FI/S4/13/20/A

The Scottish Parliament
Pàrlamaid na h-Alba

FINANCE COMMITTEE

AGENDA

20th Meeting, 2013 (Session 4)

Wednesday 4 September 2013

The Committee will meet at 9.00 am in Committee Room 2.

1. **Decision on taking business in private:** The Committee will decide whether to take items 3 and 4 in private.

2. **Implementation of Scotland Act (2012) and UK Spending Round 2013:** The Committee will take evidence from—

   Rt Hon Danny Alexander MP, Chief Secretary to the Treasury, UK Government.

3. **Landfill Tax (Scotland) Bill:** The Committee will consider its draft Stage 1 report.

4. **Draft Budget Scrutiny 2014-15:** The Committee will consider its approach to the scrutiny of the Scottish Government's Draft Budget 2014-15.

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The papers for this meeting are as follows—

Agenda item 1

Paper by the Clerk FI/S4/13/20/1

Agenda item 2

PRIVATE PAPER FI/S4/13/20/2 (P)

Agenda item 3

PRIVATE PAPER FI/S4/13/20/3 (P)

Finance Committee

20th Meeting, 2013 (Session 4), Wednesday 4 September 2013

Implementation of Scotland Act (2012) and UK Spending Review 2013

1. The purpose of this paper is to provide the Committee with information in advance of its evidence session with Danny Alexander MP, Chief Secretary to the Treasury.

2. A paper providing a summary of key information relating to the implementation and operation of the financial provisions of the Scotland Act (2012) is attached at Annexe A.

3. A further paper providing an overview of the 2013 UK Spending Round is attached at Annexe B.

4. The Committee is invited to consider the attachments at Annexes A and B in its oral evidence session with the Chief Secretary to the Treasury.

Jim Johnston
Clerk to the Finance Committee

ANNEXE A

Implementation of Scotland Act (2012)

Introduction

1. At its meeting on 4 September the Committee will hear from the Chief Secretary to the Treasury on the UK Government's first annual report on the implementation and operation of the financial provisions of the Scotland Act 2012. The report is attached.

Scottish Rate of Income Tax (SRIT)

2. The UK Government's white paper, *Strengthening Scotland's Future*[1], proposes that SRIT will be introduced in April 2016. Section 26 of the Scotland Act 2012 provides for the basic rate, higher rate and additional rate of the non-savings income of a Scottish taxpayer to be reduced by 10%. The Scottish Parliament will then levy a new SRIT which will apply equally to all of these rates. This power will supersede the existing tax varying power, the Scottish variable rate (SVR).

Deciding SRIT

3. The new Scottish rate will need to be set annually by the Scottish Parliament. The Scotland Act 2012 requires that a *Scottish rate resolution* "must be made before the start of the tax year" and that the "Standing Orders must provide that only a member of the Scottish Government may move a motion for a Scottish rate resolution." However, the white paper states that in order to allow HMRC to process the necessary administrative and compliance measures the Scottish rate "will need to be formally communicated to the UK Government by the end of December in the preceding calendar year."

Transitional Period

4. Following the devolution of SRIT there will be a transitional period which is expected to be around 2 or 3 fiscal years during which the deduction in the block grant arising from the 10p reduction will be calculated annually. During this period the deduction in the size of the block grant will be based on the OBR forecast of Scottish income tax receipts for the forthcoming fiscal year. The command paper states that: "These will not be reconciled during transition and the UK Government will bear the risk of any deviation of outturn from the forecast."[2]

[1] http://www.scotlandoffice.gov.uk/scotlandoffice/files/Scotland_Bill_Command_Paper.pdf

[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/69803/Scotland_Bill_Command_Paper.pdf

5. The SG states in its implementation report that: “For the first two or three years, the adjustment will be notional – the net effect of levying SRIT at 10p in the pound and deducting the block grant adjustment will be zero.” However, it is not clear what the effect will be if the parliament agrees to a SRIT either above or below 10p in the pound. For example, if the parliament agrees to a rate of 11p and there is no reconciliation to outturn receipts from the forecast.

