

Kenneth Gibson MSP

Richard Hughes
Chair

Convener
Finance and Public Administration Committee

102 Petty France
London SW1H 9AJ

Room T3.60
The Scottish Parliament
Edinburgh EH99 1SP
FPA.committee@parliament.scot

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Dear Kenneth

Thank you very much for your letter regarding the Finance and Public Administration Committee's consideration of the Scottish Fiscal Commissions first fiscal sustainability report.

In addition to our role in producing five-year economic and fiscal forecasts to underpin the UK Government's biannual Budgets and Spring/Autumn Statements, the OBR has also regularly published *Fiscal sustainability reports (FSRs)* which consider the health of the UK's public finances over a much longer time frame. By looking 50 years ahead, the projections included in these *FSRs* allow us to illustrate and explore the economic and fiscal consequences of a number of long-term trends whose full implications are not captured in a given set of five-year forecasts. These include demographic, climate, and technological changes, all of which have profound consequences for how governments raise revenue and where they spend money. And by exploring alternative scenarios around some of the key assumptions underpinning these projections (including assumptions around life expectancy, fertility rates, participation rates, migration levels, productivity, interest rates, and cost and timing of the transition to net zero), we help to illustrate some of the drivers of long-term fiscal sustainability, or lack thereof.

Since our first *FSR* in July 2011, the OBR has produced twelve such reports which, most recently, we have merged with our *Fiscal risks reports* into an integrated *Fiscal risks and sustainability report (FRS)* published in July 2022.¹ The decision to merge the two reports was taken in the wake of the pandemic which underscored, like the financial crisis that preceded it and the energy crisis that followed it, the difficulty in separating consideration of medium-term fiscal risks from long-term fiscal sustainability. (Indeed, our July 2020 *FSR* combined medium-term scenarios with long-term and wider risk analysis to address the many fiscal questions posed by the early phase of the pandemic.) The value of this combined approach comes partly because this succession of major shocks has not only delivered large near-term hits to the economy and public finances but has also left longer-term scars on the productive potential of the economy and the level of government debt, which compound and exacerbate underlying trends. So, a complete understanding of the long-run health of the UK economy and public finances needs to take account of the implications of both underlying trends and unexpected, but inevitable, shocks. One reason we were able to take the step of combining the two reports was that we could build on the foundations of the previous decade's succession of dedicated reports on prospects for long-term fiscal sustainability.

We worked closely and very constructively with the Scottish Fiscal Commission (SFC) in the production of its first *Fiscal sustainability report* published earlier this month.² Specifically, over the past year we:

- shared our age cohort model and provided support in answering methodological questions around our long-term population and economy modelling assumptions;
- shared the various fiscal models that underpin our long-term projections for the public finances, which assisted the SFC in their replication of our approach for Scotland;

¹ <https://obr.uk/frs/fiscal-risks-and-sustainability-july-2022/>

² <https://www.fiscalcommission.scot/publications/fiscal-sustainability-report-march-2023/>

- provided advice on various elements of our long-term modelling approach, for example including advice around our long-term health modelling (and social care), changes to participation rates and assumptions around changes to the state pension age;
- provided some bespoke block grant projections that were in line with last year's long-term projections in our *Fiscal risks and sustainability report*, where we projected forward block grant and adjustments in line with our UK-wide long-term projections, and provided advice on the implications of spending projections for determinants of the block grant; and
- offered feedback to the SFC on its analytical approaches and shared any comments that we had on both the SFC's consultation paper and draft of the final report as part of our usual fact-check process.

We very much welcome the SFC's first *Fiscal sustainability report* as well as your Committee's taking up of the report for consideration and scrutiny. We have found our own interactions with the Treasury Committee of the UK House of Commons on our risks and sustainability reports to be critical to attracting greater focus on, and promoting greater accountability for the management of, the pressures and risks highlighted by these reports. In this context, we also welcome the UK Government's commitment to formally respond to our reports of this nature, most recently alongside the March 2023 Budget.³

We look forward to continuing to work with the SFC and yourselves on future such reports.

Warmest regards,

Richard Hughes
Chair

³ <https://www.gov.uk/government/publications/government-response-to-the-2022-fiscal-risks-and-sustainability-report>