

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

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

29 January 2018

Dear Patrick

Thank you for your letter of 26 January 2018 setting out a range of key points as part of our discussions on the 2018-19 budget.

I have considered the various points that you have made in your letter and would like to set out our proposition ahead of the Stage 1 Budget Bill debate on Wednesday 31 January.

In my previous letter I continued to emphasise that the Draft Budget 2018-19 provides substantial investment in our key public services, while mitigating against a UK Government cut of over £200 million to the Scottish budget. I have listened carefully to the range of proposals that the Scottish Greens, the Liberal Democrats and the Parliament as a whole, have put forward in relation to the 2018-19 Draft Budget and I am proposing a number of changes to our existing budget proposals, that I am willing to bring forward.

Public Sector Pay Policy

Firstly on public sector pay, I have clearly heard the desire of the Scottish Greens to raise the threshold in the pay policy at which the 3% pay uplift will apply. I am therefore proposing to increase that threshold from £30,000 to £36,500 in order to increase the proportion of staff groups within 3% policy threshold from 51% to 75%. This change would be confirmed as part of the passage of the Budget Bill through Parliament and the relevant pay policy documentation would be updated and published shortly thereafter.

Low Carbon

In your letter, you helpfully set out four specific areas of low carbon expenditure that you are seeking commitments on.

I have previously indicated that our internal analysis shows that between 2017-18 and 2018-19 the proportion of the Scottish Government capital budget spent on low carbon increases from 21% to 29%.

I am prepared to offer a commitment to continue to increase, year on year, the **proportion of our capital budget that is spent on low carbon projects** – a commitment that relates to the period beyond the coverage of the 2018-19 Draft Budget. My officials have estimated that the required investment to meet this commitment in 2019-20 will be in the region of £60 million with a further £130 million in 2020-21.

I have also considered your request to provide an additional £2 million to provide real terms protection for the **fuel poverty** budget. Subject to agreement with your party I will provide an additional £2 million of capital to be added to the Home Energy Efficiency Programme budget to support fuel poverty work.

As you are already aware, I have asked my officials to meet with representatives of Allan Rail to discuss the proposal for a **pipeline fund for local rail projects**. I am content to explore the proposal for a pipeline fund, and subject to the satisfactory conclusion of discussions with Allan Rail, I would propose to provide up to £2 million for this purpose.

I have also discussed with Environment officials the proposal to provide additional investment to accelerate the delivery of the four **Marine Protected Areas**. I am prepared to allocate an additional £200,000 in 2018-19 to support this work. This would allow the public consultation on the proposals to take place a year earlier than currently planned and subsequently lead to the MPAs to be formally designated a year early.

Income Tax

In your letter you highlight that I have described the tax cut for people with incomes between £43,000 and £58,000 as an anomaly, and that is correct. This position does not simply arise out of decisions taken on the Higher Rate Threshold, but also due to the increase in the Personal Allowance made by the UK Government.

I fully understand the Scottish Greens' position on seeking further changes to our income tax policy and I can confirm that I am minded to address this higher rate anomaly as simply as possible using our limited devolved powers. Using internal Scottish Government calculations, moving the Higher Rate Threshold to £43,525 would both address the anomaly and could generate around £50 million in additional tax revenues.

Local Government

Your most recent letter highlights that you are seeking amendments to the budget that provide real terms protection for local government funding. Since the publication of the Draft Budget, I have made clear that the settlement provided for local government is fair and one that offers an overall real terms uplift in available funding.

I have however listened to requests for additional funding to be provided to ensure that the local government revenue settlement (on its own) also receives real terms protection. We have discussed the different calculations of the real terms growth in the local government budget and I maintain that using the figures in the Draft Budget are the most appropriate – which SPICe have confirmed shows a real terms reduction in the revenue settlement of £135 million.

Having carefully considered this position and the points in your recent letter, including your proposal that around £35m would help local authorities to meet the costs of improved pay settlements I am prepared to offer an enhanced revenue settlement for local government which would provide an additional £93 million. Taking this additional funding alongside the ability that local authorities have to raise Council Tax by 3% (£77 million), would provide local authorities with the ability to supplement the revenue settlement in the Draft Budget by £170 million – providing a real terms increase of over £30 million in their revenue settlement.

I believe that this would provide a very fair settlement for local authorities and provide additional resource that they can allocate to support the range of valuable services that they provide across Scotland.

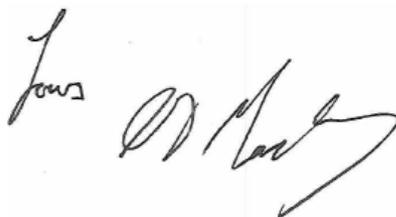
Northern Isles – Inter-island Ferries

We have previously discussed the position with the funding of the inter-island ferries for the Orkney and Shetland Islands. I am continuing to discuss the funding position with both Orkney Island and Shetland Island Councils.

Taking the proposals above in aggregate, this results in a potential budget package that is worth almost £290 million and without taking account of the spending power available to local authorities by raising Council Tax by 3%.

I hope that this letter helps to clarify my position ahead of the Stage 1 Budget debate later this week. I am very happy to meet with you again tomorrow before debate on Wednesday to discuss the proposal above.

I would also be grateful if you would respect the sensitivity of the material in the letter – in particular the material on income tax – ahead of any public announcement of a tax policy change.



DEREK MACKAY