

Financial Scrutiny Unit Briefing

Draft Budget 2015-16

16 October 2014

14/70

Financial Scrutiny Unit

This briefing summarises the spending plans contained within the Scottish Government's Draft Budget 2015-16.

More detailed presentation of the budget figures can be found in the Draft Budget 2015-16 spreadsheets. The [Draft Budget 2015-16 level 1 and 2 spreadsheet](#) covers higher level figures. Level 3 is the most detailed published breakdown of the Government's spending plans and can be found in the [Draft Budget 2015-16 level 3 spreadsheet](#).

More detailed level 4 figures will be provided by the Scottish Government and published on the Financial Scrutiny Unit webpage when available.

An overview of the budget can be found in the [Draft Budget 2015-16 Infographic](#).

A further briefing by the Financial Scrutiny Unit designed to aid members and committees scrutinising the Draft Budget will be published shortly.



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KEY

Within the graphics some portfolio titles have been abbreviated as follows:

Health	- Health and Wellbeing
Local Gov	- Local Government
Education	- Education and Lifelong Learning
Infrastructure	- Infrastructure, Investment and Cities
Justice	- Justice
Rural	- Rural Affairs, Food and the Environment
Finance	- Finance, Employment and Sustainable Growth
Culture	- Culture and External Affairs
Admin	- Administration
Crown Office	- Crown Office and Procurator Fiscal Service
Training	- Training, Youth and Women's Employment
Sport	- Commonwealth Games, Sport, Equalities and Pensioners' Rights
Parliament and Audit	- Scottish Parliament and Audit Scotland

EXECUTIVE SUMMARY

The Draft Budget 2015-16 sets out Scottish Government spending plans for financial year 2015-16. The plans include forecast revenues for the taxes devolved under the terms of Scotland Act 2012 – Land and Buildings Transaction Tax (LBTT) and Landfill Tax – which will come into force for the first time in April 2015.

The discretionary element of the Scottish Government's Budget is the Departmental Expenditure Limit (DEL). The HM Treasury DEL provided to the Scottish Government is set to total £30.2bn in 2015-16 (a real terms increase of 0.6%). However, due to the carry-over of monies between years, the actual spend allocated across the DEL portfolios will total £30.4bn in 2015-16, representing a 0.7% real terms increase on the current financial year.

Newly devolved taxes are forecast to generate income of £558m in 2015-16 – £441m from LBTT and £117m from Landfill Tax. The Scottish Fiscal Commission considered the forecasts to be reasonable “within the constraints of the available data” but said that behavioural responses needed to be more fully accounted for in future forecasts.

The Capital DEL coming from the HM Treasury in 2015-16 is stated in table 1.01 of the Draft Budget document as being £2,665m, a fall in real terms of 2.5%. However, this is supplemented by some carry-over of monies from 2014-15, financial transactions and capital borrowing which takes the planned DEL Capital spend to £3,422m (a real terms increase in Capital DEL of 12.8%). Spend on infrastructure is supplemented further by NPD investments, Regulatory Asset Base rail enhancements, capital receipts from sale of assets and by transferring DEL Resource to DEL Capital. This takes planned investments on infrastructure to around £4.5bn in 2015-16.

Since 2012-13, a total of £742m has been allocated to financial transactions, relating to equity/loan schemes beyond the public sector, such as the Help to Buy Scheme. These amounts will need to be repaid to HM Treasury in future years, with repayments expected to begin in 2019-20.

Local Government will receive £10,757m in 2015-16 made up of £7,957m from DEL (down 1.3% in real terms on 2014-15) and £2,800m from non-domestic rate income which is expected to increase by 4% in real terms in 2015-16. The Scottish Government plans to freeze Council tax in 2015-16 for the 8th successive year.

The Scottish Government has also proposed plans to “mitigate the most harmful impacts of the UK Government's welfare reforms”. Total funding for these measures amounts to £81m in 2015-16, equivalent to 0.3% of the DEL Resource budget.

The Draft Budget was accompanied by documents covering government performance, carbon impacts and equalities. Carbon emissions from this year's draft budget have risen by 4.8% compared to last year's draft budget (2014-15). The Scottish Government's Public Sector pay policy was set for two financial years in last September's Draft Budget – covering financial years 2014-15 and 2015-16 – and includes a 1% cap on pay for staff earning over £21,000.

INTRODUCTION

Draft Budget 2015-16 was published on 9 October 2014 and sets out the Scottish Government's draft spending plans for 2015-16. It also sets out rates and expected revenues for the tax powers devolved under the terms of the Scotland Act 2012 – Land and Buildings Transaction Tax (LBTT) and Landfill Tax. Publication of the draft budget commences parliamentary scrutiny of the Government's tax and spending plans which will continue until the Budget Bill's passage through Parliament in early 2015.

Alongside the main budget document, the Scottish Government has published documents on [Performance](#), [Carbon Assessment](#), an [Equality Statement](#) and a [forecasting methodology for the devolved taxes](#). The Scottish Fiscal Commission has also published its [assessment](#) of the devolved tax forecasts and the economic determinants underpinning the projected non-domestic rate income (NDRI).

The introduction to the Draft Budget document presents the Scottish Departmental Expenditure Limit (DEL) as received from HM Treasury. This shows that the total Scottish DEL will increase by 2.2% in cash terms and 0.6% in real terms in 2015-16. However, due to the use of the Budget Exchange Mechanism¹ (BEM), which allows the Scottish Government to move limited amounts of money from one year to the next, the actual amounts available for the Scottish Government to allocate within the Draft Budget are higher. This briefing focuses on the actual spending plans as set out in the portfolio chapters and annex tables of the Draft Budget publication.

It had been expected that the Treasury DEL would be reduced by an amount agreed by the Scottish and UK Governments equivalent to the forecast revenues for the newly devolved taxes – the so called block grant adjustment (BGA). However the Scottish and UK Governments have yet to reach agreement on, among other things, the mechanism for indexing any BGA into future years. Discussions on this matter are ongoing and the Draft Budget document states that “once agreement is reached on the BGA mechanism, if necessary an adjustment will be made to the budget and reflected in the Budget Bill” (Scottish Government 2014a).

The level 2 figures in the document, in a change from last year, reflect the changes made to 2014-15 budgets via the Budget Act 2014 and the deployment of Barnett consequential for 2014-15 flowing from UK fiscal events. This was requested by the Finance Committee during last year's scrutiny process and is a welcome development as it allows for like for like comparisons on what is being spent in an area in the current financial year compared with what is proposed for next year (2015-16).

The Scotland Act 2012 allows Scottish Ministers to borrow up to 10% of the DEL Capital budget from 2015-16. The Draft Budget indicates that the Scottish Government intends to use the full borrowing limit of £304m². The document states that for “modelling purposes” the borrowing will be repaid over 25 years at an interest rate of 5% (Scottish Government 2014a, p157). However, the Scottish Government has not indicated what the actual repayment terms will be.

