

As had been widely expected, UK Chancellor Sajid Javid used today's Spending Round to announce significant increases in UK Government resource spending - to fund day-to-day public services - in 2020/21.

The announcements amount to an additional £12bn of resource spending next year relative to the plans that his predecessor Phillip Hammond had already pencilled in. This including a substantial uplift to schools spending (£2.6bn), extra resources for social care (£1bn), and for the police (£750m).

Of course these figures relate to spending in England. But the increases in spending in England will generate an uplift to the Scottish block grant, via the Barnett Formula.

The Treasury's Spending Round publication shows that the Scottish block grant will increase by around £1.1bn next year. In real terms, that's an increase of around 2.1%, or £600m, on 2019/20.

A 2.1% real terms increase in the block grant is significantly higher than has been observed in recent years. In fact the resource block grant in 2019/20 was largely unchanged in real terms relative to where it was in 2016/17 (it increased in 2017/18 but largely to reflect various one-off transfers, and was cut again in 18/19).

The increase will take the Scottish resource block grant to £29.4bn next year. In fact, this figure is £1.8bn higher than the equivalent figure for the resource block grant published in the 2019/20 Scottish budget (not £1.1bn as highlighted by the Treasury). This suggests that there have been significant in-year additions to the Scottish block grant during 2019/20. So on one reading, it could be argued that the Scottish block grant will be increasing by more than 2.1% next year. As ever when it comes to Spending Rounds, complexities in the way baselines are set can complicate the analysis, and it will be interesting to see whether the Treasury publishes more detail on how these figures are arrived at.

The announcement of these additional consequentials will provide some relief to Derek Mackay as he prepares to set out the Scottish budget for 2020/21 in December. However, that budget is likely to remain constrained.

Whilst the resource block grant looks likely to increase by 2.1% following today's announcements, the outlook for the Scottish budget depends also on the outlook for devolved revenues. The latest tax forecasts imply that the overall Scottish budget might increase by somewhat less than 2%, although the forecasts that affect the budget will not be published until later in the year.

Add to this the impact of the income tax reconciliation that will apply to next year's budget (reflecting a shortfall in income tax outturn in 2017/18), together with existing spending commitments for health spending, and the conclusion you would come to is this. Unprotected areas of the Scottish budget should avoid real terms cuts in 2020/21, but they should not expect a spending bonanza.

What about the longer term? Today's Spending Round appears to signal a step-change in the UK Government's fiscal stance towards a looser policy, with pledges made to further increase spending on police and education in subsequent years.

At face value this should mean we could expect further real terms increases in the Scottish block grant in 2021/22 (a Holyrood election budget). But all this could change.

The next iteration of the OBR's fiscal forecasts will likely show the UK Government is no longer on course to meet its existing fiscal mandate, unless the government were to announce tax rises in the autumn budget (which seems unlikely given recent pledges for tax cuts rather than increases).

A no-deal Brexit, if it happens, is likely to weaken the economy and by implication the outlook for the public finances in the medium term, even if the short-term response is for further stimulus. This, together with the possibility that the next UK Budget could feasibly be set by a different government following a General Election this autumn, means that almost nothing can be ruled out.