UK Government increase in Scottish Government borrowing is “derisory”

The UK Government says it has increased The Scottish Parliament’s borrowing powers in line with inflation, but the improvement has been described as “derisory”.

At the House of Commons on Tuesday Scotland Office Minister, John Lamont, secured approval for a Scotland Act order increasing the borrowing limit from £1.75 billion to £1.78 billion and the capital borrowing limit increases to £3.05 billion from £3 billion. The minister claimed this would allow The Scottish Government to invest in schools, hospitals, roads and other infrastructure to grow the economy.

This move had been agreed in a new Fiscal Framework agreed in August 2023.

But contrary to Mr Lamont’s opinion that this will allow The Scottish Government to have greater certainty and flexibility to help them manage their budget, the increase will undermine any investment in infrastructure according to Edinburgh East MP, Tommy Sheppard.

Mr Sheppard said: “The UK Government has decided to increase Scotland’s capital budget by a derisory 1.6% over seven years, when construction inflation alone will run at 40-50% over that time. This will fundamentally undermine Scotland’s ability to invest in housing, infrastructure and towards net zero.

“The figures show the UK Government has already cut Scotland’s block capital grant by 16.1% in real terms. This means that The Scottish Government now has to borrow more to offset the UK cuts imposed on Scotland. UK Ministers also still control how much Holyrood can borrow in total, which all combined makes a mockery of the Smith Commission recommendations.

“Quite simply, this is a Union dividend in reverse. It’s the price we are paying for Westminster’s control of our finances and it’s why we need independence to control our own future and deliver for the people of Scotland.”

Mr Lamont said: “The wider Fiscal Framework deal – worth billions of pounds to Scotland over the coming years – builds upon work to support economic growth and provide more high-skill jobs, investment and future opportunities for local people, such as through Investment Zones and Freeports in Scotland.

“The UK Government has made great strides in growing the economy and by halving inflation sooner than forecast. With our direct investment in Scotland now standing at more than £3billion, we are creating opportunities right across the UK.”

The UK Government also says that limits on how much can be withdrawn from the Scottish Reserve have been removed and the resource borrowing annual limit has been doubled from £300 million to £600 million. The move will “increase spending through borrowing by £90 million in the next financial year”.

While Ian Murray, the Shadow Secretary of State for Scotland supported the passing of the measures he used the opportunity to call yet again for a General Election, explaining for those of us outside Westminster, that this debate was being held on the floor of the house when it was originally tabled for a Committee room upstairs. He said that this fact alone shows the government has run out of matters to discuss.

Mr Sheppard agreed saying: “Let me start by agreeing with the shadow Secretary of State on one point: if anything reflects the zombie nature of this Parliament, it is the fact that we are spending 90 minutes on the Floor of the House discussing something that usually would be decided by 12 people in the attic and, at best, go to a deferred Division."

Ian Murray then referred to the earlier warning from the Permanent Secretary in Edinburgh that Holyrood is facing a £1.9 billion deficit. He said: "The resource-borrowing powers can be drawn down by up to £600 million per annum up to a maximum of just over £1.75 billion. How much of that has been drawn down?

"The reason I ask that latter question is that at the Finance and Public Administration Committee of The Scottish Parliament this morning, the permanent secretary warned the First Minister that there is a looming £1.9 billion fiscal deficit in the Scottish Government, because of spending promises that have been made by the current Scottish Government, and that the First Minister will have to come to Parliament regarding the redrawing of those priorities to try to reduce that £1.9 billion fiscal deficit."

Mr Murray had just got into his stride and continued: "We have had three failed Prime Ministers in the UK over as many years, an embarrassing statistic the SNP could not help but match, with three First Ministers in Scotland in as many years.

"They have brought back former leaders to take charge, although the party in government in this Parliament have not done that for the top job, or certainly not for now anyway. Scotland is governed by a man who is responsible for many of the problems we face in the first place—he will have to take charge of these borrowing requirements—the Education Secretary who wrecked our education system, the Finance Secretary who decimated local government finance and the leader who led them to their worst ever election result."

Finally Tommy Sheppard concluded: “Let us remember that when we talk about Scottish Government borrowing—the entire thing that we are talking about here—it is borrowing with the permission of, and guaranteed by, the UK Treasury.

“It is not possible for the Scottish Government to do a deal with a private sector house builder and get some private finance to build more social housing as an additional project in Scotland. That is not possible unless it is agreed to by the UK Treasury and comes within these limits, so the Scottish Government, who are heralded as the most powerful devolved regional Government in the world, do not have the financial capital powers that even a medium-sized business has to manage its own affairs.”