Forecasting SRIT

6. The OBR began providing forecasts of various Scottish tax receipts alongside its *Economic and fiscal outlook* (EFO) for the UK economy and the public finances in March 2012[3]. The OBR will continue to publish its forecast for these taxes alongside each EFO which is published at the time of the UK budget and each Autumn. As with the OBR’s main UK forecasts these are five-year forecasts.

7. The OBR produced a methodology note in March 2012 setting out how it plans to forecast Scottish tax receipts. It states: “The OBR’s role in forecasting is starting three years ahead of the initial devolution of the taxes, which will allow us to develop and improve forecasts in the light of experience and the availability of new information sources.”[4] In evidence to the Finance Committee on 28 March 2012 the chairman of the OBR stated that: “We very much view the forecasts as work in progress for the time being. This is a learning experience, for us and for everybody. ”[5]

8. The OBR have now published three Scottish tax forecasts. The figures for SRIT are as follows:

March 2012-SRIT

Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
£ million	4375	4417	4542	4874	5265	5633

December 2012-SRIT

Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
£ million	4480	4462	4472	4602	4918	5242	5587

March 2013-SRIT

Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
£ million	4330	4240	4246	4332	4649	4976	5308

9. The OBR states that the shortfall in the forecast tax receipts for March 2013 compared with the December 2012 forecast reflects the “deterioration in the UK forecast and the Budget 2013 policy announcement that the personal allowances will reach

[3] http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2012/
[4] http://budgetresponsibility.independent.gov.uk/wordpress/docs/Forecasting-Scottish-taxes.pdf
[5] Finance Committee, 28 March 2012, OR Col. 888.

£10,000 in 2014-15." However, they go on to state that they "still expect growth in receipts to pick up from 2014-15 onwards" on the basis of "stronger growth in average earnings and rises in employment as the economy improves."

Implementation of SRIT

10. The UK Government's implementation report states that the implementation of SRIT is being led by an HMRC project with oversight being provided by "representatives from HMRC, HM Treasury and the Scotland Office as well as the Scottish Government" (paragraph 6). The project is responsible for 3 main areas relating to the implementation of SRIT:

- Identifying Scottish taxpayers;
- Enabling the administration and collection of SRIT from April 2016;
- Developing a transparent and efficient process to account for the collection of SRIT.

11. The report states that during 2013-14 "the project will design new processes which will ensure that HMRC can accurately and efficiently collect" SRIT (paragraph 15). The report also states that work on the necessary IT systems changes will begin in 2014 and take around 2 years.

Implementation Costs

12. The UK Government implementation report states that the cost of the project is estimated at between £40-45m for implementation including around £10m in IT costs and £4.2m annual running costs thereafter. HMRC officials stated in evidence to the Committee in May 2012 that this was an estimate when the bill was published and that "we hope that expenditure will be significantly less than £45 million."[6] When pressed as to whether this remained the case, HMRC officials confirmed at the Committee's meeting on 8 May 2013, that: "I certainly hope that it will be."[7]

13. However, the SG implementation report states that it "is too early in the work of preparing the detailed plans to say whether any savings will be possible on the original broad brush cost estimates." The CSFESG stated in evidence to the Committee on 1 May that: "Demonstrating value for money remains essential in terms of the cost of implementation."[8]

14. The UK Government implementation report states that the costs for the SG for 2012-13 are £165,141 and estimated costs for 2013-14 are £1.5m. The latter costs

[6] Finance Committee, Official Report, 30 May 2012, Col 1290.
[7] http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=8138&mode=pdf

[8] http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=8292&mode=pdf

include work in relation to switching off SDLT and landfill tax as well as the implementation of SRIT. The SG has paid the invoice for 2012-13 and has paid a further invoice for £196,870 to cover costs in respect of SRIT for the first quarter of the 2013-14 financial year.

Block Grant Adjustment Mechanism (BGAM) - SRIT

15. The UK Government and the Scottish Government have agreed to adopt the "Holtham Method" in developing proposals for the BGAM in relation to SRIT but not for the devolved taxes. This means that the initial deduction is indexed to an external variable. The two governments have agreed to recalculate the block grant adjustment each year by indexing it to movements in the tax base at a UK level. The UK Government implementation report states:

> "an adjustment indexed to growth in the UK non-savings, non-dividend income tax base would be most appropriate. This adjustment mechanism provides incentives for the Scottish Government to grow the income tax base would be most appropriate. This adjustment mechanism provides incentives for the Scottish Government to grow the income tax base in Scotland more quickly than in the UK as a whole, while shielding Scotland from UK-wide economic shocks that the UK Government is better placed to manage."

