

T: 0300 244 4000
E: scottish.ministers@gov.scot

Patrick Harvie MSP
Scottish Green Party
MG-05
Scottish Parliament
Edinburgh
EH99 1SP

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Dear Patrick

Thank you for your letter of 12 January 2018 outlining your position in relation to the Draft Budget 2018-19. I was also grateful for the opportunity to speak with you on Tuesday 16 January and again when we met on 23 January about the content of your letter.

In your letter, you set out a wide range of points that you are seeking to have addressed as part of the Draft Budget 2018-19. I do not propose to respond to all of those points in this letter, but I am very happy to continue to discuss them with you as we approach the introduction of the Budget Bill and the Stage 1 debate on the Bill thereafter.

I have made clear to the Scottish Parliament and continue to emphasise the point that the Draft Budget 2018-19 invests in our key public services, while mitigating against a UK Government cut of over £200 million to the Scottish budget.

This has been possible through the Scottish Government's tax policy decisions, including to move to a more progressive income tax policy protecting the vast majority of taxpayers, and also raising over £360 million in additional revenue. A more progressive approach to income tax, and the desire to raise additional revenue, are both things that the Scottish Green Party have been seeking for some time, and a proposal that you have indicated that you welcome in general terms.

The Draft Budget provides a 2018-19 local government settlement where local authorities will receive more than £10.5 billion in 2018-19. Together with the additional power to increase Council Tax by up to 3% this will generate an increase of 1.6% in the overall resources to support services and afford the opportunity of real terms protection to the local government budget.

We discussed the position with the revenue element of the local government settlement, and you highlighted that figures produced by SPICe show that there is a real terms reduction of £157 million in the revenue settlement. I explained that the true comparison of the local government revenue settlement needs to look at the combination of the revenue support grant, revenue specific grants and non-domestic rates budgets set out in the 2018-19 Draft Budget (Table 10.13). This shows that the revenue element of the settlement for 2018-19 increases by £3 million in cash terms and reduces by £135 million in real terms – these figures are also confirmed in the SPICe briefing report on the Draft Budget. Local Authorities also have the option of raising £77 million in Council Tax revenues to supplement this settlement position, and will also retain in full any efficiency savings that they can generate, which in most recent reports confirmed Local Authorities had delivered in excess of £340 million to support reinvestment in their frontline public services.

While pay and other employment issues for Local Government staff are matters for local authorities, our budget recognises the rising cost of living and provides an uplift in pay that is at least equal to the rising cost of living for more than half the staff in our key public sector workforces and will benefit many of those in frontline public sector roles. In setting our pay policy I have sought to address the fact that the cost of living is increasing alongside the affordability of the overall budget position.

On income tax, when we spoke on the phone on 16 January and at our meeting on 23 January, I made clear my view that the Scottish Government has already shown compromise and moved from our previous position to take account of the proposals being made by other parties. I do however understand that these proposals do not currently fully meet your aspirations and I will continue to discuss where compromise might be possible in order to reach a position where the support of the Scottish Greens on the budget might be secured.

In addition, I agreed to provide you with additional information in relation to some of the more technical points in your letter, which I have set out below. You should also have received additional detail on, public sector pay, tax and our infrastructure spend with an assessment of its low carbon contribution.

Fuel Poverty Budget

Following the recommendations of the Fuel Poverty Strategic Working Group and the independent review of the fuel poverty definition, we are currently consulting on a new statutory target, as well as other elements of a new, long-term strategy for fuel poverty in Scotland, and plan to bring forward a Warm Homes Bill this year.

The overall budget for Scotland’s Energy Efficiency Programme (SEEP), which is about transforming all of Scotland’s buildings (domestic and non-domestic), will see an increase in both cash and real terms in 2018-19 (see table below) and we are well on course to meet our commitment to make available more than half a billion over the 4 years to 2020-21.