“The Scottish Government is able to borrow from the National Loans Fund, from banks on commercial terms or through issuing bonds. We are evaluating these options for borrowing and will in due course take a decision on which method or methods to use based on the prevailing economic conditions” (Scottish Government 2014a, p18).

¹ The Budget Exchange Mechanism allows the Scottish Government to carry over 0.6% of Resource DEL and 1.5% of Capital DEL from one financial year to the next.

² 10% of HM Capital DEL (£2,665m) plus Financial Transactions (£381m).

Many of the numbers in this briefing are adjusted for inflation (presented in “real terms” or 2014-15 prices) and the deflator used is HM Treasury’s GDP deflator, as used in the Draft Budget (1.6% for 2015-16).

TME, DEL AND AME ALLOCATIONS

Total Managed Expenditure (TME) comprises the Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME). TME in 2015-16 is £37,539.2m. Figure 1 shows how this is allocated between DEL and AME. DEL is the element of the budget over which the Scottish Government has discretion and is divided into Capital and Resource. AME is expenditure which is difficult to predict precisely but where there is a commitment to spend or pay a charge, for example, pensions. Pensions in AME are fully funded by HM Treasury, so do not impact on the Scottish Government’s spending power. Non-domestic rates (covered below) are also classed as an AME item in the budget.

Figure 1: Allocation of TME, 2015-16, cash terms

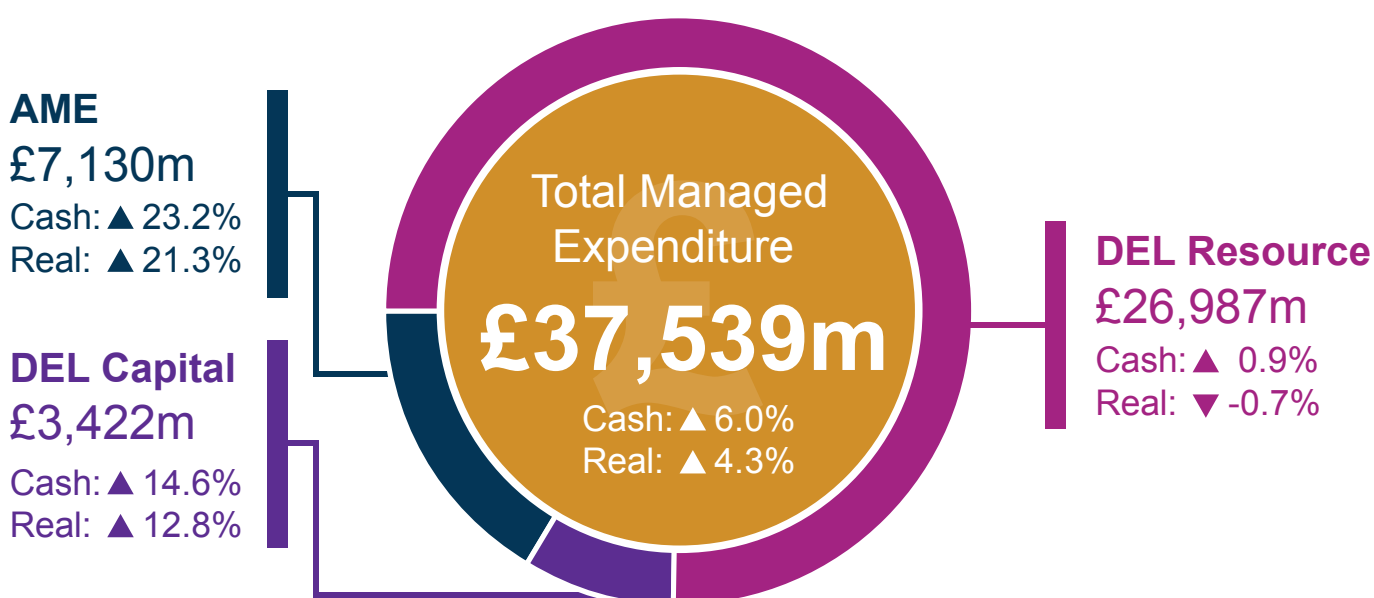


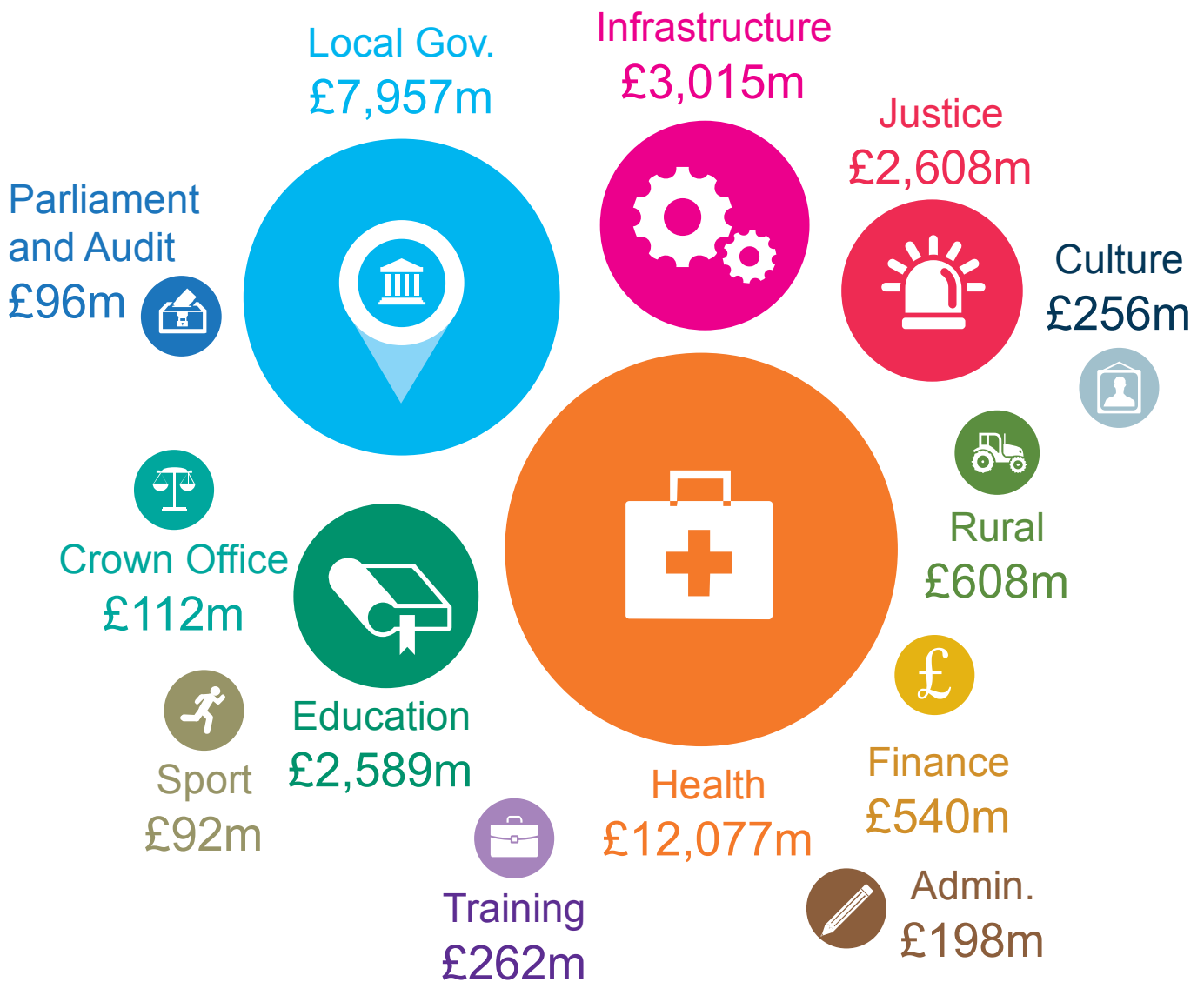
Figure 2: Absolute change, DEL Resource and DEL Capital real terms, 2014-15 to 2015-16



