

Kenneth Gibson MSP
Convener
Finance and Public Administration Committee
Scottish Parliament
Edinburgh
EH99 1SP

24 April 2023

Dear Convener

During our evidence session on Tuesday 28 March I promised to write to provide the Committee with further information on four issues.

Participation rates by age groups

During the evidence session we referred to analysis from our August 2022 [Trends in Scotland's population and effects on the economy and income tax](#) report. Figure 4.5 of this report (reproduced below in a slightly different way as Figure 1) shows that, between 2014-15 and 2021-22, the participation rate for those aged 16 and over has been falling in Scotland, while being broadly flat for the UK. It also shows that Scottish and UK participation rates have been diverging across all age groups since 2014-15.

As we highlighted in the report, the largest divergence between 2014-15 and 2021-22 has been for those aged 16 and 17. In both Scotland and the UK, growing enrolment in tertiary education has contributed to falling participation for those aged 16 and 17 and 18 to 24. There are two other age groups where the change in participation rates has been significantly different in Scotland compared to the UK: those aged 25 to 34 and 35 to 49. These two age groups are among the largest segments of the working population, have the highest participation and employment rates, earn the most money, and pay the most tax. If the falls in participation rates led to falls in employment rates for these age groups relative to the UK, there could be downward pressure on income tax revenues and the income tax net position via average earnings as well as employment.

We project trends in labour force participation using judgement. We then combine these participation rate projections by ten year age groups and gender with our population projections by age group and gender to obtain an overall projection for the labour force. We will include an update on the latest outturn data for 2022-23 and on other recent trends and issues around participation in our upcoming forecast report in May.



Figure 1: Participation rates by age in Scotland and UK

Percentage points	Scotland		UK		Change		
	2014-15	2021-22	2014-15	2021-22	Scotland	UK	Difference
16-17	36.9	22.5	32.9	28.0	-14.4	-4.9	-9.5
18-24	71.6	68.9	70.6	68.9	-2.7	-1.7	-1.0
25-34	85.8	84.8	85.2	87.7	-1.0	2.5	-3.5
35-49	86.8	84.5	86.9	88.0	-2.3	1.1	-3.4
50-64	70.1	70.8	71.6	73.3	0.7	1.7	-1.0
65+	8.8	9.0	10.5	11.0	0.2	0.5	-0.3
16-64	77.5	76.1	77.8	78.7	-1.5	0.9	-2.4
16+	62.6	60.3	63.4	63.2	-2.3	-0.2	-2.1

Source: Scottish Fiscal Commission (2022) Trends in Scotland's population and effects on the economy and income tax ([link](#)), ONS (2022) HI11 Regional labour market: Headline indicators for Scotland ([link](#)), ONS (2022) A01: Summary of labour market statistics ([link](#)).

The participation rate data for Scotland shown here is from the April 2022 Annual Population Survey which includes age breakdowns. The data are slightly different to that from the Labour Force Survey.

