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## Through a Glass Darkly - An Analysis of the Scottish Draft Budget 2017-18

### Key Points

- **New tax powers have not resulted in more money for the Scottish budget**
- **2017-18 sees a considerable rise over the previous year, but this is due to UK Government budget decisions feeding through via the Barnett formula**
- **Top priorities have gained little above what was expected a year ago due to the emergence of new commitments and pressures**
- **Despite the increase in powers many of the key Budget allocations continue to be driven by UK Budget decisions rather than Scottish specific ones, for example in relation to the NHS, Income Tax and Business rates**
- **Capital Borrowing keeps rising but it is not being used in the way that was originally intended**
- **Overall there is a lack of transparency in the presentation of Budget figures that makes scrutiny more difficult**

### The Big Picture

The Scottish Budget increased by a considerable amount in 2017-18, up £800 million on the year before. This was not due to Scottish Government decisions. Instead it mainly came via the Westminster Government via Barnett Consequential's:

- the Barnett related increases amounted to just over £650 million;
- an increase in Capital Borrowing of around £135 million;
- the use of tax powers, including Income Tax, added nothing.

(see Table 1.01 of the Draft Budget Report 2017-18)

Of this largesse over £400 million arrived from HM Treasury post the UK Spending Review. One might have expected this to be spent on the three top priorities of the Scottish Government - the NHS, the economy and education. But that has not been the case (as explained in detail below). The reason for this is that other pressures have emerged that involved, sometimes unavoidable, financial commitments.

For example, new budget pressures arose in 2017-18 in relation to the cost of the new tax and spend powers, in terms of both administration costs and policy costs. There were also Manifesto commitments to fund, as in the case of increased childcare.

This is not to say that these budget choices were wrong or avoidable, rather it is to highlight why the NHS didn't receive any more than expected and the main economic development bodies had their budgets cut.

However, when presentational difficulties of this type emerge there is a temptation to obscure the reality and that was the case last Thursday. Trying to cut through the spin to get to the truth has proved difficult

The rest of this analysis attempts to do that. It looks at some of the key budget areas and issues to try to understand better the underlying position.

### **The Scottish NHS - a UK led Budget**

This has been one of, if not THE, top spending priority of the Scottish Government for many years.

However, its Budget profile is largely determined by decisions made by the UK Government in relation to the funding of the English NHS. Year after year the Scottish NHS resource budget (the main target) has received exactly, or close to, the Barnett Formula budget consequential's that result from the UK Chancellors decisions.

Indeed the current promise of spending an extra £500 million above inflation in this Parliament is based on the English settlement resulting from the 5 year English NHS plan. The £500 million figure goes beyond current spending plans (only published to 2019-20) but it seems likely that all the funds to meet this pledge will arise from NHS England related Barnett consequential's, with no additional money being needed from other Scottish budgets or from increased taxes.

Commenting on last months UK Autumn Statement, the Finance Minister said that "*Most shocking is the Chancellors failure to commit a single extra penny for the NHS today*". Exactly the same could be said for the Finance Ministers decisions in his own Budget.

No doubt the Finance Minister could rebut such a claim, but this would only be possible due to the vagueness with which the pledge was set out in the first place.

Furthermore, excluding the Local Government resource budget settlement, other resource budgets received, on average, a higher increase than the NHS. A curious state of affairs.

## **The Economy - Business knows best**

Most Scottish businesses would no doubt be gladdened by the cut in business taxes (even while it saddened Local Government, who are the ones who lose spending power, not the Scottish Government).

However, the Scottish Government's belief in its key economic development bodies (Scottish Enterprise and HIE) ability to improve economic growth or productivity is clearly at a low level. Both had their budgets cut in cash as well as real terms and by considerable amounts. Compared to the Draft Budget level originally proposed for 2016-17, the cut is over 30%. This is not within the realms of realistic efficiency savings.

## **Schools - situated in the wrong catchment area**

The Scottish Government clearly wants to spend more on schools but it faces the problem that the majority of schools funding comes from within the Local Government budget. The Local Government budget has been targeted for cuts for a number of years now. The General Revenue Grant has steadily fallen. The long term Council Tax freeze has only just ended. Business rates, which used to be rising and helped compensate for the declining GRG, now faces a second year of falling revenue.