Figure 2 shows the real terms changes in DEL Resource and DEL Capital between 2014-15 and 2015-16. DEL Capital is boosted in 2015-16 by £304m of Capital borrowing under the terms of the Scotland Act 2012. The Scottish Government also intend to transfer £58m from Resource to Capital, but this is not reflected in the DEL Resource and DEL Capital numbers.

DEPARTMENTAL EXPENDITURE LIMITS

Figure 3: DELs by Portfolio, 2015-16



- Health and Wellbeing is the largest portfolio, comprising 39.7% of total DEL in 2015-16.
- Local Government is the next largest, comprising 26.2% of the total DEL in 2015-16.
- Two new portfolios are included in the Draft Budget for the first time reflecting the addition of two new Cabinet Secretaries in 2014 – Commonwealth Games, Sport, Equalities and Pensioners Rights (0.3% of total DEL); and Training, Youth and Women’s Employment (0.9% of total DEL).

RESOURCE AND CAPITAL EXPENDITURE

Figure 4 shows the split between DEL Resource and DEL Capital by portfolio in 2015-16 and shows that not surprisingly, the Infrastructure, Investment and Cities portfolio has the highest concentration of DEL Capital Spend within it (60% of portfolio DEL). The next largest is Finance, Employment and Sustainable Growth (33% of portfolio DEL).

Figure 5 shows the Real terms percentage change in 2015-16 in DEL Resource and DEL Capital by portfolio.

Figure 4: Resource and Capital DEL Budgets, and

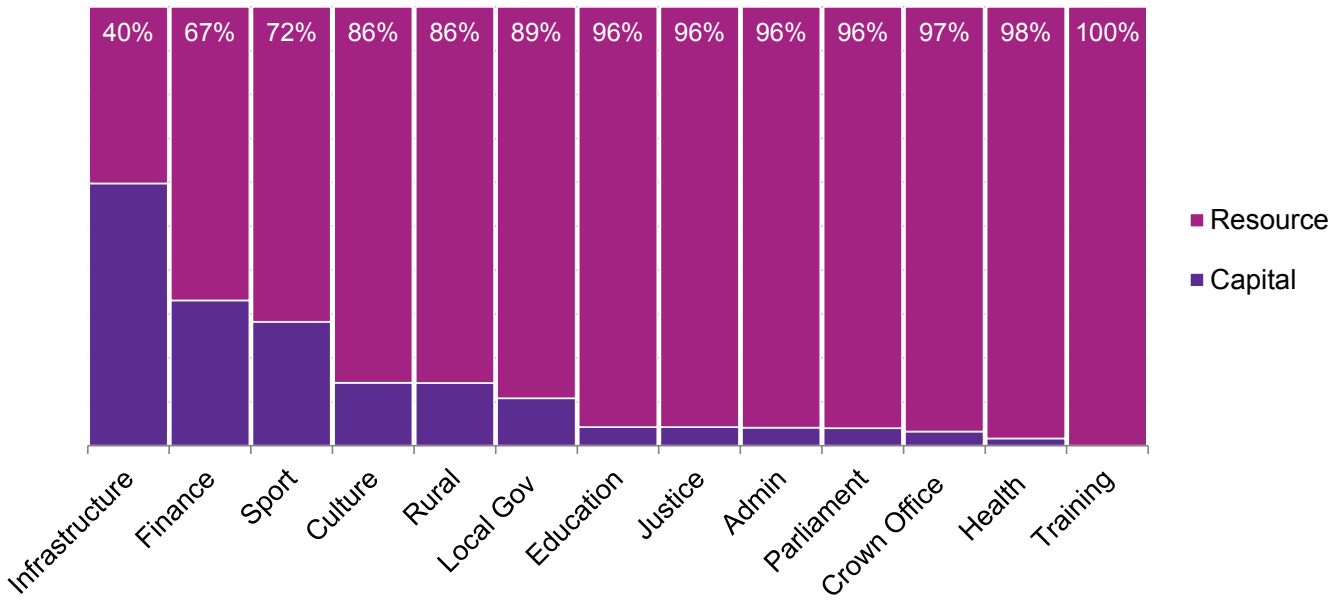
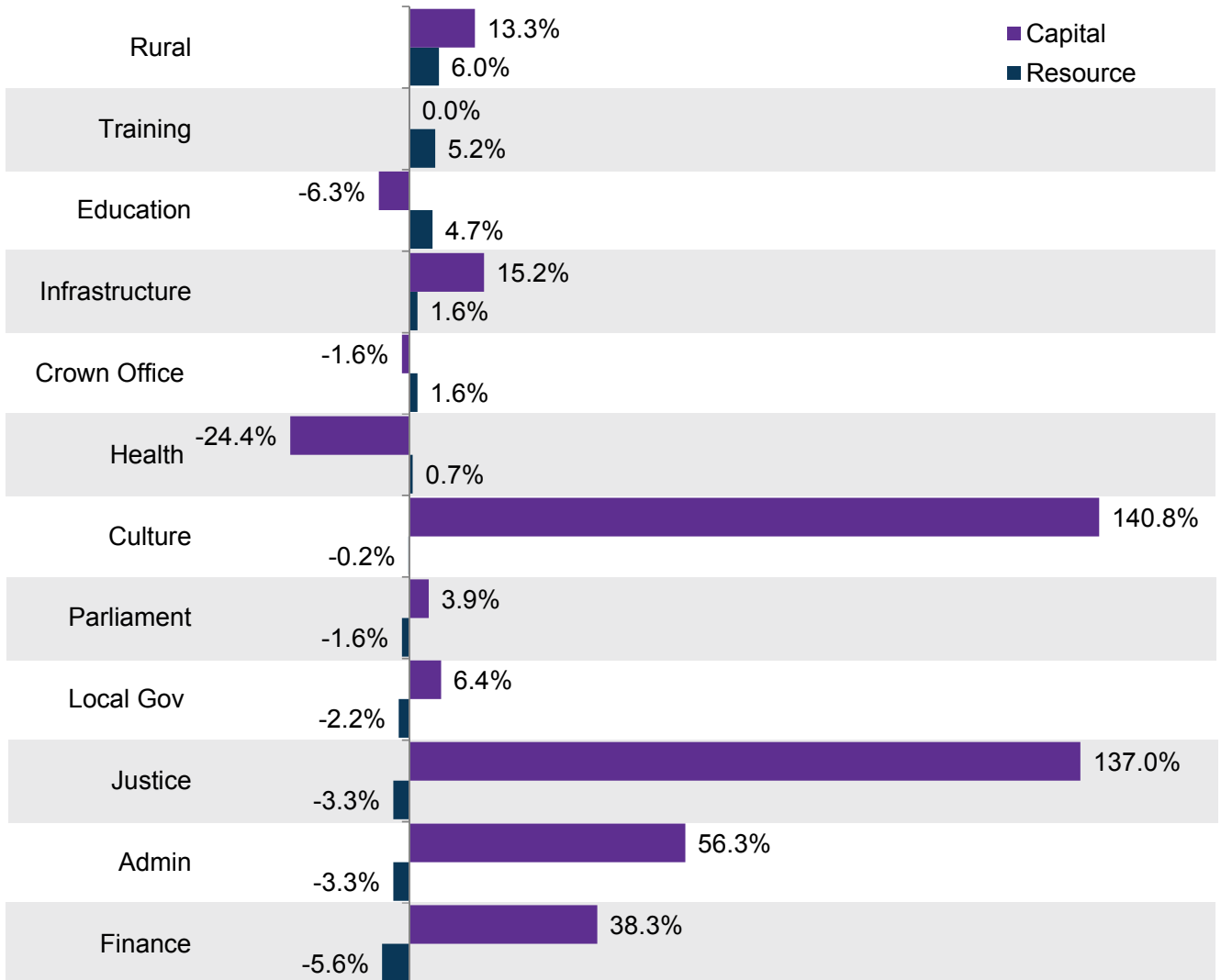