16. The CSFESG stated in evidence to the Committee on 5 September 2012 that: "the Holtham methodology links the Scottish tax base with the performance of the Scottish economy, which is a welcome and appropriate connection."[9] In further evidence to the Committee on 1 May 2013 he stated that: "There is therefore an inherent incentive for the Scottish Government to ensure that our economic policies and interventions are designed to expand the tax base of Scotland."[10]

17. The two governments have also identified several technical issues to work through including:

- Ensuring that the measure of indexation is based on transparent data;
- The use of forecasts and reconciliation with outturn receipts;
- Ensuring that the adjustment is transparent;
- Selection and preparation of estimates of tax base movements in advance of actual information being available;
- The thresholds and treatment of spill-over effects caused by UK income tax policy decisions;
- The number of annual adjustments.

[9] http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=7438&mode=pdf

[10] http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=8292&mode=pdf

18. The Committee took evidence from Professor Holtham at its meeting on 24 April 2013. Professor Holtham states in his submission that: "Using the UK tax base as the index means domestic policies are not offset but if the UK government alters the tax base it will compensate the effect in the deduction from the block grant." While he believes that this works well for income tax "it does not work well where there are reasons to think that the UK tax base will grow at a very different rate from that of the devolved territory." He argues that it "is not in the devolved territory's interest if its own tax base is inevitably slower growing than that of the UK."

19. The previous budget adviser to the Committee, Professor David Bell, identified a number of risks for the Scottish government as a consequence of the ID method:

- *Cyclical risk* – the risk should be relatively small;
- *UK policy risk* – the risk to SG revenues is small;
- *Scottish Policy risk* – the SG bears the risk of how its own policies impact on the Scottish income tax base;
- *Asymmetric growth* – this occurs if the Scottish economy grows more rapidly or more slowly than the UK and is intended to encourage growth-enhancing policies.

20. The previous budget adviser also pointed out that there is agreement between the two governments that "indexation should be based on 'comparable' adjustment to the UK income tax base." However, it is not clear what "comparable" means. When the Committee considered this issue at its meeting on 24 April there appeared to be different interpretations of its meaning among witnesses. The Budget Adviser's interpretation is that it could be indexed against the growth in comparable income tax receipts in rUK. However, another interpretation is that it could be indexed against the growth in the level of income subject to income tax in rUK.

Parliamentary Approval

21. The Committee sought clarification from the SG in its Stage 1 report on the LBTT Bill as to whether parliamentary agreement will be required on the block grant adjustment[11]. The response confirmed that the SG will seek the agreement of the parliament on the arrangements for the block grant adjustment[12].

Submission to the SG

22. At its meeting on 12 December 2012 the Committee agreed to take further evidence on the implementation of the Scotland Act 2012 including on the adjustment of the block grant following the devolution of further financial powers. The Committee further agreed to submit its views on the adjustment of the block grant to the Scottish

[11] http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/61649.aspx
[12] http://www.scottish.parliament.uk/S4_FinanceCommittee/LBTT_response.pdf

Government. The clerks will draft a submission for consideration by the Committee following the evidence session with the CST.

Land and Buildings Transaction Tax (LBTT)

23. The Land and Buildings Transaction Tax (Scotland) Bill[13] received royal assent on 31 July 2013. The new tax will replace Stamp Duty Land Tax on 1 April 2015. The Bill "makes provision for a tax which should be as simple as possible to understand and pay and which will place the minimum administrative burden on the taxpayer or their agent and on the tax authority." The Scottish Government also intends to replace the current "slab" structure with a "proportional progressive structure."

24. The Committee published its Stage 1 report on the general principles of the LBTT Bill on 27 March 2013.[14] The Committee concluded that it supports the general principles of the Bill and emphasises that it will aim to closely monitor the implementation and delivery of LBTT.