State Pension Age and demographic breakdowns

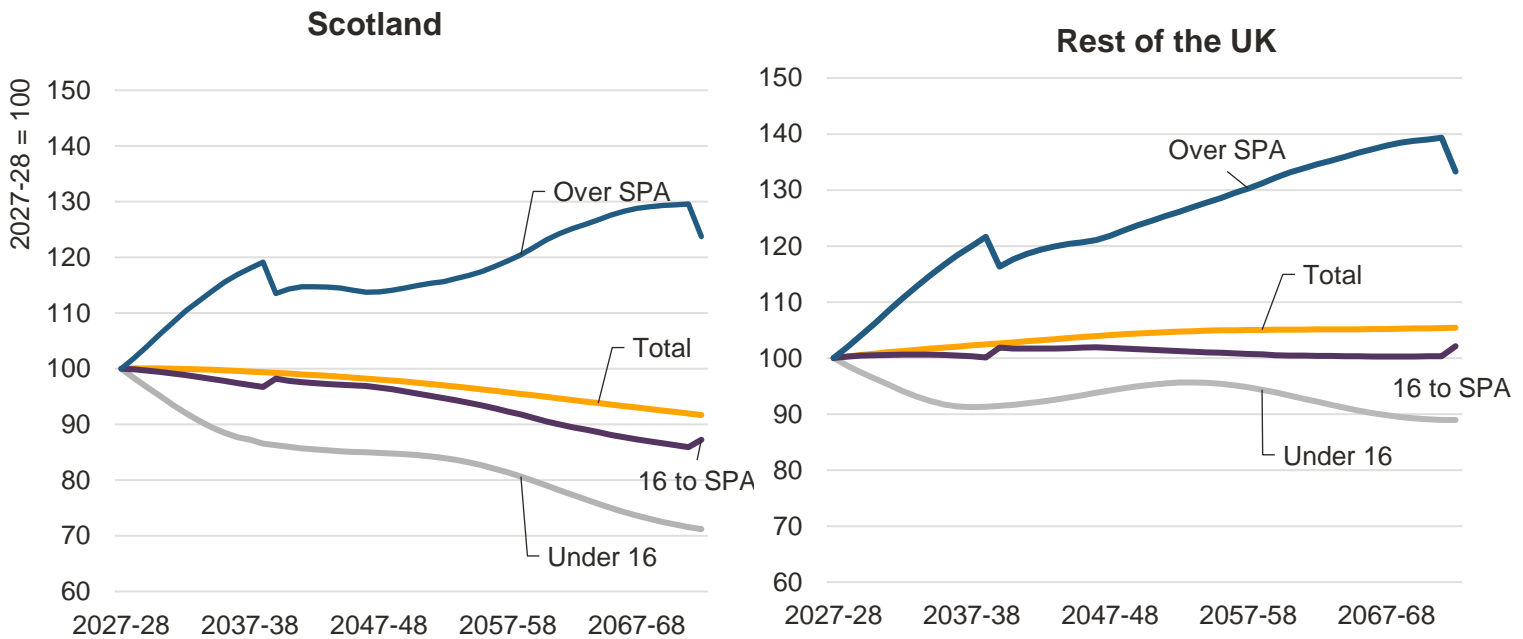
During the session, you remarked that Figures 2.2 and 2.3 in the [Fiscal Sustainability Report](#) showed breakdowns for under 16s, 16 to 64 year olds and over 65s rather than presenting the effect of the changes to the State Pension age (SPA) over the next 50 years.

The SPA is due to rise to 67 between 2026 and 2028. We also match the OBR assumption in their July 2022 Fiscal Risks and Sustainability report that the SPA will rise to 68 by 2039, and 69 by 2073. Although we have fully accounted for the anticipated changes in the SPA in our modelling, we chose to present age bands based on the 16 to 64 range in the report.

Figure 2 below shows Figure 2.2 from the report updated to present the effect of changes to the State Pension age (SPA), matching the OBR assumptions. Similarly, Figure 3 shows Figure 2.3 from the report with the effect of changes in the SPA.



Figure 2: Scotland and rest of the UK population indices, accounting for SPA changes



Source: Scottish Fiscal Commission

Figure 3 : Projected dependency ratios for Scotland and the UK (per cent), accounting for SPA changes

Country	Age group	2022-23	2042-43	2072-73
Scotland	Under 16	25	20	19
Scotland	State Pension Age	29	34	41
Scotland	Overall [1]	54	54	60
UK	Under 16	30	25	24
UK	State Pension Age	28	33	37
UK	Overall	58	58	61

Source: Scottish Fiscal Commission

Population change by Local Authority

In Box 2.1 in the Fiscal Sustainability Report we presented National Records of Scotland (NRS) projections for local authority population change. These are the NRS 2018-based

projections as they are the most recently published version of the local authority projections. In those 2018-based projections the total population for Scotland was projected to grow by 2.5 per cent by 2043. This is slightly different to our Scotland-level projections used in the report, which have growth of 0.5 per cent to 2043, as they are consistent with the more recent NRS 2020-based projections for Scotland.

Alternative productivity scenario

Mr Greer asked if it would be possible to produce a scenario for Scottish Government funding and spending in which productivity growth was higher. For several reasons this is a relatively technical change within the model so will require some additional work and associated quality assurance. We plan to undertake further work on this after we have published our next 5 year forecasts on 25th May and will update the Committee in due course.

I hope this additional information is useful.

Yours sincerely

A handwritten signature in black ink that reads "Graeme Roy".

Professor Graeme Roy