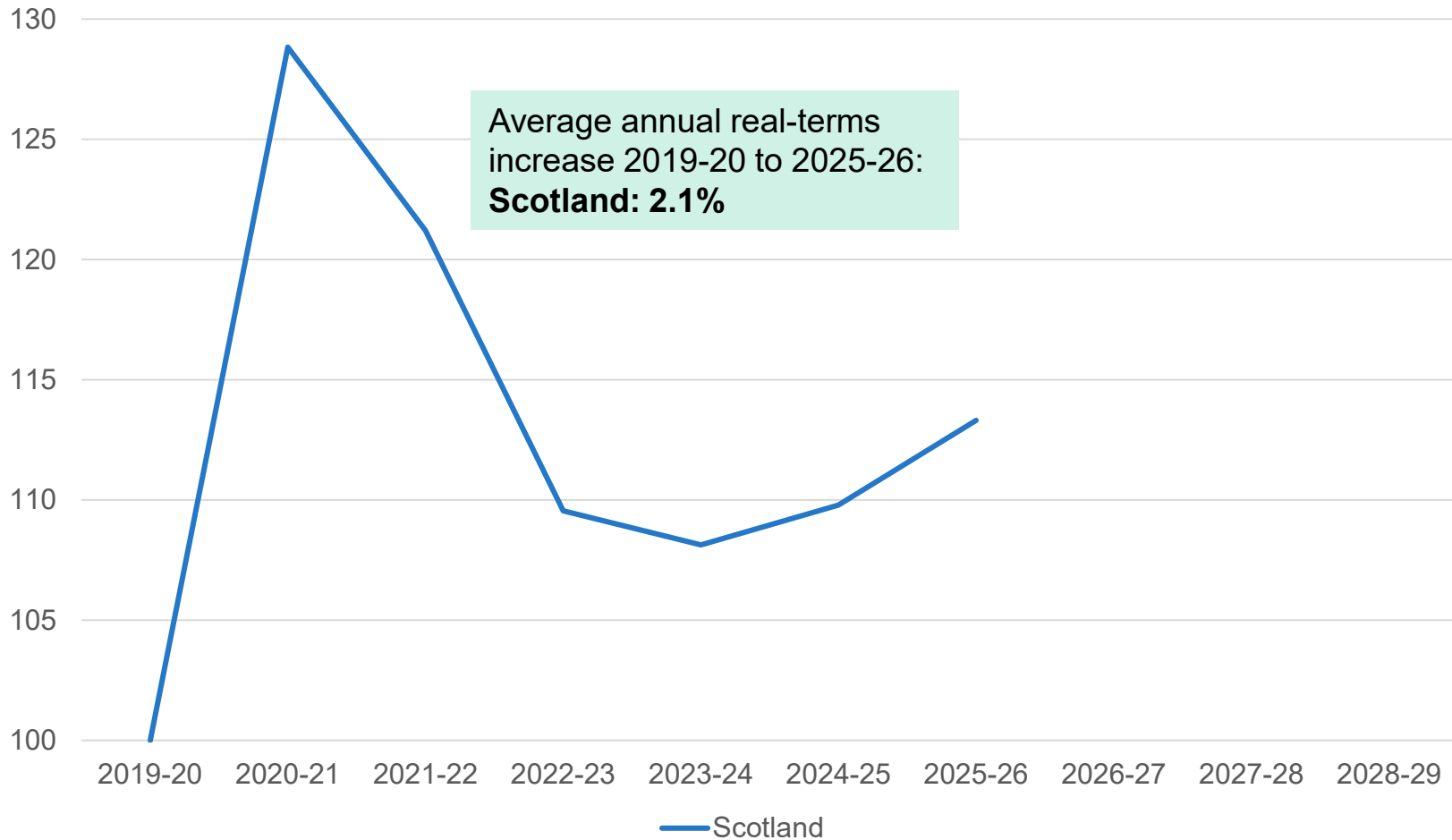
Resource Block grant (2019-20 = 100), real-terms



Sources: PESA (2024, 2025), Spending Review 2025, HMT GDP deflators.

