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# Scottish Budget 2020-2021 statement

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Statement from Minister for Public Finance and Digital Economy Kate Forbes to the Scottish Parliament.

This is a Budget that offers vision and leadership, at a crucial moment for our country.

Last week, the UK formally left the European Union and entered the transition period that is intended to last until December.

This was not an outcome of Scotland's choosing, but until Scotland has the opportunity to choose a different path, we must deliver the best possible outcomes for the people we represent.

This Budget provides an early opportunity for us to do that.

It sets out a bold and ambitious programme, which we believe will have widespread public support and as a result should command the support of this chamber.

We will confirm today significant investment in our response to the global climate emergency, to strengthen our economy and to improve our public services.

Because this is a Budget that has wellbeing and fairness at its very heart.

It is progressive and it will provide extra help to those who need it most, tackling inequalities and poverty, especially child poverty.

Our wellbeing approach to the Budget prioritises actions that have the greatest impact on improving lives across Scotland now, and creating the conditions that are required to ensure wellbeing for future generations.

## **UK Budget**

But it is also a Budget presented in the context of the UK Government's decision to defer its Budget last November. This has obliged us to make significant changes to this year's budget process.

And with support from the Finance Committee we have a bespoke budget process this year.

The late UK Budget has required the Scottish Government to present tax and spending plans for Scotland without certainty about our fiscal position next year.

The timetable agreed with the Finance Committee should see the Budget Bill passed on the 5<sup>th</sup> of March. The week before the UK Budget on the 11<sup>th</sup> of March.

We will have passed into law our spending plans, doing what we can to provide certainty and stability on behalf of the people of Scotland.

But the financial and economic risk will not end there.

The UK budget will still present a significant risk to the Scottish budget.

This Budget contains our best estimate, minimum level of funding that will be available to the Scottish Government in 2020/21.

However, updated economic forecasts and Block Grant Adjustments will only be available when the UK Budget is published.

That requires the Scottish Government to use provisional forecasts as the basis for setting budgets, in line with the up to date forecasts of devolved tax income and social security expenditure undertaken by the Scottish Fiscal Commission.

We have had to make assumptions about the Barnett consequentials that will be added to the Scottish Block as a result of the UK Budget.

And we have had to take decisions about devolved tax policy without knowledge of future UK policy.

This position is not of our choosing. It creates unnecessary challenges for public bodies, to businesses and to taxpayers right across Scotland.

The current timetable provides for Royal Assent by 30 March. Delaying the Scottish Budget further would have undermined parliamentary scrutiny, increasing the risk that we would run out of time to pass the Budget Bill.

Such an outcome would be in nobody's interest.

Today's Budget aims to provide as much certainty as possible to taxpayers and to public bodies - above all to local authorities who urgently need to set their budgets for the year ahead.

It is hoped that all of Parliament will unite behind these tax and spending plans. The Scottish Government is, of course, open to discussion with all parties about how we best achieve that, but the clock is ticking.

## **Wellbeing and public services**

A focus on fairness and our collective wellbeing underpins the measures we are taking to drive an inclusive economy, to tackle poverty and to respond to climate change through a just transition.

It also drives our approach to Scotland's public services.

This Budget will protect and improve these services, as part of our strong social contract with the people of Scotland.

In total, Presiding Officer, this Budget provides – for the first time ever – funding of more than £15 billion for our health and care services.

We are providing the capital for our programme of elective care centres

We are investing more than £9.4 billion in health and social care partnerships.

And we are investing £117 million in mental health.

We are delivering an increase of nearly 60 per cent in funding to reduce harm from alcohol and drugs, including support for the work of the new Drugs Deaths Taskforce.

We are also providing a real terms increase in Local Government revenue support, as part of an overall funding package that:

- delivers our key commitment on early learning and childcare;
- funds a fair pay deal for our teachers; and
- invests more than £120 million targeted at closing the attainment gap, with a further £62 million provided outwith the settlement through the Attainment Scotland Fund.