	2017-18				2018-19			
	Capital	Resource	FTs	Total	Capital	Resource	FTs	Total
Domestic	74	10.1	30	114.1	72	12.3	30	114.3
Non-domestic	9.3	12	6.5	27.8	8.3	15	6.5	29.8
SEEP Total	83.3	22.1	36.5	141.9	80.3	27.3	36.5	144.1

The Home Energy Efficiency Programmes for Scotland (HEEPS) budget remains flat in cash terms next year, but the programme is complex, with a range of interventions and the overall picture is positive in the context of Budget. It is important to recognise that some councils struggle to spend their full allocation within the financial year and have in the past had to hand some money back. We have made a commitment to introduce multi-year funding allocations for energy efficiency which will allow councils to better manage their projects across financial years and will look to introduce this from next year's budget.

Pipeline fund to progress local rail projects

Development funding for the rail industry has been a feature of previous rail Control Periods and consideration is underway on the approach for Control Period 6 (2019-2024). I would be happy to ask Transport Officials to meet with Allan Rail to discuss the proposal that you provided as part of those Control Period 6 considerations and the proposed £2 million fund to support this work - time will be required to assess in detail the practical implications of such a fund especially in light of the new Strategy that is being developed for future rail investment.

In addition, Transport Scotland is working closely with Fife Council to take forward the transport appraisal work for the Levenmouth Sustainable Transport Study, in line with Scottish Transport Appraisal Guidance. However, we are not in a position at this stage, to make decisions until the work is concluded and the most effective transport solution is identified.

Improved and cheaper bus services

Even within the challenging financial settlement that we received from the UK Government in 2018-19, the Scottish Government has delivered a stable budget to maintain BSOG at £53.5 million to help bus operators keep fares at affordable levels and to incentivise the use of green buses.

The BSOG low carbon incentive is under review and we are working with the bus industry to develop a scheme to be introduced during 2018-19, with a view to protect the long term sustainability of the scheme, whilst continuing to incentivise the use of green buses, and provide stability to the bus industry.

The Scottish Government has also allocated £10 million of Financial Transactions for loans to accelerate the greening of the bus fleet to help tackle climate change and improve air quality. We are working closely with the bus industry to develop options for deploying the loan funding in 2018-19, including the purchase of low carbon buses, the introduction of supporting green technology infrastructure, and retrofitting buses.

We also aim to run a further round of the Green Bus Fund to support the greening of the bus fleet and developing a new extended capital grant scheme which will include infrastructure for the first time and be weighted towards the lowest emitting buses. That scheme is envisaged for implementation from 2019-20.

Funding to support inter-island ferries between Orkney and Shetland

I have made clear on several occasions that the Councils are wholly responsible for internal ferry services - no pledge has ever been given to automatically assume responsibility for internal ferries nor for Scottish Government to provide funding on demand for these services.

The Scottish Government recognises the vital importance of these services to the local people and economies, and has been in regular dialogue with the Orkney and Shetland local authorities in order to best ensure fair funding in provision of these services.

My officials have been working closely with the two local authorities to take forward work on this issue. As you are aware, at present, there is no additional funding in the Draft Budget for Orkney & Shetland internal ferry services – our current priority is to reduce ferry fares on services between the Scottish mainland to Orkney and Shetland.

I have already emphasised that the settlement provided for local government is fair and with the additional power to increase Council Tax by up to 3%, local authorities can benefit from a real terms increase in their overall settlement. I am happy continue to discuss this point as part of the budget discussions, and respecting the parliamentary process.

Implementation of Marine Protected Areas

There are proposals for a further four Marine Protected Areas which Scottish Natural Heritage submitted in 2014. The four proposals are for habitats and species which already receive considerable protection.

I understand that the ECCLR committee asked Marine Scotland during scrutiny of the draft budget what extra resource was required to take forward the four proposals in the coming year alongside the planned work programme. I would be happy to consider this position as part of any deal on the budget.

Environmental Research Budget

The overall budget for research remains broadly similar in 2018-19 to this year. The Main Research Providers are actively working to diversify their income. In that context the change in the budget provision is small and we anticipate no impact on the research that we ask them to deliver for the Scottish Government.

