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—
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Dear Patrick

Thank you for taking the time over recent weeks to set out your party's priorities in this year's Scottish budget.

At a time of minority government I believe it is incumbent both on the government and opposition parties to engage in open, honest 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.

This year's draft budget delivers £700m of additional investment in public services and economic growth including increased funding for the NHS and frontline policing, a package of measures that will support our economy, substantial investment in infrastructure, including in affordable housing and energy efficiency, and increased investment in educational attainment and early years and childcare.

In our discussions around the priorities you have identified, we have covered both the income and expenditure sides of the budget. As a result of those discussions, and the constructive approach you have taken, I can set out the following proposal as the basis of an agreement between the Scottish Government and the Scottish Green Party.

In our spending discussions we have focussed largely on the issue of local government funding. As you know we have ensured that there are additional resources for local services by enabling local authorities to keep the £111 million raised through changes in council tax multipliers, directly providing £120 million of funding for attainment and an additional £107 million for health and social care integration.

You have sought further funding for local authorities to be provided either from central government or through additional taxation measures.

Specifically, our discussions have centred around proposals for the Local Government Settlement to receive an additional £160 million of investment. This would be the most significant change to any draft budget at a time of minority government since devolution.

In arriving at this additional proposal we have discussed how it can be funded. You were clear that your preference was for this to be found through increases in Income Tax, including an increase in the Higher Rate.

I have been clear throughout that this government is not prepared at this time of economic uncertainty, increasing inflation and rising prices to increase tax rates.

I have instead sought to meet additional spending commitments from within government resources.

As a result of my latest assessment of the financial assumptions that underpin next year's budget, I am able to identify an additional £130m from within central government resources that could be made available to local authorities.

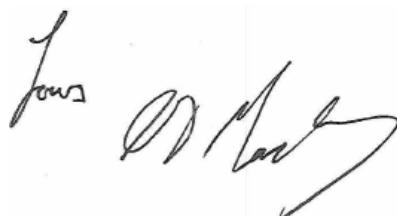
This additional funding would provide a further £30 million of capital and a further £100 million of resource to be distributed to councils for them to spend at their discretion on local priorities. This is a considerable investment that I believe demonstrates the scale of our commitment to achieving the support of parliament for this year's budget.

As you know we remain committed to the taxation policies we set out in March to provide stability and protect low income households in particular by freezing tax rates. During the election we made clear that we would not pass on the Conservative government's tax cut for the top 10% of earners in Scotland, instead, we decided to limit the increase in the higher rate to inflation raising an additional £79 million for the Scottish budget.

Taxation has been the area on which we have found it hardest to reach agreement and I accept that we remain some distance apart. However following our discussions, I propose that the Scottish Government will lodge a Scottish Rate Resolution that will freeze the higher rate threshold in cash terms relative to 2016/17. While this will not result in an increase in the higher rate of tax, I estimate this will generate around £30 million of additional revenues. If the Scottish Rate Resolution is endorsed by the Parliament this additional revenue will be allocated to local government providing a total additional investment of £160m .

Reaching agreement requires compromise on both sides and I offer these proposals on the understanding that they will secure the support of the Scottish Green Party at Stages 1,2 and 3 of the budget and for the Local Government Finance Order and will enable you to allow the Scottish Rate Resolution proposed by this government to come into force.

I am grateful for the way in which you and your party have engaged in this process and I welcome your confirmation of this agreement.



DEREK MACKAY