Briefing 103 Nov 18

UK Budget 2018 Impact on Scotland

UNISON Scotland

POLICY BRIEFING

Introduction

The UK Budget remains important even though there are many tax and spending decisions which do not apply in Scotland. Half of Scotland's budget is still determined by a combination of block grant and the Barnett formula, so spending decisions on devolved services in England have financial consequences for Scotland. Put simply if spending is increased in England on a devolved service like health, the Scottish Government receives a financial uplift, a so called 'Barnett consequential'

This briefing highlights the implications of the UK Budget for Scotland.

Economy

With significant taxation powers devolved to Scotland, economic performance becomes even more important. Monday's budget trumpeted a slight rise in forecast growth for 2019 (from 1.3%- 1.6%) - but this is accompanied by a slight lowering of forecast growth for this year from 1.5%. This is accompanied by projections of some, but not much, growth in the years ahead (see table). By way of comparison growth in the Eurozone last year was around 2.75%.

		Forecast					
	2017	2018	2019	2020	2021	2022	2023
GDP growth	1.7	1.3	1.6	1.4	1.4	1.5	1.6

What is most important for Scottish finances however is how the Scottish economy performs relative to the UK (see Briefing 90 for explanation of Income Tax in Scotland.) The Scottish economy slightly outperformed the UK economy in the first half of this year. Tax income for the UK Government has exceeded expectations. As a consequence some of the more aggressive deficit plans reduction targets have been revised.

Universal Credit spending is going up by £1.7bn – but this is only half the amount the benefit was going to cut from spending. This newly announced money, in the form of 'work allowances' will go only to families with children.

Is austerity over?

Although there is a small overall increase in spending within the total, some UK Government departments still face cuts and in others spending levels are only maintained by shifting spending from capital projects into day to day spending.

As the chart shows spending is up on what was planned last, and earlier

KEY POINTS:

- **UK Budget still determines half of spending in Scotland**
- **Economic growth is still slow**
- **UK Government spending is going up but not by nearly enough to counteract the damage done by years of cuts**
- **Scottish Government Budget will go up as a consequence – not enough to offset years of austerity.**
- **No action on pay from UK Government. So ScotGov will need to find from their own resources**
- **Draft Scottish Budget published Dec 12**

bargaining & campaigns team

Contact UNISON's Bargaining & Campaigns team:

Stephen Low
s.low2@unison.co.uk

0141 342 2811
08000 857857

this year. We are, though some way short of real levels of spending from 2008.

Table 1: Scottish Treasury allocations (real terms, 2017-18 prices)

£ million	2018-19	2019-20	% change
Resource	26,500	26,690	0.7%
Capital	3,457	3,817	10.4%
Total	29,957	30,509	1.8%

Public Spending

Increased spending in England attracts an increase of £950m over the next three years for the Scottish Government (£550m in year one). Although these arise from specific departmental increases by the UK Government the Scottish Government is free to spend these however they choose (eg Barnett consequentials from increased road spending in England don't need to be spent on roads here). Around £500m of this total arises from Health Spending and the Scottish Government announced before the Budget that any consequentials arising from English Health spending will go to Health Spending in Scotland.

The Scottish Government's resource block grant from Westminster will increase marginally in real terms in 2019/20 compared to 2018/19. And the block grant will be slightly higher in 2019/20 than it was at the end of the last parliament, in 2016/17. So the outlook has improved, compared to the position two years ago, when real terms cuts to the resource block grant of over 2.5% between 16/17 and 19/20 were pencilled in.

Pay

Public sector pay comes from revenue spending and the UK government says very little about pay in the budget. Pay is largely devolved, but the more the Chancellor does on pay, the less the Scottish Government has to find from its resources. The Office of Budget Responsibility say they expect that the additional spending to increase employment rather than wages. The OBR has revised its inflation forecast for next year up to 2.6% by the end of the year.

The Income Tax personal allowance (which isn't devolved), is set to rise from £11,850 to £12,500. But under Scotland's Fiscal Framework, this won't have a direct impact on the Scottish budget. (Higher rate tax threshold is devolved – So Scottish Government will need to take a decision about what they do with that). The National Living (ie minimum) wage is to be increased from £7.83 to £8.21 an hour.

Conclusion

Overall, the talk of austerity being over is much exaggerated. The Scottish Government now has to analyse the consequences the UK Budget for its own tax and spending plans. They have a slightly better starting point than expected. This will be published on December 12th.

Further Info

- **Treasury Autumn budget documents (Red Book)** https://www.gov.uk/government/publications/budget-2018-documents
- **Office of Budget Responsibility(OBR) Forecasts** https://obr.uk/overview-october-2018-economic-fiscal-outlook/
- **Scottish Government statement on budget** https://www.gov.scot/news/uk-budget-does-not-end-austerity/

Contact UNISON's Bargaining & Campaigns team:

Stephen Low
S.low2@unison.co.uk
0141 342 2811
08000 857 857