Forecasting SDLT/LBTT receipts

25. Some witnesses raised concerns regarding the accuracy of the OBR forecasts for SDLT receipts. The Cabinet Secretary also pointed out that the forecasts have already been significantly revised which is evident from the OBR's figures from March 2012, December 2012 and March 2013:

March 2012 - SDLT

Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
£ million	319	328	369	426	480	536

December 2012 – SDLT

Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
£ million	275	296	328	368	416	464	516

March 2013 - SDLT

Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
£ million	275	323	348	372	410	456	509

26. In relation to the March 2013 forecasts the OBR states that: "Although we have assumed a slower recovery in property transactions than in December, we still expect this to be the main driver behind the rise in SDLT over the forecast period."

[13] http://www.scottish.parliament.uk/S4_Bills/Land%20and%20Buildings%20Transaction%20Tax%20Bill/b19s4-introd.pdf

[14] http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/61649.aspx

27. The Cabinet Secretary stated in evidence to the Committee on the LBTT Bill:

> Between the March and December forecasts in 2012 that looked forward from 2012-13 onwards, the OBR reduced the estimated tax-take by 9.75 per cent, 11.1 per cent, 13.6 per cent, 13.3 per cent and 13.4 per cent. I put those numbers on the record to make the point that, given that pattern, the forward estimating of SDLT is very difficult. I therefore think that a retrospective average assessment is a much more reliable way of making the block grant adjustment. Obviously, that is a subject of discussion with the UK Government."[15]

Block Grant Adjustment

28. Witnesses also pointed out during the Stage 1 inquiry that while the SG intends that the financial impact of the new tax should be broadly neutral the volatility of the tax may make this difficult to achieve.

29. The most recent data for receipts for SDLT in Scotland demonstrates the extent of the volatility as follows:

Year	2007-8	2008-9	2009-10	2010-11	2011-12
£ million	565	320	250	330	275

30. Given this volatility the Cabinet Secretary stated that: "the fair and reliable way of considering the issue is to take an average of those five years and make an adjustment on that basis."[16] He also pointed out that the Scotland Bill Committee in the previous parliament "stated that it should be a one-off, non-index linked adjustment to the block grant."

31. The UK Government has stated that:

> Upon the passage of the Scotland Bill, the UK Government will engage with both the Scottish Government and Parliament on the means of calculating the reduction in block grant associated with the devolution of SDLT and LfT. The resulting calculations will be transparent, published and open to scrutiny or audit by external parties and based on outturn tax receipts data as well as the tax receipts forecast carried out by the independent OBR.[17]

32. The Committee states in its Stage 1 report on the LBTT Bill that:

> If the block grant adjustment was calculated within six months' time, then a five year average for the period 2010-11 to 2014-15 would need to rely on OBR

[15] Finance Committee, 27 February 2013, OR Col.2327-2328
[16] OR Col. 2327 - 2328
[17] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/69803/Scotland_Bill_Command_Paper.pdf

forecasts for at least two, or possibly three of these years. The latest data available is for 2011-12, although 2012-13 should become available within the next 6 months. The Financial Scrutiny Unit have advised that on the basis of the currently available data and OBR forecasts, this would imply a block grant adjustment of £319m.[18]

33. The UK implementation report states that: "The two governments continue to work together to consider how Scotland's block grant should be adjusted in relation to the smaller fully devolved taxes" (paragraph 36). The SG implementation report notes the UK Government states in the white paper on the Scotland Bill: "When the smaller taxes are devolved, currently planned to be April 2015, there will be a one-off reduction which will then be deducted from the block grant for all future years."[19]

Landfill Tax

34. The Scottish Government introduced Landfill Tax Bill on 17 April[20] and the Committee will consider a draft Stage 1 report at its meeting on 4 September 2013. The purpose of the Bill is to replace the UK Landfill Tax regime with legislative provisions for a Scottish Landfill Tax that will come into force the day after the UK landfill tax is dis-applied in Scotland.