And to help maintain low levels of reported crime and keep our communities safe, we are providing an additional £37 million for the Scottish Police Authority resource budget.

That is well above the real terms increase we had promised and will ensure Police Scotland have the money they require to maintain officer numbers at current levels. That is coupled with an extra £6.5 million for community justice interventions, as part of our efforts to reduce reoffending rates.

The Budget provides capital funding of nearly £70 million for the prisons estate, including a replacement for HMP Barlinnie and investment in the female estate.

## **Economic outlook**

Now Presiding Officer, the Budget and the economy are inextricably linked – and both are being impacted by EU Exit.

Last week, the Bank of England downgraded its projections for the UK economy.

The Scottish Fiscal Commission forecasts for the Scottish economy published today again confirm that, not only has uncertainty around leaving the EU already held back growth over recent years, but that EU exit will continue to be bad for our economy, holding back growth in trade and productivity.

But despite these challenging economic conditions, the economy continues to grow.

A strong labour market with high employment and low unemployment, with earnings growth that is outperforming previous forecasts.

However, we must remember that the economic and fiscal forecasts that underpin this Budget assume that a sensible agreement will be reached between the UK and the EU.

Should that not be the case, we may be forced to reconsider spending plans across all

portfolios in order to mitigate, as much as we can, the unnecessary harm that would be caused if no agreement is reached.

## Tax decisions

The economic outlook has informed the progressive approach taken in this Budget to tax.

We already have the most progressive, fair and balanced **income tax** system in the UK. One that raises additional revenue from those who can most afford it and protects public spending.

This helps us to make Scotland the kind of country that we want it to be, it funds our public services, supports our economic infrastructure and helps those most in need.

In 2017, in the interests of providing certainty, the Scottish Government made a commitment that Scotland's income tax structure was settled for at least the duration of this Parliament. And today, Presiding Officer, we are keeping that promise.

There will be no increase to any of the rates of income tax this year. No Scottish income taxpayer will pay more income tax in 2020-21, on their current income, than they do this year.

To cement the progressivity of our tax system, we will increase the Basic and Intermediate Rate Thresholds by inflation to protect our lowest and middle earning taxpayers. The Higher and Top Rate Thresholds will be frozen.

That will ensure that 56% of Scottish taxpayers pay less than they would if they lived elsewhere in the UK. Scotland will continue to be the lowest-taxed part of the UK for the majority of income taxpayers.

The independent Scottish Fiscal Commission has forecast that our decision to freeze the Higher Rate Threshold will raise an additional £51 million in 2020-21, compared to an assumed inflationary increase.

The Commission's forecasts show that, in total, Scottish income tax will raise over £12 billion in 2020-21, partly driven by continued growth in earnings.

On **Land and Buildings Transaction Tax** we are proposing to introduce a new 2 per cent band for non-residential leases only, applying to transactions where the net present value (NPV) of rental income over the period of the lease is above £2 million.

The move to a three-band structure will ensure that our tax system continues to be seen as progressive and fair, in keeping with the Scottish approach to taxation.

Legislation will be introduced to the Scottish Parliament to enable this change to come into effect from 7 February 2020.

But it will not apply if the contract for a transaction was entered into prior to 6 February 2020.

There will be no further changes to LBTT, providing certainty to taxpayers purchasing land and property.

We are using the resources raised through the tax decisions in this Budget to support our public services and meet our ambitious targets on Child Poverty, including through initiatives such as the Scottish Child Payment.

This Government believes this is the right decision for Scotland.

Based on previous commitments at the UK Autumn Budget 2018, we do not expect income tax divergence between Scotland and the rest of the UK to increase in 2020-21.

But if there is any divergence, Presiding Officer, it will not be because of decisions made here. It will be because the UK Government is yet again cutting taxes for high earners.

## **Responding to the Global Climate Emergency**

Presiding Officer,

I will turn now to the further spending commitments announced in this Budget.

