UK Budget on Wednesday – Finance Secretary calls for additional spending

Finance Secretary Kate Forbes has written to Chancellor of the Exchequer Rishi Sunak calling for additional spending to support households and businesses who are facing a perfect storm of rising prices, reduced support and increasing shortages.

Writing ahead of the UK Autumn Budget and Comprehensive Spending Review on Wednesday, Ms Forbes urged the Chancellor to at least match The Scottish Government's £500 million Just Transition Fund for the North East and Moray and increase the Scottish Government's borrowing powers to enable greater investment in decarbonisation schemes.

She also called for an extension of the reduced 12.5% VAT rate for the hospitality sector, which is due to end on 31 March 2022, for a further year, a reversal of the decision not award the Scottish carbon capture, utilisation and storage project Track-1 status and for the UK Government to "prioritise spending that supports the financial security of low-income households, the wellbeing of children and young people and delivers good, green jobs and fair work."

The text of the letter is at the foot of this article.

Scottish Labour finance spokesperson Daniel Johnson said: “The people of Scotland are facing a cost of living crisis due to spiralling prices and the damage done by callous Tory cuts.

“The pandemic has shaken our economy to the core and if we do not act now to put fairness at the heart of our recovery, thousands of people will be thrown into hardship this winter.
“This budget must deliver real and tangible support for those struggling to make ends meet.
“The Tory government must wake up to the cost of living crisis unfolding due to their disastrous governance and act now.”

LETTER FROM KATE FORBES TO THE CHANCELLOR, RISHI SUNAK

Dear Rishi,

I am writing to you in advance of the UK Government announcing the Autumn Budget and Comprehensive Spending Review on 27 October, with a view to constructively progressing the recent dialogue with the Chief Secretary to the Treasury and the First Minister’s meeting with the Prime Minister.

I am conscious that over recent days there has been wide media coverage in relation to Budget and Spending Review content. The reports have contained differing degrees of detail and a lack of clarity on how much of the predicted spend is new. In the absence of direct engagement, I have not reflected this information.

The Scottish Government will work to ensure that our responses to the unprecedented public health, economic and wider challenges presented by Covid deliver for the benefit of all of Scotland. This environment is compounded by the complexity and financial detriment to Scotland of the UK Government’s decision to leave the European Union against the will of the Scottish people, while we continue to work urgently to address the needs of climate change. These challenges will require short and long-term solutions and I set out below how the UK Budget and Spending Review can support priorities in Scotland.

Net Zero
COP 26 in Glasgow will focus international attention on the urgent action needed to tackle the global climate emergency. As outlined in the joint nations letter, and by the UK Climate Change Committee, significant investment is required from the UK Government in reserved areas to meet the Scottish Government's ambitious emissions reduction targets. Given the requirement for co-ordinated action to address this challenge, it was disappointing that the UK Net Zero Strategy was launched without any meaningful engagement. The UK Net Zero Strategy provides some encouragement in key areas, but overall does not go far enough in many of the critical elements for ensuring the deep decarbonisation that the Scottish Government has repeatedly called for action in.

In Scotland, our climate change targets set their own pace and scale, requiring us to avail ourselves of every lever at our disposal. However, many levers remain at UK level, even where they affect Scotland directly. Following on from our recent meetings, it is worth highlighting again those actions which would most benefit our delivery in relation to funding key climate change commitments:

- Removal of the capital borrowing cap, replacing this with a prudential borrowing scheme to help leverage the greater volume of capital investment required;
- Agreement that all new spending will reflect the devolution settlement, enabling us to address Scotland's specific challenges in making the transition to net zero (such as the needs of rural populations);
- Meaningful and consistent dialogue between UK Government and Devolved Governments to allow consideration of all relevant input in advance of key green policy and regulatory decisions;
- Engagement in relation to the net zero roadmap and other key strategies.

The Scottish Government has committed to working with partners, communities and other stakeholders to take forward a ten-year £500m Just Transition Fund for the North East and Moray. Given the UK Treasury has, over decades, benefited from billions of pounds of revenue from activity in the North Sea, I ask that you at least match our commitment to help secure jobs the North East of Scotland, support the energy transition, and reduce emissions.

There are a number of areas where we need the UK Government to take more action and act faster, including support for carbon capture, utilisation and storage (CCUS). Scotland represents the most cost-effective and deliverable opportunity for CCS in the UK by the mid-2020s. Therefore, the recent UK Government announcement failing to award the Scottish Cluster clear and definitive Track-1 project status as part of your CCUS cluster sequencing process is illogical. We have previously advised the UK Government that we would help to support the Scottish Cluster, and stand ready to do so. However, we do not hold all the necessary legislative and regulatory levers which are retained by the UK Government. We are therefore calling upon the UK Government to reverse this decision, and accelerate the Scottish Cluster to full Track-1 status without delay.