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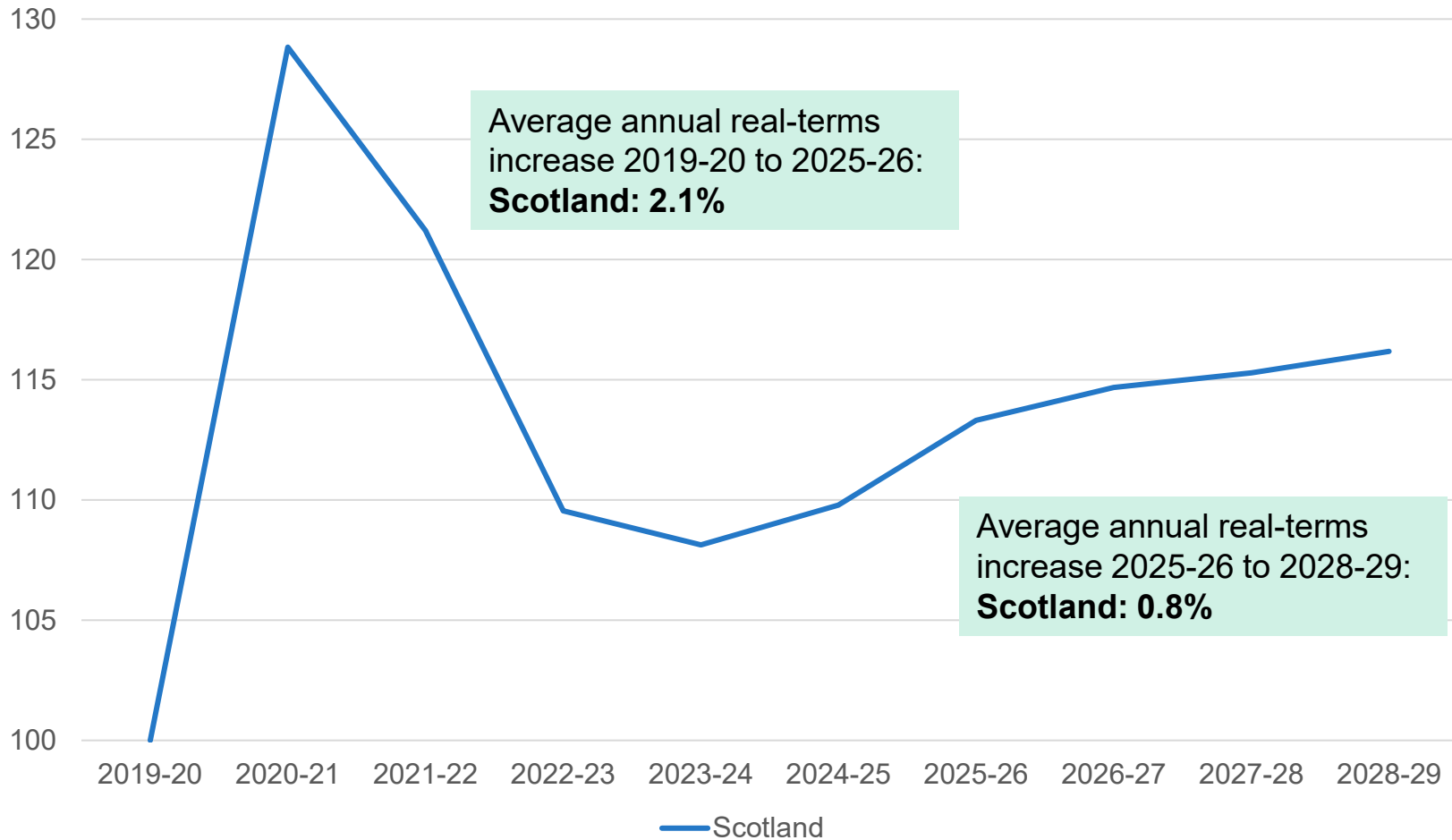
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- UK's fiscal situation is fragile, meaning further big top-ups unlikely
 - Even in March only 50/50 chance of meeting fiscal rules
 - Since then things have gotten worse: expected that £20 billion to £30 billion a year needing to be found by 2030 to get back to this
 - Debt and debt-servicing costs are high & financial markets are nervy → cannot simply jettison rules and borrow more
 - UK like rest of Europe facing combined effects of ageing population and a more dangerous international environment
 - From 1950s to 2000s, higher health & welfare spending paid for to a large extent by lower defence spending
 - Over next 10 years, significant pressure to increase both
- Ruthless prioritisation will be needed, with tough choices