The net result is that it makes the schools budget difficult to prioritise when it is being funded from within an overall budget which faces significant year-on-year cuts to its resource (day-to-day spending) budget.

## **New powers I - the price you pay**

Two budgets that saw large increases in their resource budgets were the 'Finance & Constitution' portfolio and the 'Social Security' portfolio.

These consist of new costs, relating to either administrative, set up (i.e. one-off) or to offset UK policies. In each case they eat in to the budgets of other, long standing, portfolios. There is nothing wrong with this, it just makes it harder to protect other budgets from cuts.

## **New Powers II - the benefits you receive**

It would appear that despite the Scottish Government tinkering with the higher rate of income tax banding to ensure greater revenue than would have been the case, other impacts mean that, in total, no more money is available (as shown in Table 1.01 of the Draft Budget). In other words, the change to ensure more income tax revenue than would otherwise have been the case has been offset by reductions in other devolved taxes. This

will most likely be due, in part at least, to Scotland's economy being predicted to grow more slowly (in GDP per capita terms) than the UK economy in 2017-18.

However, the position is not clear cut as other figures in the draft budget suggest there may have been a net increase, although still not of the scale of £79 million claimed in the Budget statement in relation to income tax.

### Capital Borrowing - but for what?

Originally the increased capacity to borrow was supposed to allow for greater capital spending at the Scottish Government's discretion, in order to offset past cuts to the Scottish capital budget. So far no such borrowing has taken place.

Instead the allowance has been used to 'guarantee' NPD schemes that have been caught up in re-defining issues over whether they are public or private sector projects.

This is not laid out clearly in the Draft Budget. Furthermore, the document suggests that the Scottish Government is spending £30 million on repayments in relation to planned borrowing for 2016-17, even though none appears to have taken place.

Confused? You should be.

### Transparency - as clear as mud

The Draft Budget is becoming increasingly difficult to read in a way that means that interested parties can follow what is going on.

A good example is the claim made in the Finance Ministers speech, and reinforced in subsequent briefing, that **the Local Government budget** had improved by £240 million.

First of all, it is impossible to derive this figure from the Draft Budget report. Not just from the main Local Government budget table but from all the tables put together. Surely this is not good practice.

Secondly, the Local Government table borrows money from a variety of other portfolios in order to make the cut in funds controlled by councils look better than they actually are. Although even then there remains no increase, let alone one of £240 million.

Other areas that are almost impossible to make sense of relate to the net income from new tax powers and capital borrowing, both as discussed above.

Such behaviour is duplicitous and undermines trust. Just because UK Budgets are often presented in a way that contains sleight of hand and manipulation doesn't mean that the

Scottish Government should borrow from such ‘worst practice’. It makes it difficult for the public to understand what is going on and it also makes it difficult to undertake effective scrutiny of the Budget, by Parliamentary Committees or others.

As the UK Government has often found out, short term tricks are usually found out and simply lead to an erosion of confidence in the Budget process. It would be far better to make clear your position and to argue the case for that position, rather than to present a false one.

### **Was it a ‘good’ Budget?**

Ultimately budget holders and citizens views of the Budget will depend on their own perspective. However, coming to that decision is not made easier by the fog that surrounds the figures.

While it is understandable that politicians will want to put forward their own best interpretation with respect to difficult budget choices, we now appear to have reached a point where too often what is presented cannot be taken at face value.

This encourages political cynicism and disengagement, the reverse of what is needed.

### **Quotes:**

*“When is a priority not a priority? When you have other things you need to pay for. So it is that the NHS, the economy and schools received unflattering settlements in the latest Scottish Budget.*

*The revolution that is the much expanded revenue powers has turned out to be something of a damp squib, making little, if any, difference to the Budget as a whole.*

*One definite downside of the Budget has been the increasing obscurity in relation to understanding the figures. The lack of transparency shown in the Budget statement and the accompanying document makes it difficult for interested parties to comprehend and to effectively challenge it.*

*Overall, key decisions involving the Scottish Budget are too often driven by UK budget decisions - whether it is in relation to NHS funding, Business rates or Income tax rates. As a result the distinct Scottishness of the Budget too often turns out to involve tweaks to a UK position rather than being based on Scottish conditions and preferences.”*

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