Health & Social Care
I welcome the approach from UK Government officials to Scottish Government equivalents to form a working group in relation to the implementation of the levy, however this rise will have a notable impact on taxpayers in Scotland. Without necessary investments in supporting low-income households, this regressive approach to revenue generation will further compound the financial hardship many families already face as detailed above.

Whilst the UK Government has provided indications of the consequentials we will receive as a result of this tax rise, I remain concerned that reductions will be made in other areas giving rise to negative consequentials overall, and ask that this is ruled out in the forthcoming Budget and spending review. As part of this, I expect the allocation to devolved administrations will cover the full costs of the levy that will be incurred by our public sector employers including local government.

It is imperative that the UK budget delivers on your commitment to ensure that the NHS receives whatever support it needs throughout this pandemic. While the Health and Social Care Levy will go some way to supporting services, it is clear in particular that this will be insufficient to address the scale of social care pressure and consequent impact on NHS services.

I reiterate my previous call for a comprehensive package of investment, taking the whole health and social care system into account, both in terms of delivery of services and addressing specific Covid-19 pressures. I would also reaffirm the need for increased transparency of UK Government spending arrangements, so that the Scottish Government is clear on the funding that will arise from key programmes such as testing and vaccinations. As I have previously highlighted, it will continue to be necessary for the UK Government to accommodate flexibility across the UK in these programmes of activity, so that devolved administrations can deploy resources in a manner that best meets spending profiles and specific needs in Scotland.

Recovery from the Combined Impacts of Covid and EU Exit

The Barnett guarantee provided in 2020-21 was a successful demonstration of the benefits of fiscal flexibility. UK fiscal policy and any new fiscal rules should be flexible as well as credible. This is something the Institute for Fiscal Studies has recently advocated to ensure fiscal policy can continue to respond to temporary economic shocks and help ensure fairness across generations. It is essential that the UK Government adopt such an approach.

As I have previously communicated, the Scottish Government is strongly opposed to any return to austerity and strongly urge you to reinstate the £20-per week uplift to Universal Credit. A real cost-of-living crisis is emerging as a result of this cut, combined with the escalating energy costs and upcoming rise in National Insurance Contributions. The Universal Credit cut alone will push an extra 60,000 people in Scotland, including 20,000 children, into poverty and hundreds of thousands more into hardship, whilst also reducing social security expenditure in Scotland by £461m by 2023-24.

I cannot accept that these cuts to individual income, alongside other poverty-inducing policies such as the benefit cap, or the two child limit for child tax credit are justifiable at this time. The UK Budget must prioritise spending that supports the financial security of low-income households, the wellbeing of children and young people, and delivers good, green jobs and fair work.

The choices made by the UK Government following Brexit are contributing to labour and skills shortages in Scotland. As predicted by Scottish Government modelling, severe impacts are disproportionately concentrated on the food and drink sector, particularly seafood, meat and dairy, as well as beverages and textiles. Evidence is mounting, including from BICs and HMRC Regional Trade Statistics to illustrate the detrimental impact on our trading performance, and supporting my call for the UK Government to re-engage in good faith with the EU and find pragmatic solutions to the blockages confronting businesses. Where these create additional new costs or obstacles, I ask that the UK Budget and Spending Review is transparent about the impact and provides additional financial support to help compensate businesses for the losses incurred as a direct result of EU Exit.

Public Sector Pay

Decisions on public sector pay by the UK Government in this Budget and Spending Review are a material factor in setting pay awards for the public sector workforce in Scotland. Any continuation of the UK Government pay freeze has a material impact on our block grant settlement, within which we must balance reward and affordability. Public sector pay awards must be progressive, fair and allow valued workers to maintain their standard of living, as they continue to deliver the strong and innovative public services our people deserve.

Capital Investment

There is much common ground between UK and Scottish Government infrastructure priorities in delivering our net zero targets, delivering new jobs and securing Covid recovery. However, our economic recovery could be damaged if this spend is not prioritised and committed within the UK Budget. The decision taken by the UK Government to disburse the Levelling-Up Fund directly across the UK, despite previous commitments otherwise, impacts on the level of devolved funding available to the Scottish Government for Scotland. To help achieve our Net Zero aims and grow our economy, I would welcome your assurance that the Scottish Government will receive a fair share of future years’ Capital and Financial Transactions allocations; that the gap in the Scottish Budget resulting from the change in approach to the Levelling Up Fund will be filled and that there will be appropriate governance arrangements for the UK Infrastructure Bank and other partnerships or funding routes to ensure that all interested parties have an appropriate ability to influence and control spend in the relevant areas of the UK.

