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Dear Patrick

Thank you for your engagement over recent months in relation to the 2018-19 budget.

I have said before that during a period of minority government it is incumbent both on the government and opposition parties to engage in open, constructive and responsible discussions in the best interests of our public services, our economy and our communities. I therefore welcome the constructive approach the Scottish Green Party has taken.

On 14 December 2017, I introduced a Draft Budget for 2018-19 that 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 been able to do this through the Scottish Government's tax policy decisions, including the move to a more progressive income tax policy – something welcomed by the Scottish Greens – while raising over £360 million in additional revenue.

The Draft Budget provides for a 2018-19 local government settlement where local authorities will receive more than £10.5 billion in 2018-19, which when taken together with the ability to increase Council Tax by up to 3% affords the opportunity of real terms protection to the local government budget.

However, I have listened carefully to the proposals that the Scottish Greens have put forward in relation to the budget and I am proposing a number of changes to our existing budget proposals in response. I have set out below the key changes that I am proposing to make.

## **Income Tax**

You have highlighted as part of our discussions, that you believe that the anomaly that exists for individuals incomes between £43,000 and £58,000 should be addressed.

I have taken the decision to adjust the Higher Rate threshold that was proposed as part of the Draft Budget to address this issue. I believe it is the correct thing to do to address the anomaly.

As tax policy changes are sensitive and should be announced to Parliament first I will go no further in this letter except to assure you that the anomaly will be removed.

## **Public Sector Pay Policy**

On public sector pay, I have listened carefully to the views that have been expressed across the Parliament including by your party in relation to public sector pay and a desire for me to go further than the policy I set out in December. I have therefore decided that I will increase the threshold to which the 3% element of the pay policy applies – raising it from £30,000 to £36,500 which increases the proportion of staff groups within 3% policy threshold from 51% to 75%.

This change will be confirmed as part of my Stage 1 debate speech and the relevant pay policy documentation will be updated and published shortly thereafter.

## **Low Carbon**

In our discussions you have requested four areas where you would like to see changes in relation to low carbon.

One of those areas was the proportion of expenditure that we allocate to low carbon projects. In our earlier discussions and in the response that I provided to the Finance and Constitution Committee on 19 January, I confirmed that our internal analysis shows that between 2017-18 and 2018-19 there will be an increase in the proportion of the Scottish Government capital budget spent on low carbon – increasing from 21% in 2017-18 to 29% 2018-19. However, I have reflected on your specific ask in this area and have decided to provide a further commitment on our low carbon expenditure.

I can confirm that as part of an agreement for support on the budget I will commit:

- to continuing to increase, year on year, the proportion of our capital budget that is spent on low carbon projects – noting that this relates to the period beyond the coverage of the 2018-19 Draft Budget. Indicative estimates show that the level of investment needed to meet this commitment in 2019-20 is likely to be in the region of £60 million and a further £130 million in 2020-21;
- to provide an additional £2 million to provide real terms protection for the fuel poverty budget;
- that my officials will meet with representatives of Allan Rail to discuss the proposal for a pipeline fund for local rail projects. I will commit to explore the proposal for a pipeline fund, and subject to the satisfactory conclusion of discussions with Allan Rail, look to provide up to £2 million for this purpose; and

- to provide additional investment of £200,000 to accelerate the delivery of the four Marine Protected Areas, which will 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.

## **Local Government**

The core aspect of all of our discussions to date has been about your desire to see the local government revenue settlement enhanced. We have discussed the different calculations of what real terms protection of the settlement would require.

Having carefully considered your position I am prepared to agree to provide an enhanced revenue settlement for local government which would provide an additional £170 million, which will include an allocation of £10.5 million for Northern Isles inter-island ferries (further detail on this appears below).

Taking this additional funding and 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 by almost £260 million.

This will provide a significant uplift to the overall settlement for local authorities and provide a real terms increase in their revenue settlement (as well as the real terms uplift in the capital settlement that the Draft Budget provided).

This core local government uplift (of £159.5 million – excluding the ferries funding) will be provided in two stages, with an initial £34.5 million in 2017-18 and the balance of £125 million in 2018-19.

The 2017-18 uplift will be provided through a revised Local Government Finance order which will be laid before Stage 3 of the budget process. The change to the 2018-19 settlement will be processed via an amendment at Stage 2 of the Budget Bill and then confirmed in the same Local Government Finance Order as the 2017-18 changes, and will be debated after Stage 3 of the budget.

## **Northern Isles – Inter-island Ferries**

Finally, the Parliament, including the Scottish Greens, has clearly indicated a desire to address the funding of the inter-island ferries for the Orkney and Shetland Islands.

I can confirm that as part of the budget agreement I will make available an additional £10.5 million in 2018-19. This will be achieved through additional resource support of £5.5 million for Orkney Islands Council and £5.0 million for Shetlands Islands Council. Councillors and Council officials have indicated that they are content with this proposal for financial year 2018-19.

These ring-fenced resource grants would be administered by Transport Scotland but form part of the overall local government finance settlement for 2018-19. I therefore intend to take this forward through the Budget Bill process and will bring forward an amendment to the budget at Stage 2 to make this change.

In order to reach an agreement on the budget, compromise has been required on both sides and I am offering the proposals above in exchange for the support Scottish Greens on Stage 1, Stage 2 and Stage 3 of the Budget Bill , as well as support for the two Local Government Finance Orders and the Scottish Rate Resolution.

I am grateful for the positive way in which you have engaged with the budget this year and would welcome your confirmation of this agreement.

A handwritten signature in black ink, appearing to read 'Derek Mackay', is centered on the page. The signature is written in a cursive style with a large, sweeping flourish at the end.

**DEREK MACKAY**