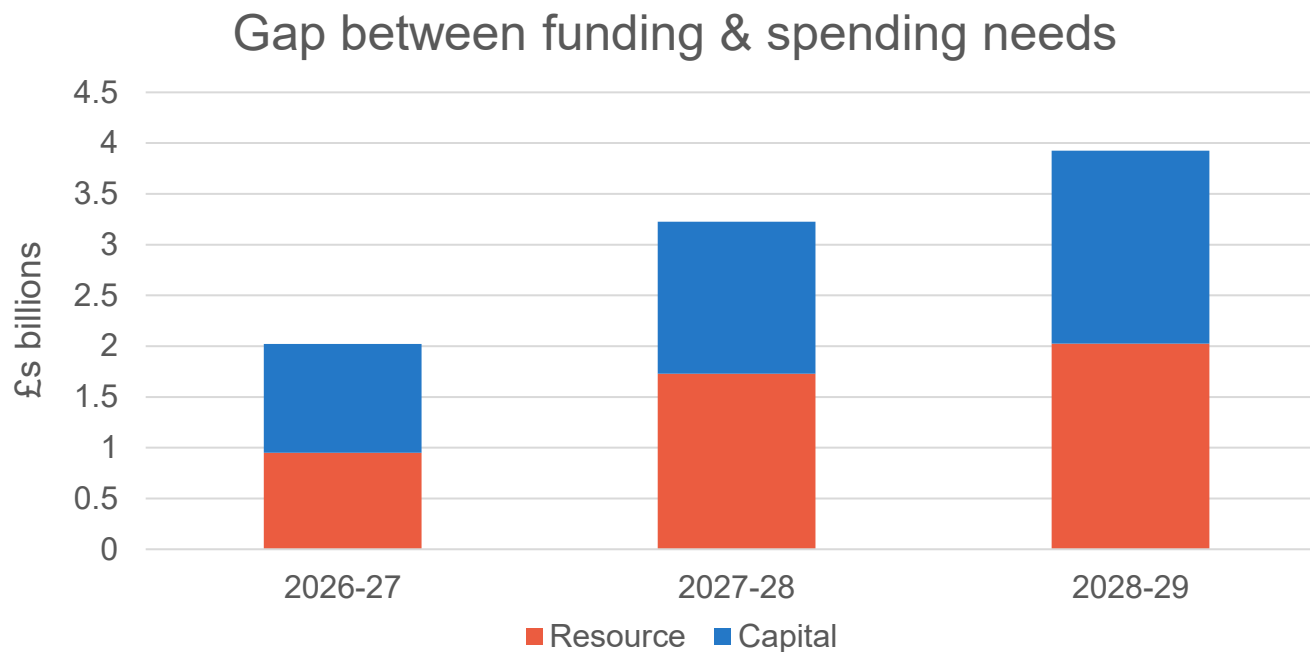
Scottish choices and challenges



- Scottish policy more generous in several key areas – legitimate, but reduces money elsewhere:
 - New and easier-to-access benefits reduce poverty & hardship
 - Cost £1.3 billion a year (and growing)
 - Public sector pay increases, now around 5% higher than UK level
 - Cost £1.5 billion a year (and growing)
 - Long standing more universal services
- UK govt funding 20 – 25% higher per person than is spent in England
 - But this advantage is set to shrink over time
- Forecasts of contributions of devolved tax revenues to future Scottish Budgets are currently biased upwards – might pose problems for years following upcoming Scottish Spending Review

Scottish Spending Review

- Will set spending plans until 2028-29, to align with UK SR
- Indicative plans subject to change, not least because Scottish Govt has limited powers to borrow or save if circumstances change
- Will have to address a substantial funding gap



Action and opportunities?

- The “Fiscal Sustainability Delivery Plan” highlights ambitions for significant but difficult savings
 - 0.5% a year reduction in employment – much more than this outside the health service
 - Reduce “corporate” costs by 20% by 2030 (£1 billion a year)
 - Service reform, prioritisation, efficiency
 - Should be explicit on de-prioritised services/initiatives
- Other opportunities should be grasped
 - AI and associated technology
 - Tax reform, especially of property taxes
 - Fiscal Framework Review 2.0

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