Briefing No.91 **November 2017**

UK Budget 2017

Impact on Scotland

UNISON Scotland

POLICY BRIEFING

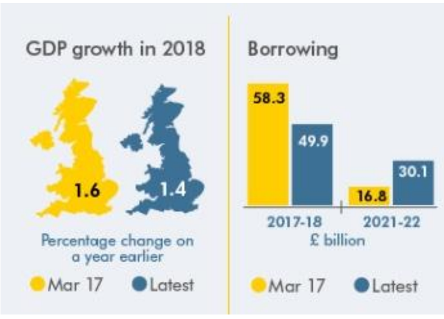
Introduction

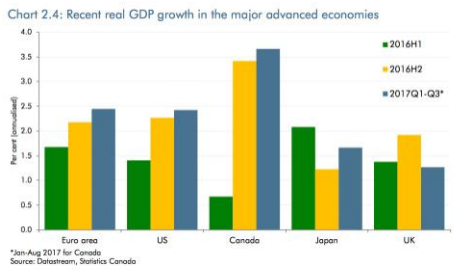
The UK Budget has moved from its traditional Spring date to November, merging with what used to be called the Autumn Statement. While many of the tax and spending decisions do not apply to Scotland, the UK Budget remains important. Half of Scotland's budget is still determined by the Barnett formula, so spending decisions on devolved services in England have financial consequences for Scotland.

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

Economy

With greater devolution of taxation to Scotland the performance of the economy becomes even more important. Today's budget includes a significant reduction in forecast growth for the UK. This has a consequential increase in borrowing, limiting the Chancellor's room for manoeuvre on spending. The second chart shows how badly the UK is doing compared with other countries.





This is bad for overall revenues, although what matters for Scottish revenues is how the Scottish economy does relative to the UK (see Briefing 90 for explanation of income tax in Scotland).

Public Spending

The UK government claims that Scotland gets an additional £2bn as a consequence of this budget. This is grossly misleading because they have conflated three elements into this figure. Financial transactions (loans that have to be repaid), capital (one off) and revenue (day to day) spending.

The revenue consequences are the most important and the Barnett consequentials of today's announcements appear to be less than £400m of that £2bn. That includes a welcome refund for police and fire VAT, but very little for the NHS or social care in England, which would have boosted the block grant. However, even that figure ignores the planned cut in the revenue budget, from £14.3bn this year to £13.8bn next year, which means that Scotland faces around £200m of revenue cuts - £2.6bn by 2019-20.

KEY POINTS:

- **UK Budget still determines half of spending in Scotland.**
- **Economy is growing slower than expected.**
- **Wage forecasts down, household debt rising.**
- **Scottish Budget is cut in real terms.**
- **Little UK action on pay, which means ScotGov has to fund from own resources.**
- **Draft Scottish Budget published 14 December**

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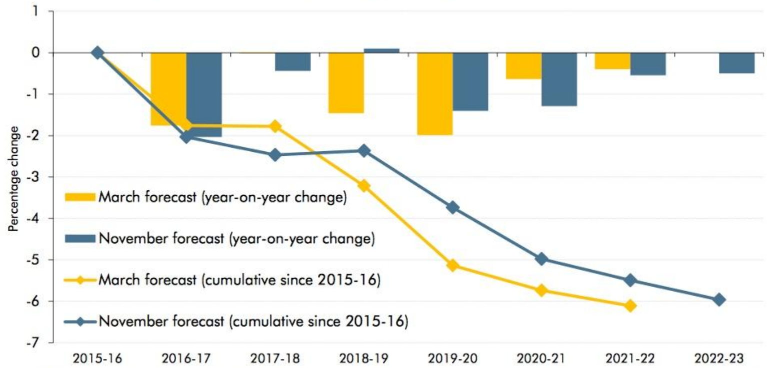
This chart illustrates the overall revenue budget cut per capita. Importantly, it ignores the real demand pressures on services. The ageing population alone requires a 2% increase each year.

Chart 4.5: Change in real RDEL spending per capita from 2015-16



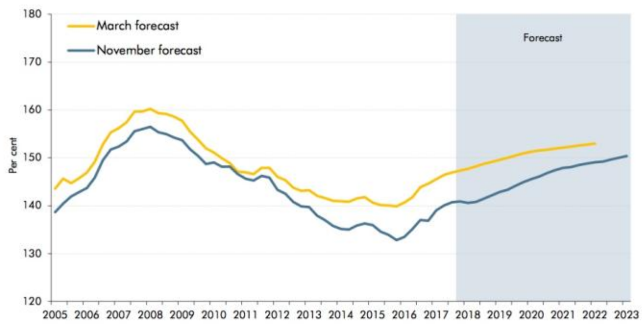
Note: 2017-18 and 2018-19 exclude the effects of business rates pilots. All other figures adjusted for consistency with the latest forecast.
Source: OBR

Pay
Public sector pay comes from revenue spending and the UK government has made no specific provision for pay in today's budget. They have published a vague statement that says they will consider the outcome of pay review bodies, and general references to efficiency and productivity.

Pay is largely devolved, but the more the Chancellor does on pay, the less the Scottish Government has to find from its resources. There is something in this budget for pay through the inflation uplift, but not enough for a real terms increase. The OBR is forecasting a reduction in inflation (CPI) from 3% to around 2% next year. This means the Scottish Government will need to find more revenue from taxation, if it is to plug the gap.

OBR assumes that average earnings growth in the public sector will converge on whole economy earnings growth by 2020-21. In other words, get closer to private sector earnings. However, they also forecast a fall in their wages forecast, due to slower economic and productivity growth. The OBR is also forecasting a further increase in household debt and a reduction in savings. Mortgage rates are also likely to rise.

Chart 3.27: Household gross debt to income



Source: ONS, OBR

There is an increase in the UK minimum wage to £7.83, less than expected and it retains the discriminatory rates for younger workers. The Income Tax Personal Allowance (not devolved) increases to £11,850.

Conclusion
Overall this is a standstill budget, with little for UNISON members in Scotland.
The Scottish Government now has to analyse the consequences the UK Budget for its own tax and spending plans. This will be published on 14 December for consultation and finalised in the Budget Bill in February 2018.

Further information

Treasury Autumn Budget documents (Red Book)
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/661480/autumn_budget_2017_web.pdf

Office for Budget Responsibility (OBR) forecasts.
http://budgetresponsibility.org.uk/efo/economic-fiscal-outlook-november-2017/

Public sector pay
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/661439/Public_sector_pay.pdf

Scottish Government response
https://news.gov.scot/news/budget-falls-short-for-scotland

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