Forecasting Landfill Tax Receipts

35. There are no Scotland-specific figures for landfill tax revenues available from HMRC as revenue receipts are based upon reporting at a company level rather than by landfill site, and many companies operate cross the UK. The SG states in its consultation that while it is difficult to accurately forecast future revenues from landfill tax in Scotland "it is highly likely the Scottish Government's Zero Waste Plan will see both the quality and type of material landfilled in Scotland change substantially, with far less material going to landfill and what is landfilled being largely inert materials."[21]

36. The OBR forecast Scottish landfill tax receipts by assuming a constant share of UK landfill tax receipts based on an average of the last three years. The first three forecasts are as follows:

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[18] http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/61649.aspx

[19] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/69803/Scotland_Bill_Command_Paper.pdf

[20] http://www.scottish.parliament.uk/S4_Bills/Landfill%20Tax%20Bill/b28s4-introd.pdf
[21] http://www.scotland.gov.uk/Publications/2012/10/3524/4

March 2012

£ million	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Landfill Tax	115	123	132	145	151	157

December 2012

£ million	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Landfill Tax	98	97	96	105	107	107	110

March 2013

£ million	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Landfill Tax	98	99	95	104	105	105	108

37. The OBR explain that the significant fall in forecast receipts from March 2012 to December 2012 is primarily due to a weaker UK forecast. However, the Landfill Tax Bill FM states that the OBR "does not take into account Scottish-specific policies that will affect the amount of material going to landfill."

38. The CSFESG stated in evidence to the Committee on 1 May 2013: "I found the original OBR forecasts on landfill tax to be inexplicable. Any rudimentary assessment of performance in the policy area of waste to landfill in Scotland would identify that the trajectory for landfill tax must be going down…"[22] The FM states that the SG expects "landfill tonnages in Scotland to significantly decrease over the coming decade with a corresponding reduction in receipts." Consequently, landfill tax receipts are estimated to fall from £107m in 2015-16 to around £40.5m in 2025.

Block Grant Adjustment

39. The Bill Team stated in its Stage 1 evidence to the Committee that broadly speaking "the OBR sees tax revenues from landfill tax staying level in cash terms from 2015 onwards, whereas we project a significant reduction." On this basis they indicated that the SG aims "to achieve a block grant adjustment that is as low as possible so that we minimise the risk of the Scottish budget losing when the devolved taxes start up in April 2015."[23]

40. The CSFESG stated in evidence to the Committee at Stage 1: "the way to address the issue is to have a discussion and an agreement that relates to all the devolved small taxes, taking into consideration the fact that there is likely to be a loss of

[22] http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=8292&mode=pdf

[23] http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=8197&mode=pdf

revenue on landfill tax, and come to a reasonable position on the totality of block grant adjustment that should be taken into account."[24]

Borrowing

41. The Scotland Act 2012 provides Scottish Ministers with borrowing powers for three purposes from April 2015:

- up to 10% of the Capital DEL budget each year with a statutory limit of £2.2 billion;
- up to £200m annually and £500m in total to deal with deviations between forecast and actual revenues;
- an appropriate cash working balance to deal with temporary shortfalls between receipts and expenditure.

Capital Borrowing

42. The SG implementation report states that the cap of 10% means that it is restricted to borrowing around £240m annually. It can borrow from the National Loans Fund (NLF) or by way of a commercial loan from a bank or other lender. The SG will be expected to provide an estimate of its expected capital borrowing from the NLF before the year in which the borrowing will take place.

43. The Budget Adviser states that the cap can be contrasted with that of local government on which it can be concluded that the existing controls for borrowing by the Scottish Government in relation to the volume, form and source of borrowing are more restrictive than those for UK local government.[25] Notably, although UK local government has access to a wider range of debt products, more than 75% of existing borrowing (approximately £50Billion) is sourced from the Public Works Loan Board (PWLB).

44. From 1 November 2013 local authorities in England will be able to access borrowing below the PWLB standard rate for approved projects. The Budget Adviser notes that this 'Project rate', 40 basis points below normal PWLB rates (0.4%), is restricted to borrowing to support Local Enterprise Partnership strategic local capital investment projects[26]. Scottish local authorities are unable to access the same favourable borrowing in order to support equivalent infrastructure projects in Scotland.