VAT

I believe that the UK Government must make responsible tax policy decisions that will support the sectors and businesses economy throughout this challenging period, and I welcome measures taken on VAT to date. However, I am convinced that the increase in VAT from 1 October comes too soon. This will affect many businesses that have been hit hardest by the Covid pandemic, potentially leading to their closure and therefore slowing the economic recovery in Scotland. It is vital that the UK Government takes account of the needs of all parts of the UK when deciding how best to support the recovery through its taxation levers, and I urge you to consider extending the reduced rate of VAT for the next financial year.

Air Passenger Duty

As you will be aware, the Scottish Government has a strong interest in the UK Government's consideration of next steps for Air Passenger Duty following this year's consultation on aviation tax reform. We accordingly asked to be fully consulted on any decisions before they are made, to ensure that any implications for devolution and the interests of Scotland are taken fully into account. In that regard, it is concerning to see that the media appears to have been briefed on those decisions, without any discussion with the Scottish Government having occurred. Moving forwards, I would welcome your full commitment to meaningful dialogue on this, and indeed on all relevant tax matters, in advance of media briefings.

Replacement of EU Funding

In common with my counterparts in the Devolved Administrations, I expect full replacement of EU funds to ensure no detriment to Scotland's finances, and I expect the UK Government to fully respect the devolution settlement in any future arrangements.

The current approach to the replacement of and participation in EU programmes leaves Scotland worse off. The ability to undertake long-term strategic planning has been significantly undermined as the flexible seven-year multi-annual funding mechanisms of EU funding are being replaced by annually managed allocations. Furthermore, the proposed methodology for determining farm funding allocations effectively penalises the use of the remaining flexibilities from legacy funding. I have written to you jointly with other finance ministers from the Devolved Administrations in order to express our concerns about this methodology and our expectations regarding future allocations.

With regards to fisheries, I consider the existing settlement to be vastly insufficient, given past underfunding and the significant impacts of Brexit on the sector. We provided clear evidence for a multi-year £62m allocation for Scottish fisheries, as opposed £14m allocation we received in the 20/21 Spending Review. Additionally, it appears that the yearly £5.5m top up which was previously provided to Scotland on the basis that the EU EMFF allocation was insufficient will no longer continue, increasing an already significant funding shortfall.

This process seems to mirror our experience with the Bew review, where commitments made in 20/21 are then being downgraded within the life of this parliament. In the case of the Bew review, this was to agree a process of engagement ahead of the upcoming Spending Review to address the issue of Bew funding from 2022/23 onwards. While the initial recommendations of the Bew review have been met, the proposed funding does not include any additional budget cover beyond 2021-22. This leaves Scotland in the same position as in 2019 where the inequality in distribution of land remains an issue. Further discussions need to take place on the principle of intra-UK allocations in line with the wider observations of the Bew review. In the absence of such a review we would expect at least the £25.7m funding to continue beyond 2021-22 to address the funding inequality included in the previous ceiling levels. A failure to do so would result in a cut of £77.1m in our budget up to 2025. I require assurance that the UK Budget and Spending Review will redress these issues to ensure no detriment to Scotland’s finances.

Internal Market Act

The financial assistance powers in the Internal Market Act (IMA) confer new powers on UK ministers to spend directly in a wide range of devolved matters, bypassing parliamentary scrutiny and accountability at Holyrood. This also, in effect, gives the UK Government the power to bypass the Barnett Formula. Aside from being a profound departure from the existing devolution settlement, it introduces considerable additional uncertainty to future devolved funding and fundamentally alters the devolution landscape.

I ask for assurance that the powers will not be used without the prior consent of the Devolved Governments, and for clarity on how decisions on use of IMA financial assistance powers will be made, and under what circumstances. Without this it is difficult to see how the principles of consent, transparency, and stability and predictability espoused in the Statement of Funding Policy can be met. Moreover, it risks poor value for money as a result of incoherent policy and disjointed spending decisions.

As a minimum I would ask that the forthcoming spending review set out details on any plans to spend under the IMA over the course of the period (and beyond where known), and that the implications for devolved funding arrangements and decision-making are addressed in the planned update to the Statement of Funding Policy.

I trust that you will consider the suggestions made above and that we can work collaboratively to address the matters raised in order to provide certainty to the wider public sector, boost the economy and support our most vulnerable at this challenging time.

Yours sincerely,
KATE FORBES