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Derek Mackay MSP
Cabinet Secretary for Finance and the Constitution
Scottish Government
St Andrews House
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31 January 2018

Dear Cabinet Secretary,

Draft Budget 2018-19

Thank you for your letter, following our discussions on the Scottish Budget. I appreciate the lengths you have gone to, in listening to the case we have made for change over recent months. While we naturally would wish to have made more progress in some areas, we welcome the movement which has been offered on the key issues which we have prioritised.

Income tax

The Scottish Green 2016 Manifesto demonstrated how the creative and progressive use of Scotland's newly-devolved income tax powers could create a fairer system to raise revenue for essential services and protect people earning low and middle incomes. That these principles have been adopted by the Scottish Government is welcome.

The proposals outlined in the Draft Budget 2018-19 included an anomalous effect which provided a tax cut compared with this year for people earning between £43,525 and £58,500. We see no rationale for this and it does not conform to a progressive system. Your intention to address this anomaly is therefore welcome.

We proposed additional changes to the rates and bands of income tax which you set out with the Draft Budget, and our intention in doing this was to demonstrate that additional revenue

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can be raised fairly to fund vital public investment. Your decision to resist these options has limited your scope, and forced you to find other means of paying both for your own priorities and those put to you by the Greens and others.

However, taking the changes included in the Draft Budget together with the amendment above, the result will be that devolved tax policy raises approximately £220m for the Scottish budget. Also, the majority of revenue from these income tax policy changes will now fund public services rather than being lost in other tax reliefs, which was not true of the Draft Budget itself.

Public sector pay

The Scottish Government announced its intention to end the 1% pay cap in June 2017. During our negotiations since then we have consistently argued for an inflation-based pay deal for workers across the public sector to begin to restore years of real-terms wage cuts.

The £30,000 threshold in your original proposals would have left almost half of the workforce without an inflation-based pay increase and impacted particular sectors unfairly. Following our negotiations, your proposal to increase the threshold to £36,500 will now ensure that 75% of public sector workers, including 70% of teachers and 79% of NHS workers, receive an inflation-based pay rise.

This is welcome progress.

We continue to take the view that public sector workers have seen their wages eroded in real terms for many years, and we back the view of those unions arguing for a restorative pay settlement.

Parliamentary process does not include a specific vote on the Scottish Government's pay policy, and of course the negotiation process with local government and other public sector employers is still under way.

We believe that the concession you have made is meaningful, and it allows us to vote in favour of the budget as a whole. However we will continue to support the cause of unions making the case for restoration in the value of public sector salaries. If, as we hope, they are successful in pressing for an above-inflation settlement, you may need to make revisions to account for this.

Low carbon

The Scottish Budget includes more than £4bn worth of capital spend. It is vital that this investment does not lock us into a high-carbon future.

We believe there is much more to be done to ensure that Scottish Government investment is climate-proofed, but welcome what we believe is the first climate analysis of the capital spend and the indication that the direction of travel is positive, with high-carbon down and low-carbon up.

In our negotiations we asked you to commit to continuing a year-on-year increase in the proportion of capital going to low carbon projects, as well as for further progress in this year to provide real terms protection in the fuel poverty budget, deliver on a community rail fund

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of £2m and expedite four Marine Protected Areas (MPA) identified in 2014 to protect and enhance the status of iconic species and habitats in our seas.

We welcome your commitments to this effect.

The confirmation of an additional £2m for fuel poverty (HEEPS) protects the budget, and we welcome the funding commitment to accelerate MPA delivery in 2018/19. We expect the Scottish Government to have made progress on the specific proposals for delivery of the rail fund in time for Stage 3.

Local government

Local government funding has been a challenging area of our negotiations. You have been aware of the priority we placed on this since the conclusion of last year's budget process, and we have been consistent in restating this issue in the current discussions. The Draft Budget included unacceptable cuts to central government's support for local government and the essential services they provide.

Our approach has been based on the Local Government Finance Order agreed between COSLA and Scottish Government. The Scottish Parliament's Information Centre's assessment of the revenue cut on this basis is £157.3 and we have been clear that we could not support a budget which did not address this gap and make a fair contribution to the pressures facing councils on pay and services.

The provision of £170m in revenue to enhance the local government settlement is therefore essential. We believe that it will place councils in Scotland in a stronger position to protect local services, meet rising demand, and reward their workforce with a justified pay settlement. It also resolves specific issues with the northern isles internal ferries while talks over sustainability continue.

That said, we must make clear our deep frustration with the need to fight repeatedly against cuts to local government in this way. Over the coming weeks and months we believe that the Scottish Government and Parliament must act to ensure that local government is given the autonomy it needs so that future Scottish budgets will not be dominated by this issue as has been the case for the last two years.

Conclusion

Given the central importance of protecting local services, progressive taxation, improving low carbon investment and improving public sector pay, on balance we are able to confirm that the changes you have offered in your letter of 1 February 2018 are sufficient to allow us to support the Budget Bill at stage 1. Assuming that the appropriate amendments are made to the Budget at stage 2, to the income tax rate resolution and to the Local Government Finance settlement, we will support the stage 2 amendments, the rate resolution, the Budget Bill at stages 1 and 3 and the Local Government Finance Orders.

Yours sincerely,

Patrick Harvie MSP

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