[24] http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=8313&mode=pdf

[25] Local Government (Scotland) Act 1975 Schedule 3, CIPFA submission to HM Treasury March 2013

[26] http://www.dmo.gov.uk/documentview.aspx?docname=PWLB/pwlb2013guidance1HMT.pdf&page

45. The UK Government has also consulted on enabling the SG to issue bonds and states in its implementation report that it "will respond to the consultation in due course" (paragraph 29). The SG states in its implementation report that it "has argued that it should have the power to issue bonds should it choose to do so" (paragraph 13).

46. The Budget Adviser suggests that there is evidence in the UK of the successful use of bond issues[27]. The need to optimise value for money in borrowing resulted in local authorities considering raising finance through bond issues to institutions. This was, in part, driven by the policy decision to increase the PWLB rate margin over government gilts to +100 basis points (+1.0%).

47. The competitive viability of a large scale local authority bond issue compared to PWLB debt at that time was demonstrated in July 2011 by the Greater London Authority 'Crossrail Bond' for £600m. It was concluded that the Crossrail Bond was evidence that under certain circumstances the yield on corporate bonds can be more attractive than PWLB borrowing and a useful instrument to have access to.

48. The Budget Adviser states that experience to date indicates the volatility and uncertainty that local government, and presumably any devolved institution, faces in respect of assessing the optimum form of borrowing for long-term plans. In effect the rate for borrowing from the UK Government will not only be influenced by the market for UK sovereign gilts, but also by the UK government policy in relation to on-lending to sub-sovereign institutions. This will directly affect the differential between market based borrowing and borrowing from the central government, which will influence borrowing decisions.[28]

49. The value for money of bond issues for sub-sovereign institutions will, according to the Budget Adviser, therefore be partially dependent on the policy decisions of the UK government regarding the premium to be charged on loans to sub-sovereign institutions. This will create additional uncertainty in determining the optimum borrowing strategy.

Revenue Borrowing

50. The SG implementation report states that the new revenue borrowing powers are to "help smooth fluctuations in tax receipts" and are to be repaid within 4 years (paragraph 18). This borrowing will be available in relation to the devolved taxes from 2015-16 and in relation to SRIT following the transition period. However, the committee has noted that the OBR forecasts for SRIT have already been significantly revised downwards. It was suggested by some witnesses that there may be some questions as to whether the borrowing limit is sufficient to accommodate future forecasting errors.

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[27] Capital Futures: Local capital finance options in an age of recovery (Tom Symons, New Local Government Network) pages 51-52
[28] CIPFA submission to HM Treasury March 2013

51. The SG states in its implementation report that is “discussing with HM Treasury the circumstances in which the borrowing would be accessed, and the arrangements for doing so” (paragraph 18).

Conclusion

52. The Committee is invited to consider the above issues in taking evidence from the Chief Secretary to the Treasury.

Jim Johnston
Clerk to the Committee

ANNEXE B

UK Spending Round 2013

Overview

The UK Spending Round was published on 26 June 2013 and outlined UK spending plans for financial year 2015-16. Total public spending across the UK will be £745bn in 2015-16 (43.1% of UK GDP), of which £50bn (7% of public spending) will be capital spending.

The Scottish Departmental Expenditure Limit (DEL) was contained within the document, alongside the DELs of the Welsh and Northern Ireland Assemblies and other UK Departments. Various interpretations of the Scottish numbers were presented following the publication of the Spending Round depending on whether new borrowing powers were included[29] and how financial loan transaction[30] numbers were treated. For example, financial loan transactions were included within the Scottish DEL figures presented by HM Treasury. However, the Scottish Government argue that because these loans need to be repaid to Treasury, they are not adding to overall Scottish spending power. A summary of the various numbers is presented in table 1 below.

As the CPPR (2013) note in their paper on the UK Spending Review 2013 and the Scottish Government's Budget the Scottish "settlement was complicated by a number of non-standard budgetary changes being included and by the use of different baselines by various government bodies from which to calculate year-on-year changes." As table 1 shows, the change to the Scottish budget from 2014-15 to 2015-16 varies depending on the baseline used

> "and on what changes are incorporated and this makes it difficult for even well informed observers to get a clear perspective on what has actually happened. This lack of a clear and undisputed baseline is becoming an increasing problem in terms of interpretation of Scottish and UK budget settlements and was raised by the IFS at the UK level in their post 2013 Spending Review analysis" (CPPR, 2013).