Last year, the First Minister led the way in acknowledging the climate emergency. Across the world, we are seeing an increasingly unified response to what is a fundamental issue for us all and for future generations.

We promised this would be a Budget that steps up the delivery of our ambition to tackle climate change. Today we deliver on that promise.

Scotland's transition to net-zero emissions is a national endeavour and changes are needed across the whole of society.

We all share in the opportunities this will bring through our commitment to delivering a Green New Deal and securing a Just Transition.

This Budget confirms that the Scottish Government will play its part, guided by the expert advice provided by the Committee on Climate Change and the Climate Emergency

I can therefore announce that we are meeting our pledge to increase the proportion of investment directed towards low carbon infrastructure each year, with £1.8 billion of capital investment in specific projects to reduce emissions.

That is an increase in low carbon capital investment of over £500 million compared with last year.

The Budget provides additional funding in the key areas of transport, agriculture, heat and energy.

Promoting a greater shift to public transport will be key to our success. We are increasing overall funding for rail and bus services, including concessionary travel, by £286 million – to a total of £1.55 billion in 2020-21.

Investment in active travel will increase to over £85 million, promoting cycling, walking and more sustainable transport.

The £83 million Future Transport Fund will see us investing in low carbon and other transformational initiatives, including low emission and electric buses, bus prioritisation, electric vehicle charging points infrastructure and the Switched on Towns and Cities programme.

We are providing £5 million to help the shift to electric vehicles in the Justice sector and we are increasing to £35 million Low Carbon transport loan fund, supporting those who need support to drive the transition to low emission vehicles.

Emissions from agriculture and other land uses need to reduce as part of our climate plan, but we need to work in partnership with farmers and other land managers to achieve that.

We are providing an initial £40 million investment in the Agricultural Transformation Programme, to help develop the tools and techniques that are needed.

We are also increasing our investment in forestry to over £64 million in 2020-21, up from £59 million, as part of our response to the recommendation made by the Committee on Climate Change that we need to move towards planting levels of 15,000 hectares per year as soon as we can.

And we confirm today a new £120 million Heat Transition Deal, which recognises the need to boost the scale and pace of growth in decarbonising our homes and buildings.

That will ensure we seize the huge economic opportunity renewable heat will present as part of a Just Transition, delivering thousands of new green jobs.

This Heat Deal includes a £50 million Heat Networks Early Adopter Challenge Fund for local authorities, and a £10 million fund to support hydrogen heat demonstrator projects.

This Budget also secures an increase in capital funding for energy efficiency measures to £151 million.

These measures alone represent a substantial plan of action for the year ahead. But we must and we will go further.

The climate emergency demands immediate action, but it also requires genuine long term commitment if we are to deliver against our statutory emissions reductions target.

I have three further announcements to make, which underline the depth of this Government's longer term commitment.

Firstly, we will incentivise local authorities to use the assets and levers at their disposal to reduce emissions and boost the economy, by unlocking up to £200 million of revenue financed investment in projects across Scotland through our Green Growth Accelerator.

Secondly, we commit now that we will ring-fence an additional £2 billion of transformational infrastructure investment over the next Parliamentary term for measures to support the delivery of the Climate Change Plan.

Let nobody doubt that this Government will prioritise multi-year investment in low carbon measures at the scale required to help tackle the climate emergency.

These measures will build on the recommendations of the Infrastructure Commission, with further detail to be provided in the Infrastructure Investment Plan later this year.

Finally Presiding Officer, all the evidence suggests that one of the most effective ways of locking-in carbon is to restore our peatland. This offers a clear nature-based solution to the climate crisis.

The Committee on Climate Change have shown that every £1 spent on peatland restoration brings £4 of social benefit through reduced emissions, improved water quality and flood mitigation.

Not only will we increase investment in peatland restoration to £20 million next year – an increase of £6 million compared to this year.

We will go further. Today, this Government is committing to invest more than a quarter of a billion pounds in peatland restoration over the next ten years.

