Finance Secretary raises revenue to invest in public services

This was a revenue-raising budget to fund investment in public services, but one that kicks some of the more difficult spending decisions into future years.

Today's Budget contained little in the way of new surprises beyond what had been widely trailed in advance.

The budget contained a number of policies designed to boost economic growth including cuts to business rates, and with Scotland currently growing at around one third of the UK, the Government will be hoping these policies have an immediate impact.

The major announcement was an increase of around £270m in spending on local authority services. This is made up of a mix of higher revenues from council tax increases of up to £180m, new spending linked to commitments on educational attainment and childcare, and the allocation of money from the health budget to support implementation of the living wage for care workers.

But by setting out spending plans for just one year, and with significant real terms cuts coming down the line, a lot of the hard choices have been left for another day.

Next year's budget is forecast to rise slightly in real-terms, but further cuts are planned for 2018-19 and 2019-20 of just over 3% in real-terms. Where these cuts will fall remain unknown.

The centre piece of Mr MacKay's Budget statement was confirmation that the Scottish Government plans to set a different income tax policy to the UK – the first time since devolution that Scotland's major tax power will be used.

From April 2017, Scottish taxpayers will start paying the 40p higher rate of tax on incomes above £43,430, compared to a UK threshold of £45,000.

There are two ways to view this.

On the one hand, the Scottish Government is not actually taxing people more than they were last year – provided their earnings rise with inflation – but instead not passing on a tax cut that is being implemented elsewhere in the UK.

On the other hand, it is now the case that middle-to-high earners in Scotland will face a higher tax burden – of around £300 per annum (or just over £25 per month) – than people earning exactly the same amount elsewhere in the UK.

In 2017-18, this income tax policy is expected to raise an additional £79m for public services.

Whilst a relatively small change next year, the Scottish Government also announced their intention to continue with this policy up to 2020-21, so the gap between Scotland and the rest of the UK will widen over time. By 2020-21, Scottish higher rate taxpayers are likely to be paying an additional £700 per year (or around £60 per month) more in income tax than the rest of the UK.

This is part of an overall effort by the Scottish Government to raise the size of its budget to support public services, and to take a different path from the rest of the UK. The flipside of course is higher tax bills. For a family with one higher earner in a band G council tax property, this will amount to a combined tax increase of over £600 in 2017-18.

A blog will follow this initial statement later on today.