[29] The Scottish Government will be able to borrow up to 10% of the Capital DEL in any given year, (equating to £296m in 2015-16) as a result of borrowing powers accruing from the Scotland Act 2012

[30] The main example of a financial loan transaction is the UK Government's Help to Buy initiative designed to assist buyers in attaining a mortgage and boosting the Housing sector. The Scottish Government has received funding from this scheme which it is intending to use to boost the Housing sector in Scotland. Details on how these schemes will work and the terms of repayment are still being finalised.

Table 1: Scottish Budget from UK Spending Round

Treasury Budgets	Cash				Real			
	2014-15	2015-16	Change	% Change	2014-15	2015-16	Change	% Change
	£m	£m	£m	£m	£m	£m	£m	£m
Resource Budget								
RDEL	25,692	25,655	-37	-0.1	25,692	25,201	-491	-1.9
Capital Budget								
CDEL (excluding Financial Transactions)	2,654	2,652	-2	-0.1	2,654	2,605	-49	-1.8
CDEL (including Financial Transactions)	182	311	129	70.9	182	306	124	67.9
Total CDEL	2,836	2,963	127	4.5	2,836	2,911	75	2.6
Total Departmental Expenditure Limit								
Total DEL (excluding Financial Transactions)	28,346	28,307	-39	-0.1	28,346	27,806	-540	-1.9
Total DEL (including Financial Transactions)	28,528	28,618	90	0.3	28,528	28,112	-416	-1.5

Scotland Act powers impact on 2015-16 Budget

The actual Scottish budgetary position is complicated further by the introduction of new financial powers in 2015-16 arising from the Scotland Act 2012. Specifically, the devolving of Stamp Duty, landfill tax and new borrowing powers means that the final Scottish spending envelope for 2015-16 is likely to differ to that presented.

As the Committee knows from its various evidence sessions on the Scotland Act, the final spending power of the Scottish Government in 2015-16 will depend on the size of the Scottish Block Grant Adjustment (BGA) made as a result of the devolving of Stamp Duty and Landfill Tax and the amount that the Scottish Government choses to borrow. Negotiations are currently ongoing between the Scottish and UK Governments over the BGA issue.

The UK Spending Round (Treasury 2013) document acknowledges the uncertainty around the final Scottish DEL figure for 2015-16 and attaches the following footnote to the Scottish DEL figure:

> "Scottish Government RDEL will be adjusted to take account of devolved taxes in 2015-16 once the two Governments have agreed an adjustment mechanism."

Scottish budget relative to other UK departments

Due to the "protection" [31] of the Health and Schools budget at UK level and the workings of the Barnett formula, the Scottish Budget was not impacted as heavily as some other UK Departments. The protection of Health and Schools, which are both devolved,