Figure 5: Real terms % change in DEL Resource and DEL Capital



Note on figure 5: the new portfolio of Commonwealth Games, Sport, Equalities and Pensioners' Rights is excluded from the figure due to a 540% real terms increase in DEL Capital (due to an increase in spend from £4m in 2014-15 to £26m in 2015-16 for new National Performance and National para-sport centres) which distorted the visual.

- Health Resource increases in real terms by 0.7%. Health Capital falls by 24.4% in real terms. A number of Health infrastructure projects are planned to be delivered via NPD financing which is not included in the DEL Capital budget.
- The largest outliers in figure 5 occur in DEL Capital plans which tend to fluctuate from year to year as projects come on and off stream.
- Culture and External Affairs DEL Capital will increase in 2015-16 by 140.8% on the previous year, due in part to the maintenance of the National Collection's assets and historic estate and additional financial transactions and capital funding for the National Theatre headquarters and creation centre.
- Justice has a large increase in DEL Capital which is driven by prison buildings and Courts, and new Capital funding for the Scottish Fire and Rescue service.
- Finance has the largest DEL Resource percentage reduction of 5.6% largely due to a resource to capital transfer for the Enterprise bodies.

CAPITAL AND INFRASTRUCTURE

The 2015-16 DEL Capital budget from HM Treasury is £2,665m, a 2.5% reduction in real terms compared with 2014-15. The Scottish Government plans to supplement the 2015-16 DEL Capital budget with non-profit distributing (NPD) investment (£954m), Regulatory Asset Base (RAB) rail enhancements (£453m), capital receipts from the sale of assets (£63m), and by transferring DEL Resource to DEL Capital (£58m). In addition, the Scottish Government plans to use the new borrowing powers granted under the Scotland Act 2012 to borrow £304m. This takes the total planned investment in infrastructure in 2015-16 to £4.5bn.

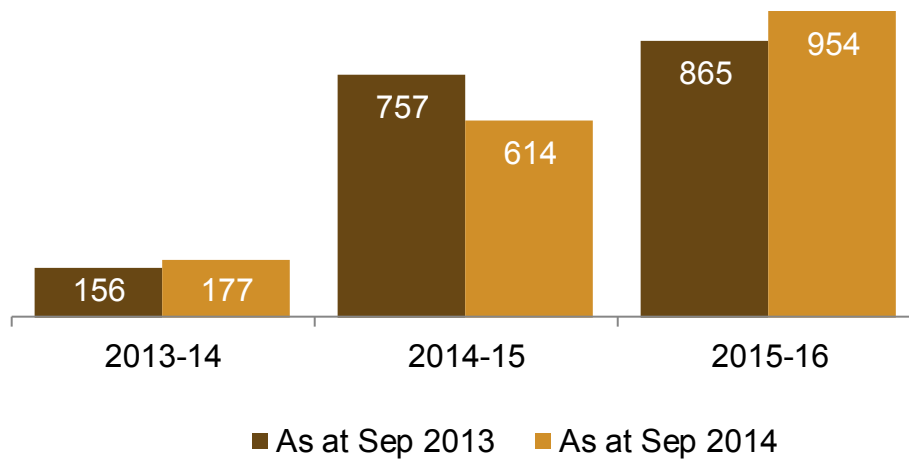
As in previous years, the reallocation of £58m from DEL Resource to DEL Capital is coming primarily from within the Health Budget (Scottish Government 2014a, p27) where there is a planned £48m 'provision for Transfer to Health Capital'. These reallocations have not been reflected in the budget document totals which means that, if delivered, DEL Resource is overstated by £58m and DEL Capital is understated by the same amount.

NON-PROFIT DISTRIBUTING (NPD) PROGRAMME

In 2015-16, the Scottish Government plans to progress a range of projects using NPD financing. Planned investment through NPD financing in 2015-16 is £954m. This includes projects such as the M8/M73/M74 motorway improvements, the Aberdeen Western Peripheral Route as well as a range of school, college and health projects. NPD investment is a form of revenue funding which means that the Scottish Government does not pay the upfront construction costs, but is committed to making annual repayments to the contractor, typically over the course of 25-30 years.

Compared with the plans published in last year's Draft Budget, NPD investment in 2014-15 is now expected to be £143m lower than previously anticipated. This is the result of lower than anticipated investment in schools, colleges and community health projects. However, in 2015-16, NPD investment is now expected to be higher than previously anticipated. In 2015-16, planned NPD investment is now £954m, compared with the £865m previously anticipated. This is due to higher than anticipated investment in the Aberdeen Western Peripheral Route, schools, colleges and a range of health projects.

Figure 6: Planned NPD investment



REVENUE FINANCING AND THE 5% CAP

Annual repayments resulting from revenue financed projects, such as NPD projects, come from the Scottish Government's revenue budget. The Scottish Government has committed to spending no more than 5% of its total DEL budget on repayments resulting from revenue financing (which includes NPD, previous PPP contracts, regulatory asset base (RAB) rail investment) and any repayments resulting from future borrowing. Based on current plans, the Scottish Government will spend just over 3.5% of its total DEL budget on such payments in 2015-16, rising to a peak of just over 4.5% in 2019-20. On the basis of the 2015-16 total DEL³, this would suggest current repayment commitments of just over £1bn.