That will enable large-scale restoration projects to be developed, enhancing biodiversity in some of the most important habitats in Europe, securing jobs in the rural economy and, based on initial estimates, delivering greenhouse gas emission reductions of up to 0.8 million tonnes a year by 2032.

## **Driving inclusive economic growth**

The move to net-zero will have many impacts, including on our economy, as consumption patterns change and ways of doing business adapt. There will be challenges but there are also new opportunities.

This Government is committed to helping Scotland's economy adjust, at a time when we must also work hard to mitigate the impacts of EU exit, drive productivity and ensure we are globally competitive.

Infrastructure investment remains key to our success.

Overall today's Budget, backed with increased Capital borrowing, will boost infrastructure investment by nearly £1 billion in the first year of our National Infrastructure Mission, which is to increase annual investment between 2019-20 and 2025-26 by 1% of GDP.

This includes further investment in sustainable transport, in digital, through the R100 programme, and more than £800 million of investment in affordable housing, as we continue to progress our target of 50,000 affordable homes.

The coming year will also bring important progress in our network of support for Scotland's businesses.

We are establishing the Scottish National Investment Bank, with £220 million of direct investment in 2020/21 by the Scottish Government, and the South of Scotland Enterprise will receive £28 million of funding, to provide targeted support for businesses there.

Our approach will reach right across Scotland, as we provide £201 million of funding for City Region and Growth Deals, including provision for new deals in Stirling and Clackmannanshire, Tay Cities, Ayrshire and the Borderlands.

We are pleased to maintain the most competitive business rates regime in the UK, with the lowest poundage anywhere in the UK, and we will implement a new lower intermediate property rate for properties with a rateable value of between £51,000 and £95,000.

Taken together these decisions will halve the number of properties liable for the higher property rate and ensure that over 95 per cent of properties pay a lower poundage than they would in other parts of the UK.

The budget maintains a generous package of reliefs benefiting over 150,000 properties, including the small business bonus scheme and business growth accelerator, reliefs that are worth an estimated £744 million in 2020/21.

Presiding Officer, we are pleased that sense has prevailed and Parliament has supported the Scottish Government, the business community and COSLA in approving the Non-Domestic Rates Bill which delivers on our agreed measures from the Barclay Review.

The Bill supports growth, it improves the administration of the system and it increases fairness for ratepayers.

This Budget delivers a range of other measures that will support growth in our economy.

We are providing an additional £16 million of support for the National Manufacturing Institute and we are increasing the trade and investment budget by a quarter.

We are also investing in the fundamentals of our future economy, with increased resources for Skills Development Scotland and real terms increases for our world class universities and colleges, with total investment of more than £2 billion – helping to ensure we have the skills and research base our economy needs.

In total, this Budget provides a multi-billion pound package of support for the economy, using all the levers at our disposal, just when it needs it most.

Presiding Officer, at a time when the UK Government seems to have cast our economy aside in favour of Brexit, this Government will work tirelessly to bring certainty and inclusive growth to the economy of Scotland.

## **Tackling poverty**

Presiding Officer, we must also build a Wellbeing economy – one that values growth but which also strives to be inclusive and fair.

We know that challenges in our economy often have the hardest impact on those who are already vulnerable.

That is why we are announcing a progressive budget, which targets support at those on lower incomes and in most need of support.

It is also one of the reasons we fought hard to win greater control over social security. This coming year will be truly transformational, for two reasons.

Firstly, we will see an uplift of nearly £3 billion in the total value of social security expenditure under our control, as we administer the Attendance Allowance, Disability Living Allowance, Industrial Injuries Disablement Allowance, Personal Independence Payment and Severe Disablement Allowance for the first time.

And secondly, we will provide £21 million of funding for the “game changing” new Scottish Child Payment of £10 per week, with initial roll-out commencing later this year.

It is estimated that at full roll-out in 2022 this will lift 30,000 children out of poverty.