The changing level of capital in these budget lines reflects changes in accounting practice for research, rather than a real increase in capital and decrease in revenue. This explains why the capital provision in the Level 3 figures for Research, Analysis & Other Services has increased to £8.9 million in the draft 2018-19 budget, while a commensurate reduction has occurred in resource funding. This does not affect the amount of money available to actually undertake research.

Capital funds and Financial Transactions for low-carbon energy investment

The reduction in the capital allocation is not a policy shift but a pragmatic response to the level of demand in recent years for renewables projects capable of proceeding with the assistance of Scottish Government capital. Such projects, for example in community energy developments/ownership, have been badly affected by the shifts in UK Government subsidy regimes.

The Energy Investment Fund capital allocation did reduce by £2.5 million to £0. However the total value of the Energy Investment Fund has doubled to £20 million using Financial Transactions. That reflects its status as a broader investment fund and we would anticipate this fund having the opportunity to leverage further private sector finance to take forward low carbon initiatives.

In addition and in line with our Programme for Government commitment there is £7.5 million of capital in Energy budgets currently allocated to support the huge economic opportunity for Scotland that decommissioning represents. This funding is to establish a deep water port in Scotland to ensure that the Scottish market is competitive in future decommissioning contracts.

Healthier, Wealthier Children

The Scottish Government remains committed to Healthier Wealthier Children rollout. The recently introduced Child Poverty (Scotland) Act requires that taking action around the provision of income maximisation advice and financial support for parents is considered when the Scottish Government's Child Poverty Delivery Plans are being prepared. The first of these Plans, setting out Scottish Government's priorities for tackling child poverty over the next four years, will be published in late March and we are considering the scope for a specific action to support Healthier Wealthier Children rollout to be included.

We are also supporting the income maximisation agenda through our Financial Health Check commitment. In 2018, we will launch a Financial Health Check Guarantee for Families, supported by funding of £1.5 million in 2018-19 and 2019-20. An online tool will be launched to support people to check their financial health, accessible to all. We will also offer the guarantee of an adviser conversation to the priority group of pregnant women and families with children on low incomes.

Financial Health Check builds on and develops the Healthier Wealthier Children model of health visitor/midwife referral to advice services. Our aim is to make sure that low income families with children can access high quality financial advice, including on benefit uptake and on aspects of the poverty premium which see the poorest pay more for key financial products and services and energy provision

Sustainable Action Fund/Climate Challenge Fund

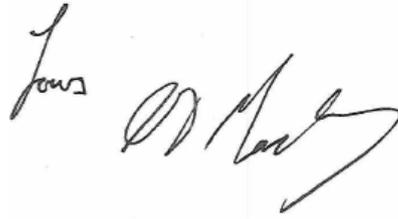
The Draft Budget 2018-19 includes proposals to increase expenditure under the Sustainable Action Fund to £18.7 million (increase of £2 million from 2017-18). This increased budget recognises the fundamental importance of the environment and climate change mitigation and adaptation to Scotland's economy and people.

We will continue supporting climate change action and influence low carbon behaviours in communities across Scotland and in some of our African partner countries. This work will also include establishing a Just Transition Commission to advise on adjusting to a more resource-efficient and sustainable economic model in a fair way and continuing our work on the Scottish Climate Change Adaptation Programme.

We intend to maintain our current level of investment in the Climate Challenge Fund in 2018-19 and have aligned the Climate Challenge Fund with a European Regional Development Fund programme. This approach has provided additional budget for resource efficiency and circular economy community projects.

The Scottish Government spend on measures supporting climate change mitigation across the Draft Budget 2018-19 is up 20% from last year and amounts to over £1 billion across a two year period.

I am very grateful for the clarity that you have provided in your letter on the Scottish Green Party's budget asks and for your constructive engagement to date. I am committed to continuing that positive dialogue over the coming days and weeks and exploring where we might find a position of consensus to secure your support for the 2018-19 Budget Bill.

A handwritten signature in black ink, appearing to read 'Derek Mackay', written over a light blue horizontal line.

DEREK MACKAY