FINANCIAL TRANSACTIONS

The Draft Budget includes £381m in 2015-16 for 'financial transactions'. This relates to Barnett consequentials resulting from a range of UK Government housing-related equity/loan finance schemes. The Scottish Government has to use these funds to support equity/loan schemes beyond the public sector, but has some discretion in the exact parameters of those schemes and the areas in which they will be offered. This means that the Scottish Government is not obliged to restrict these schemes to housing-related measures and is able to provide a different mix of equity/loan finance. The Scottish Government is required to make repayments to HM Treasury in respect of these financial transactions. The repayment terms are agreed on a scheme-by-scheme basis, with an annual total agreed with HM Treasury. Repayments are expected to begin in 2019-20.

In 2015-16, a total of £340m has been allocated to housing-related schemes, including Help to Buy (Scotland). The Scottish Government is also providing equity/loan finance support in areas other than housing. Individual tables in the budget document show the following profile for financial transactions.

³ Excluding Financial Transactions

Table 1: Financial transactions, £m

Portfolio area	2014-15	2015-16	Total
Health and wellbeing	4.0	2.0	6.0
Finance, employment and sustainable growth	9.5	8.5	18.0
Education & lifelong learning	1.0	7.2	8.2
Rural affairs and the environment	-	7.5	7.5
Culture and external affairs	-	8.0	8.0
Infrastructure, investment and cities	205.6	345.0	550.6
Total of above	220.1	378.2	598.3
Total shown in Draft Budget Table 1.01	187.0	381.0	568.0

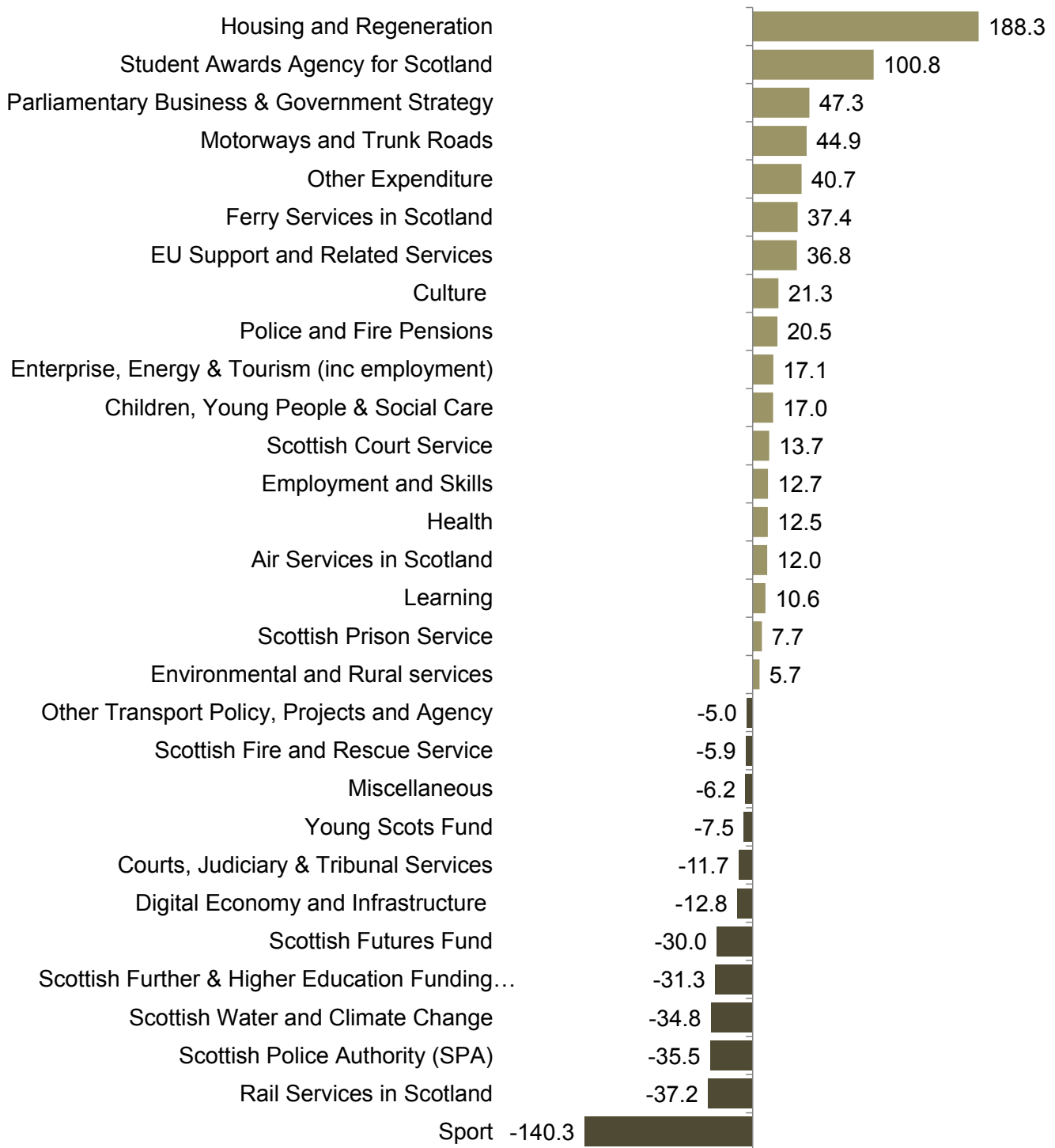
The amounts shown for individual portfolios total £598m over the two year period, compared with a total of £568m available, according to the figures set out in the summary table 1.01 (p2). The Scottish Government has indicated that this reflects a carry-forward of £30.6m of the allocation for financial transactions from 2013-14.

REAL TERMS INCREASES AND DECREASES, LEVEL 2

Figure 7 presents the largest real terms level 2 budget lines increases and decreases in 2015-16 on the previous financial year. Only increases and decreases above £5m have been included. Points to note are as follows:

- Housing and Regeneration has the largest increase in 2015-16 due to an allocation of Financial Transactions flowing from the UK Autumn Statement 2013 and UK Budget 2014
- The Student Awards Agency for Scotland (SAAS) has the second largest increase which is largely a technical change with no impact on discretionary spending
- Sport has the largest absolute fall as a result of spend returning to trend after the delivery of the Commonwealth Games.