When powers rest in Scotland’s hands, not Westminster control, we will use them wisely and decisively to build a fairer, country.

We are also providing wider support to tackle poverty and to help progress towards the target to halve child poverty by 2030.

We will continue to invest from the £50 million Tackling Child Poverty Fund and will increase the Scottish Welfare Fund by over 7 per cent, to provide more support to those hit by UK Government welfare cuts.

Through our public sector pay policy, we will provide a 3% increase in basic pay for those earning up to £80,000, with additional support to those on lower incomes through an underpin of £750 for those earning £25,000 or less, and we will continue to pay and promote the real Living Wage.

We will provide additional funding to help the most disadvantaged access further and higher education.

And we will invest £645 million in our radical expansion of early learning and childcare. Providing from August this year 1,140 hours of high quality childcare that will boost the education of children at a crucial time in their development and also reduce the financial burden of childcare costs on young families.

In total, based on previous estimates, we expect to spend no less than £1.4 billion in 2020/21 on supporting low-income households, before taking into account remaining devolution of social security benefits.

The impacts of austerity continue to be felt and we face an uncertain future due to Brexit.

Rest assured, this Government can be relied upon to act with compassion, investing in the fairer and more equal society all of us would like to see.

## **Parliamentary Process**

Presiding Officer, in a parliament of minorities, good governance demands compromise and pragmatism on all sides.

This is a budget that speaks to the priorities of the country. I am sure every party can find a reason to agree with it, but those who wish to find partisan reasons to oppose it should understand the devastating consequences of doing so.

The emergency provisions enshrined in the Scotland Act are wholly inadequate for the parliament of a modern economy.

If no budget is passed the law mandates that public expenditure is capped at the level of the previous year.

No £1 billion increase to our health and care services. Or the additional £500 million for local authorities, and our police, universities and colleges would be denied real terms increases in their budgets.

But worst of all – as a consequence of the further devolution of social security payments – nearly £3 billion of vital support will be denied to those in our society who need it the most.

Now is not the time for brinkmanship.

At a time when Westminster is far from representing Scotland's interests, it is time for Holyrood to demonstrate clearly and with purpose that we are willing and able to act in the national interest.

In order to achieve that, the Government will be willing to compromise, but we want to be clear on the parameters of that compromise.

This is a budget that fully allocates the resources at our disposal and addresses the priorities of the nation.

It reflects our ambition for our country, our determination to eliminate child poverty, to accelerate the transition to a net-zero economy and improve the collective wellbeing of our society through first class public services and a social security system built with human dignity at its core.

In doing so we have used every fiscal lever we have to the fullest extent. Every penny is accounted for including the £100 million in the reserve, held to ensure we can manage future tax reconciliations and any volatility in social security expenditure.

If any party in this chamber wants to see spending increases, or tax cuts – or in some cases both – they will need to be clear with the Scottish people not just about what they

want, but how it will be paid for.

In presenting its budget to you today the Scottish Government has made an assessment of the promises made to the people of Scotland by the UK Government – this budget relies on them fulfilling their commitments.

We have had little choice but to take the UK Government's promises at face value – their majority at Westminster is after all won on the back of a promise to end austerity.

But we have heard those promises before, and yet the crippling reality of UK Government austerity continues to bite.

And just last week there were widespread reports that all UK Government departments were being ordered to identify savings of 5%. An order issued by none other than Boris Johnson and Sajid Javid.

It seems that old habits die hard.

If the UK Government does not live up to its promises – we will have to take the unprecedented step of returning to this chamber with budget revisions that make cuts to the spending plans that I have outlined today.

If that happens, the responsibility will lie clearly at the door of the UK Government.

Presiding officer, as a parliament we face a choice.

Time is of the essence, and we must choose soon. We propose a budget that delivers for our public services, invests in the path to net-zero emissions, boosts our economy and, through the new child payment, delivers a game changer in the fight against child poverty.

This Scottish Government's choice is clear – this budget delivers for the people of Scotland and I commend it to the chamber.

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