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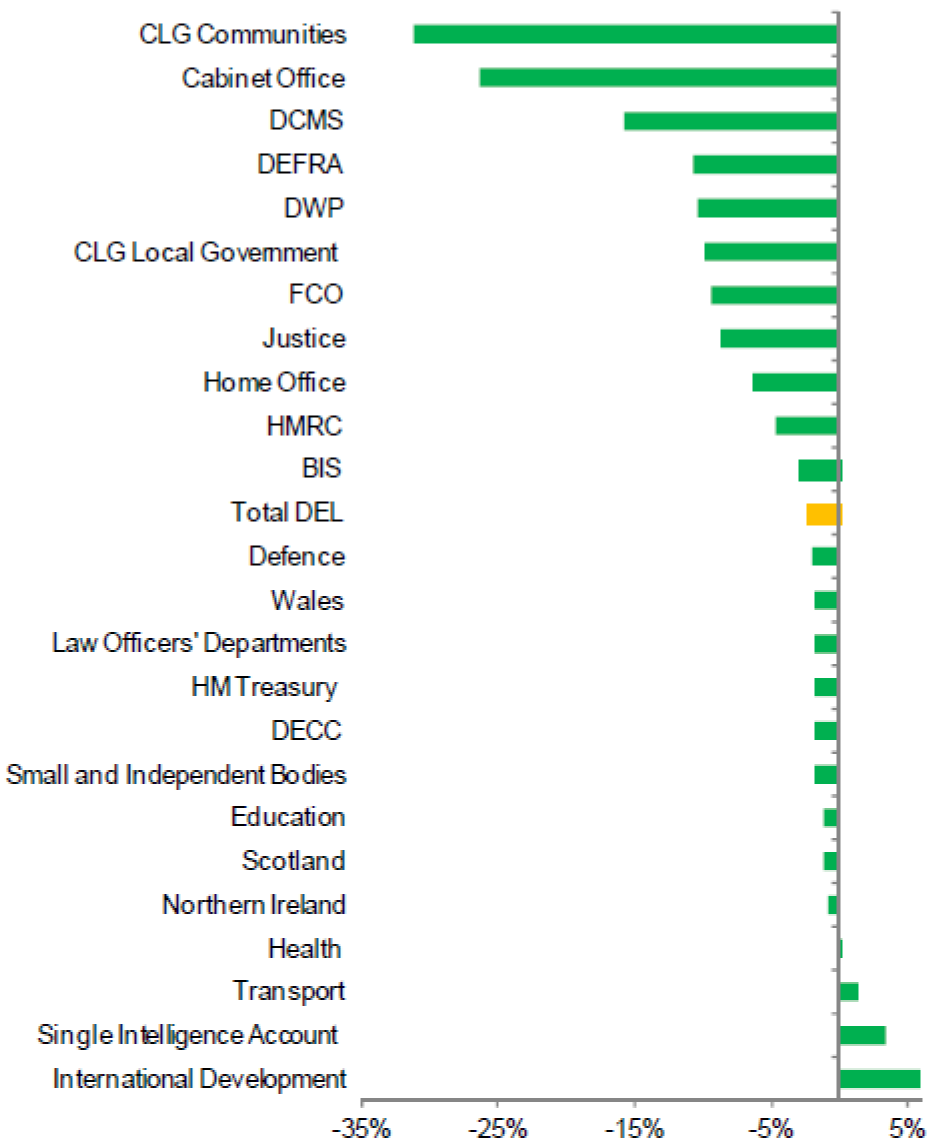
[31] Protection in this sense is defined as a commitment by the UK Government to no real terms budget reductions. As well as protecting Health and Schools, the UK Government is also committed to protecting International Development.

meant that approximately 40% of the Scottish Budget was protected from real terms reductions. The following chart was produced by the House of Commons Library (2013) and presents the percentage change by main UK departments in total DEL in 2015-16 compared with 2014-15. This is presented to portray the order of magnitude in changes across the various UK departments and the issues raised above around there being no agreed baseline, and the final Scottish figure being dependent on BGA should be borne in mind.

Figure 1: Total DEL real terms % change 2014-15 to 2015-16



Other measures of note within Spending Round 2013

Welfare cap

The 2013 Budget (March 2013) announced the UK Government's intention to introduce a cap on elements of welfare expenditure. The June Spending Round set out more detail on how this cap, which will be legislated for, would work.

It is proposed that over £100bn of welfare spending will be subject to the cap (this is just under half of total welfare spend). Some significant elements of welfare spend will not be included, for example the basic and additional state pension, and the "automatic stabilisers" that tend to increase during a recession will be outside the cap (for instance Jobseekers allowance and passported benefits). All other social security and tax credit spend will be included in the capped amount. It is proposed that the cap will be set in cash terms and announced at each budget covering a period of four years. The 2014 Budget will set out the first cap which will apply from April 2015. The OBR will be tasked with judging the Government's performance against the cap and state publicly if the cap looks likely to be exceeded.

Public Sector Pay

The Chancellor announced in the Spending Round that automatic pay increases (progression pay) in the civil service will be abolished by 2015-16. This could potentially impact on some UK civil service workers based in Scotland, but many public sector jobs in Scotland are in areas devolved to the Scottish Parliament. As such, the Scottish Government can choose a different course of action on this area of policy.

Sources

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