Figure 7: Largest real terms changes, 2014-15 to 2015-16, £m



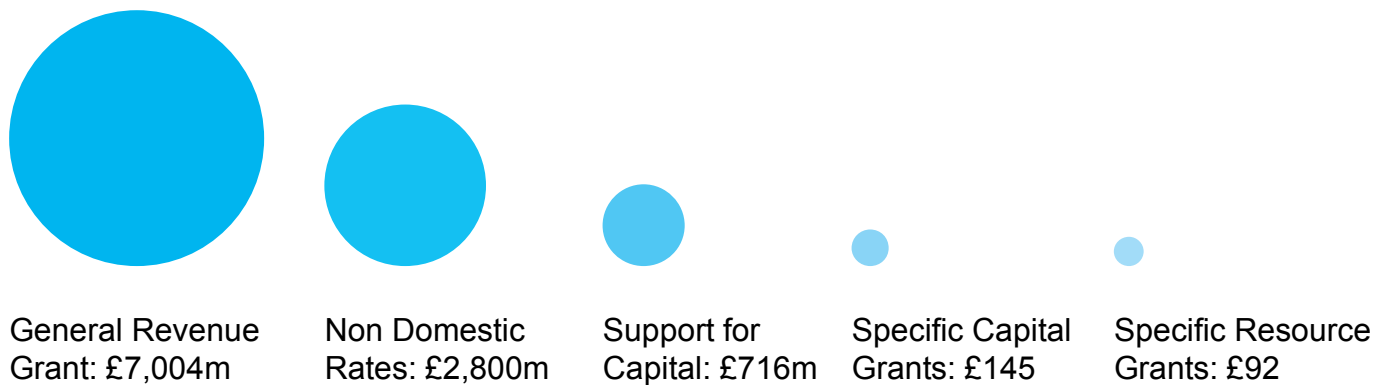
Note on figure 7: The Scottish Public Pensions Agency budget has been excluded as the increase was so large it was distorting the visual. SPPA is set to increase by £1.1bn in 2015-16 due to an actuarial valuation of membership which increases the costs of servicing pensions. This is covered by HM Treasury via AME.

LOCAL GOVERNMENT

TOTAL LOCAL GOVERNMENT BUDGET

The total allocation to local government in 2015-16 will be **£10,756.7m**. Figure 8 shows how the 2015-16 local government budget is composed. The Scottish Government guarantees the combined general resource grant and distributable non-domestic rate income figure, approved by Parliament, to each local authority. A drop in non-domestic rate income is compensated for by an increase in general revenue grant and vice versa.

Figure 8: 2015-16 Local Government settlement



LEVEL 3 BREAKDOWN – CASH AND REAL

Table 2 below sets out the level 3 breakdown of the local government settlement, in cash and real terms.

Table 2: Local Government – level 3 breakdown

Level 3	2014-15	2015-16 (cash)	2015-16 (real)	Real change (£m)	Real change (%)
General Revenue Grant (1)	7,041.6	7,004.0	6,893.7	-147.9	-2.1%
Non Domestic Rates (1)	2,649.5	2,799.5	2,755.4	105.9	4.0%
Support for Capital (2)	646.5	716.2	704.9	58.4	9.0%
Specific Resource Grants	98.9	91.9	90.5	-8.4	-8.5%
Specific Capital Grants	150.2	145.1	142.8	-7.4	-4.9%
Total Local Government	10,586.7	10,756.7	10,587.3	0.6	0.0%
of which RDEL	7,140.5	7,095.9	6,984.2	-156.3	-2.2%
CDEL	796.7	861.3	847.7	51.0	6.4%
AME	2,649.5	2,799.5	2,755.4	105.9	4.0%

Notes:

(1) The Scottish Government guarantees the combined general revenue grant and distributable NDRI figure to local government.

(2) The 2012-15 capital allocations were reprofiled (-£120m/-£100m/+£120m with the remaining £94.2m now added in 2015-16). Although the sum to be added back was originally £100 million this was reduced proportionately to £94.2 million following the transfer of the police and fire funding resulting from police and fire reform.

SHARE OF THE OVERALL BUDGET

Table 3 below sets out the total allocation to local government in real terms, and as a percentage of the total Scottish Budget. The total allocation to Local Government has declined (by 1.2%) as a share of the overall budget, this is due to the increases in the overall Scottish Government TME, as outlined elsewhere in this paper.

Table 3: Local Government share of the total budget

	2014-15	2015-16
Local Government TME (£m)	10,586.7	10,756.7
Scottish Government TME (£m)	35,416.9	37,443.3
LG TME share of overall budget	29.9%	28.7%

GENERAL RESOURCE GRANT + NDRI

The Scottish Government guarantees the combined general resource grant (GRG) and distributable NDRI figure, so this figure is used to calculate Local Government's revenue settlement. Combined GRG⁴ and NDRI figures are set out in table 4 below. The overall revenue settlement also includes 2 specific revenue grants.

The combined GRG+NDRI has increased slightly in cash terms (1.2%) but has reduced slightly in real terms (-0.4%).

Business rates are set by the Scottish Government, collected by local government on behalf of the Government, paid into the Government's business rates pool and then redistributed back to local government. So, in effect, local authorities overall keep what they collect with the General Revenue Grant making up the total needs-based share of funding.

It does however form part of the Scottish Government's total resources. The Scottish Government guarantees a combination of General Revenue Grant plus business rates income to each local authority on the basis of relative need. Therefore, if a local authority does not collect as much as it had expected, the Government has to make up the difference through extra General Revenue Grant and vice versa. Any shortfalls or deficits in one year are recovered or paid out in future years.

⁴ The Budget document refers to both General Revenue Grant and General Resource Grant – both refer to the same area of the budget.

Table 4: Local Government GRG + NDRI

	2014-15	2015-16
General Resource Grant + NDRI cash (£m)	9,691.1	9,803.5
Cash terms annual change (£m)		112.4
Cash terms annual change (%)		1.2%
General Resource Grant + NDRI real (£m)	9,691.1	9,649.1
Real terms annual change (£m)		-42.0
Real terms annual change (%)		-0.4%

NON-DOMESTIC RATES INCOME

Non-domestic rates income (NDRI) is currently the single largest source of revenue under the control of the Scottish Government. Table 5 below shows the non-domestic rates income to be distributed in both 2014-15 and 2015-16 in cash and real terms.

In his statement to Parliament, the Cabinet Secretary stated that “the Fiscal Commission has considered our NDRI forecasts and has expressed the view that the buoyancy assumptions ‘seem optimistic’. As a result I have revised down the NDRI forecast in the Draft Budget for 2015-16.”

The NDRI forecast for 2015-16 is £83.5m lower than the forecast for 2015-16 in the 2014-15 Draft Budget. The Scottish Government states that this is due to “the UK Government’s decision in the 2013 Budget to cap the increase in non-domestic rate poundage and other estimating changes.” (Scottish Government 2014f) In order to maintain the allocation to local government, the Scottish Government has added £83.5m to the Local Government resource DEL allocation.

Taking this change into account, NDRI is expected to increase by 4.0% in real terms from 2014-15 to 2015-16.

Table 5: Non-Domestic Rates Income

	2014-15	2015-16
NDRI (cash) (£m)	2,649.5	2,799.5
Cash terms annual change (£m)		150.0
Cash terms annual change (%)		5.7%
NDRI (real) (£m)	2,649.5	2,755.4
Real terms annual change (£m)		105.9
Real terms annual change (%)		4.0%

ALLOCATIONS TO LOCAL AUTHORITIES

In June the Scottish Government published details of the provisional Local Government Finance Settlement for 2015-16, in [Local Government Finance Circular 6/2014](#) (Scottish Government 2014g). It was published early because having previously taken the view that every council should receive the same in 2015-16 as in 2014-15, COSLA later agreed to uprate the needs-based indicators.

A further circular will be issued in early December 2014 with updated allocations, based on the overall allocation in the 2015-16 Draft Budget and any subsequent agreed sums.

COUNCIL TAX FREEZE

The Government will provide a share of an additional £70m to those councils that agree to freeze their council tax at 2007-08 levels for another year. This brings the total cost of the freeze in 2015-16 to £560m, and the total cumulative cost from 2008-09 to 2015-16 to £2,520m.

DEVOLVED TAXES

The 2015-16 Draft Budget includes taxes devolved through the Scotland Act 2012 to set the rates and bands for Scottish Landfill Tax (SLfT) and LBTT. The LBTT and SLfT will be levied in Scotland from 1 April 2015.

The Draft Budget states the “tax rate proposals are intended to be revenue neutral”. The rates and (for LBTT) bands have been proposed to raise the same amount of money that the previous UK-wide taxes (Stamp Duty Land Tax and UK Landfill Tax) may have generated in Scotland in 2015-16 if they had continued unchanged. However, the Scottish Government has opted to use a different forecast figure to the OBR (2014) who have latest Scottish Tax forecasts of £500m for Stamp Duty Land Tax (£59m more than the LBTT forecast by Scottish Government) and £109m for Landfill Tax (£8m less than the SLfT forecast by the Scottish Government).

The Draft Budget outlines that the devolved taxes are an opportunity to “redistribute the burden of taxation to ensure that the taxes meet the needs of the people and the economy of Scotland.”

While the LBTT is proposed to be revenue neutral it is intended to be more progressive than the UK wide tax it will replace. Together the newly devolved taxes are forecast to raise £558m in revenue during 2015-16, shown in Table 6 below.

Table 6: Forecast tax revenues 2015-16 (£m)

Portfolio area	2014-15
Land and Buildings Transactions tax	£441
Of which residential transactions	£295
Of which non-residential transactions	£146
Scottish landfill tax	£117
Total	£558

The Draft Budget proposes the same rates of landfill tax as in the rest of the UK. For 1 April 2015 this is proposed to be £82.60 per tonne for standard rated landfill and £2.60 for lower rate landfill. The lower rate applies to less polluting wastes.

The bands and rates for LBTT are presented in table 7.

Table 7: LBTT bands and rates

Residential transactions		Non-residential transactions	
Band	Rate	Band	Rate
Up to £135,000	Nil	Up to £150,000	Nil
£135,001 to £250,000	2%	£150,001 to £350,000	3%
£250,001 to £1,000,000	10%	Over £350,000	4.5%
Over £1,000,000	12%		

NOTES: LBTT will also be levied on non-residential leases; up to £150,000 have a nil rate and those over £150,000 a rate of 1%.

The Scottish Government’s published methodology for forecasting the taxes notes that the projected revenues for SLfT are likely to be conservative. The LBTT forecast is also anticipated to “... slightly underestimate the number of very high value transactions.”

The Scottish Fiscal Commission found the forecasts of SLfT and LBTT to be reasonable “within the constraints of the available data”.

The Scottish Fiscal Commission also suggested behavioural responses need to be more fully accounted for in future forecasts suggesting “the relatively high tax rates applicable to the upper band of the new LBTT may also induce an additional behavioural response which has not been factored into the forecast”

PERFORMANCE

As part of the [2007 Spending Review](#) (Scottish Government 2007), the Scottish Government introduced a new outcomes-based National Performance Framework (NPF). In June 2008, the Government launched [Scotland Performs](#) (Scottish Government 2008), a website designed to present information on how Scotland is performing against the range of indicators outlined in the National Performance Framework. The NPF was refreshed in 2011. Full details about the refreshed NPF can be found in [SB 12/12: The National Performance Framework and Scotland Performs](#) (Campbell 2012)

To inform committees' scrutiny of the 2015-16 Draft Budget, the Government has published a [Scotland Performs Update](#) (Scottish Government 2014c). As in 2014-15, this contains scorecards for each committee, as well as "examples of key activities in relation to achieving the outcomes in Scotland Performs". In his foreword to this document, the Cabinet Secretary notes that:

"The assessment of outcomes is complex and it is neither practical nor feasible to attribute each pound spent to a single outcome. In reality, most interventions, actions and activities will influence a whole range of outcomes. However, this report outlines the key choices we have made and a number of representative examples to demonstrate the inter-relationship between the government's activities, spending plans and Scotland Performs."

Each portfolio chapter of the Draft Budget also contains a section headed "Contribution to National Outcomes", which sets out which National Outcomes the portfolio has an impact on, and includes specific examples of how activity under the portfolio has contributed to the National Outcomes.

WELFARE REFORM

The Cabinet Secretary announced continued funding for measures to "mitigate the most harmful impacts of the UK Government's welfare reforms" (Scottish Government 2014a). Total funding for these measures will amount to £81.2 million in 2015-16 (approximately 0.3% of DEL Resource budget). This includes:

- £38 million for the [Scottish Welfare Fund](#) (SWF), introduced in April 2013 to replace 'Crisis Loans for Living Expenses' and 'Community Care Grants'.
- £35 million to compensate for the cost of the 'Bedroom Tax'.
- £8.2 million for a range of other mitigation measures such as funding for advice and support services. The budget also supports initiatives with local authorities, third sector, health services and others.

The 2014-15 welfare reform mitigation budget line increased over the year, from £45.2 million at the time of the Draft Budget (September 2013) to £81.2 million now. Funding to mitigate the bedroom tax was announced during budget scrutiny.

According to the Scottish Government, over 80,000 households were helped by the Scottish Welfare Fund between April 2013 to March 2014, 'with around 50 per cent of the funding being awarded to people living in the 20 per cent most deprived areas in Scotland'. More detail on the potential impact of spend in this area is highlighted in the [Equality Statement](#) accompanying the Draft Budget (Scottish Government 2014e).

Although welfare reform mitigation funding has been maintained in cash terms, there will be a slight real terms reduction of 1.6% between 2014-15 and 2015-16.

PUBLIC SECTOR PAY

The Scottish Government published a two year [public sector pay policy](#) covering 2014-15 and 2015-16 alongside last year's draft budget (Scottish Government 2013). This pay policy directly affects the pay of Scottish Government staff, and the staff of around 50 public bodies, which together account for around 6% of the Scottish public sector (around 30,000 staff). Other parts of the public sector, such as local government and the NHS are not directly covered by the Scottish Government's pay policy and determine pay separately.

The pay policy published last year covers both 2014-15 and 2015-16. The main features of the pay policy are:

- A one per cent cap on the cost of the increase in basic pay for staff earning above £21,000
- A minimum basic pay increase of £300 for those earning less than £21,000, before progression payments (to be awarded on a pro-rata basis for part-time staff); the costs of this are not included in the 1% cap
- A continued commitment to paying a Scottish living wage (currently at £7.65 per hour) for the duration of the Parliamentary term
- A continued suspension of non-consolidated performance related pay (bonuses)
- Discretion for individual employers to reach agreements relating to pay progression, whereby employees progress through set pay bands on an annual basis, regardless of the basic pay settlement
- A continued commitment to no compulsory redundancies, to be negotiated by individual employers in exchange for agreements on workforce flexibilities and efficiencies where appropriate

CARBON ASSESSMENT OF THE 2015-16 DRAFT BUDGET

The Climate Change (Scotland) Act 2009 requires the Scottish Government to publish an assessment of the impact of its budgetary expenditure on Scottish emissions of greenhouse gases. The statement accompanying the Budget (Scottish Government 2014) gives an estimate that total emissions resulting from the 2015-15 Draft Budget will be 8.8 million tonnes CO₂-equivalent (MtCO₂e).

The assessment measures the "first round" effects but not the subsequent impact of the use of these public services. For example, the beneficial impacts of spend on energy efficiency measures, or the potential effects of road building on traffic levels, are not captured in these calculations. The assessment includes indirect and imported emissions that are generated in producing the goods and services that the Scottish Government purchases.

More than one third (34.6%) of the Scottish Government's carbon footprint is caused by the use of energy, water and waste services. This is followed by manufactured goods (22.4%) and transport and communication services (13.6%).

Applying the same carbon assessment to the 2014-15 Draft Budget shows emissions at 8.4 Mt. The rise from 8.4 Mt to 8.8 Mt represents a rise of 4.8% between the 2014-15 and 2015-16 Draft Budgets.

The rise in emissions is mainly attributable to the rise in spending. The carbon assessment was based on Total Managed Expenditure (TME) which increased in real terms by 4.3% between 2014-15 and 2015-16.

It is reasonable to suggest the volume of goods and services purchased increased between the 2013-14 and 2014-15 Draft Budgets. A comparable rise in emissions suggests little overall change in efficiency.

Caution must be taken in interpreting the changes between the Draft Budgets. Both assessments rely on measures of emissions per unit spending for the whole of the UK applied to the pattern of spending outlined in the Draft Budgets. This means that efficiency of Scottish activities relative to the rest of the UK is not fully captured. For example, the direct emissions per unit of spending on health services, education or electricity in Scotland are assumed to be the same as the UK.

The latest data from Scotland's National Performance Framework shows the carbon footprint (emissions associated with Scotland's consumption of goods and services) in 2010 was 82.2 Mt.

EQUALITY BUDGET STATEMENT

This is the sixth occasion the Scottish government has published an [equality budget statement](#) (EBS) providing an "analysis and assessment of the equality impacts of proposed spending plans for 2015-16". Given the complexities of the links between budget allocations and the impact on outcomes, this is clearly a challenging task.

The statement considers the equality impacts of budget decisions by spending portfolio. It also looks at the impact of the budget overall on each equality characteristic. This year's EBS also includes discussion of issues thought to be of wider interest: there are chapters considering the equality impact of the newly devolved taxes and of welfare reform mitigation; whilst as a response to budget scrutiny in 2013, there is also a specific focus on modern apprenticeships, child poverty and human rights.

Whilst the equality budget statement considers the impact of the £37.5 billion budget as a whole, a key budget line is the Promoting Equality budget. In cash terms this budget has remained constant between 2014/15 and 2015/16 at £20.3m. However, after adjusting for inflation, in real terms this budget is expected to decline by 1.6% (around £0.3 m).

The EBS also considers the equality impact of the newly devolved taxes.

- The Scottish Landfill Tax is expected to have no equality impact
- The Land and Buildings transaction Tax is generally expected to have positive equality outcomes. The EBS points to a negative correlation between equality and income, and therefore the redistributive nature of the LBTT banding and rates will it is suggested be positive overall for equalities. The impact by equality strand is also considered:
 - Age – a positive impact expected due to higher home ownership rates amongst older people, who may be downsizing
 - Gender – little impact anticipated
 - Disability – the evidence is "mixed". Owner-occupier households tend to have lower rates of disability than other tenures

- Minority ethnic groups – limited data hinders analysis but there are fewer owner occupiers amongst these groups

The Overview by Equality Characteristic, builds on the overview presented in [last year's equality budget statement](#), and provides a potential start point for scrutiny. The section below briefly summarises some of the key budget measures the Government identifies as having an impact on equality groups, and how the statement indicates the relevant budget is changing.

Gender

Examples of budget or policy area	Changes in budget identified by EBS
Free early learning and childcare	Increased availability/flexibility
College funding enabling more childcare and more places	Increases in 2015/16
Support for key organisations via the Equality Budget	Maintenance of funding
Family Nurse Partnerships	Additional funding
Infant Nutrition	Extra money
Detect Cancer Early	Additional funding
National Active Girls Programme	Will receive funding again in 2015/16

Disability

Examples of budget or policy area	Changes in budget identified by EBS
Scottish Independent Living Fund	New funding
Self-directed support	Continued implementation of legislation to integrate health and social care
Welfare reform	Includes £35m to mitigate the bedroom tax (the statement also includes a specific chapter on welfare reform)
Fuel poverty	Significant investments
Para sports Centre	Capital investment complete by 2016

Age

Examples of budget or policy area	Changes in budget identified by EBS
No tuition fees and retention of Educational Maintenance Allowances	Continued commitment
Opportunities for all	Continued guarantee of places in learning or training (for 16-19 years olds)
Commission for Developing Scotland's Young Workforce	Funding being provided
Network of PE lead officers	Funding included in support to Sport Scotland
Health	Includes £173.5m to support health and social care integration
Free personal care and free eye tests	Continued commitment
Immunisation budget	Increase

Ethnicity

Examples of budget or policy area	Changes in budget identified by EBS
Universal policies such as free prescriptions, and income related commitments such as the Education Maintenance Allowance	Continued commitment
Commission for Developing Scotland's Young Workforce	Additional resources
Modern apprenticeships – increasing participation by ethnic minority groups	Additional resources made available

Lesbian, Gay, Bisexual, Intersex and Gender Identity (LGBTI)

Examples of budget or policy area	Changes in budget identified by EBS
Support to key organisations from the Equality budget	Equality budget maintained
Justice and COPF budgets relating to tackling hate crime	Continued support

Religion – the EBS indicates that due to data limitations there is “a limit to what can be said”, though aspects of the Equality budget will have an impact.

Socio-economic – the EBS identifies a wide range of elements of the budget which have a differential socio-economic impact, including

Examples of budget or policy area
Maximising incomes through the “social wage”
Scottish Welfare mitigation
Funding the Scottish Living wage
Investments in health eg; Detect Cancer Early (increased funding), Anti-smoking (continued funding), and Keep well programme (reduced funding)
Housing (new investment of £125m)
Home Energy Efficiency Programme
Kinship Carers (working with COSLA to extend financial support)
Early Years Collaborative Working

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