FINANCE COMMITTEE

AGENDA

32nd Meeting, 2015 (Session 4)

Wednesday 9 December 2015

The Committee will meet at 9.30 am in the Robert Burns Room (CR1).

1. **Decision on taking business in private**: The Committee will decide whether to consider its work programme and a draft Stage 1 report on the Scottish Fiscal Commission Bill in private at its next meeting.

2. **Draft Budget Scrutiny**: The Committee will take evidence from—


3. **The Scottish Rate of Income Tax**: The Committee will take evidence from—

   Rain Newton-Smith, Director of Economics, CBI Scotland;

   David Watt, Executive Director, Institute of Directors Scotland;

   David Lonsdale, Director, Scottish Retail Consortium;

   Susan Love, Policy Manager, Federation of Small Businesses.

James Johnston
Clerk to the Finance Committee
Room T3.60
The Scottish Parliament
Edinburgh
Tel: 0131 348 5215
Email: james.johnston@scottish.parliament.uk
The papers for this meeting are as follows—

**Agenda Item 2**

Note by the Clerk  
FI/S4/15/32/1

**Agenda Item 3**

Note by the Clerk  
FI/S4/15/32/2
Finance Committee

32nd Meeting, 2015 (Session 4), Wednesday 9 December 2015

Draft Budget 2016-17: Scottish Parliamentary Corporate Body

Purpose

1. The purpose of this paper is to set out background information for the Committee’s scrutiny of the budget proposal submitted by the Scottish Parliamentary Corporate Body (SPCB). A letter from the Presiding Officer can be found in Annexe A and a copy of the proposal in Annexe B.

Background

2. The expenditure plans of any body which has a prior call on the Scottish Consolidated Fund will reduce the total to Scottish Ministers for inclusion in their plans. The Parliament’s budget falls into this category.

3. The Committee considers and reports on the SPCB’s draft budget as part of its wider budget scrutiny. The SPCB’s expenditure proposals will appear in the Budget Bill when it is introduced.

The SPCB budget proposal

4. The letter from the Presiding Officer sets out some background to the approach that the SPCB has taken to setting its budget. The letter states—

“Over the current parliamentary session, we have continued to hold down costs through a combination of the recurring savings arising from our earlier change management programme…and from on-going pay restraint, below the level of inflation for staff”

5. The Presiding Officer goes on to state—

“As 2016-17 is an election year, the budget is strongly focused on projects to set up the required facilities for Members at the start of the new Parliamentary Session. The project portfolio will be reviewed again ahead of the 2017-18 budgeting round.”

Headline figure

6. The SPCB has identified a total budget requirement, including capital charges and non-cash items, of £96.7m for 2016-17. This represents an increase in cash terms of £6.8m (7.6%) compared to the current year budget of £89.8m.
7. The directly controllable costs of the Parliamentary Service are budgeted at £47.3m for 2016-17 which is an increase in cash terms of £3.3m (7.5%) compared to the current year. This includes an increased contingency from £1m in 2015-16 to £4m in 2016-17. This increase is to cover for the one off costs associated with the 2016 election; a prudent contingency for emergencies; and emerging cost pressures from additional powers the Scottish Parliament will assume during the course of the next session.

8. The budget proposal contains little information on what the costs of the additional powers are estimated to be. The Committee may wish to seek further detail in this area.

9. The total SPCB budget submission for revenue and capital expenditure (which does not include capital charges and non-cash items as they have no cash funding requirement) is £84.4m which is £6.8m (8.8%) higher than the approved 2015-16 budget. The indicative figures in the 2015 - 16 budget submission gave a figure of £79m for 2016-17. The budget submission states the increase of £5.4m on the indicative figures is largely attributable to the recently agreed increase in the MSP Staff Costs Provision (£2.7m) along with a prudent increase in the projected amount of the resettlement grants and redundancy payments to better reflect the outturn figures in the previous election year of 2010-11.

10. The Committee may wish to explore the full breakdown of the figures relating to the £5.4m increase in revenue and capital expenditure.

Staff costs

11. The budget submission states that “staff pay including use of contractors is budgeted at £23.7m” which is a net increase on £720K (3.1%) in cash terms from the approved 2015-16 budget. It states that since the baseline year of 2010-11, the staff pay budget has increased by £0.6m (2.5%) in cash terms which is equivalent to a real terms reduction of 9.3%.

12. Budgeted staffing costs for 2016-17 have increased by around £459K (2%) as a result of Treasury changes to the National Insurance contribution rate changes relating to the State Second Pension. The 2016-17 staff costs budget also includes provision for the second year costs of the apprenticeship programme, aimed specifically at young people aged 16-24.

MSP pay

13. The MSP pay budget for 201-17 is calculated on the basis that MSP pay will be uprated on 1 April 2016 by the mechanism directly linking MSP salaries to public sector pay rises in Scotland (the Annual Survey of Hours and Earnings (ASHE)
index). The ASHE index at November 2015 provides for a salary increase of 2.7%. ASHE was used for the first time for the 2015-16 salaries and replaced the previous link to MP salaries. The budget of £11.9m represents an increase of £420K (3.7%) on the 2015-16 budget.

* MSP staff and office costs *

14. Members’ costs are budgeted at £16.9m. This represents an increase of £3.03m (21.8%) on the 2015-16 budget. This takes account of the fact that the budget for Member’s expenses and the associated limits for provisions within the scheme will be uprated on 1 April 2016 in line with the provisions of the Members’ Expenses Scheme. Account has also been taken that experience of the scheme to date shows that not all Members will claim the full entitlement.

15. A significant change was agreed to the Members’ Expenses Scheme in November 2015 which will apply from 6 May 2016. This will uprate the Staff Cost Provision of the scheme from £62.3K in 2015-16 to £85K for 2016-17.

* Property costs *

16. Property costs show a net increase of £113k (1.5%) on the 2015-16 budget. At £3.9m, rates account for half of the total property costs. The projected costs for Rates includes a further reduction in rateable value following the successful appeal in 2015-16 of the rateable value initially attributed to the External Security Facility.

17. Utility costs of £922K show a net increase of £25K (2.8%). Members will recall the discussion in 2014 around the possibility of Members being able to take advantage of offers, such as direct debit payments, for payment of office utilities. The Committee heard from Paul Grice that there were some ‘technical hurdles’ to overcome to enable this to happen but it was something that was being considered. In its *1st Report, 2015 (Session 4): Draft Budget 2015-16* the Committee welcomed this and asked to be kept updated on progress.

18. Maintenance costs are projected to decrease by 0.7% from £2.111m to £2.096m. The budget proposal states that “the nature of this work is that there will be peaks and troughs over the years in line with Facilities Management’s 25 year maintenance plan”.

* Revenue projects *

19. The revenue projects budget shows a decrease of 23.1%, from £3.9m to £3m. This follows an increase of 62.5% from £2.4m to £3.9m in the 2015-16 budget. The Committee will recall that when the increase of 62.5% was discussed in evidence last year, Liam McArthur MSP stated—
"However, as you will have noted, the indicative forecast for 2016-17 sees the figure fall from £3.9m back down to £2.2m."

20. The Committee may wish to explore the reasons why the revenue projects budget has only decreased to £3m and not the £2.2m as forecast in the 2015-16 budget.

21. In addition to the £2.096m to be spent on maintenance under the property costs table in schedule 3 the revenue projects table includes a further £1.11m for the Facilities Management programme including planned project work also in line with the 25 year maintenance plan for the building as well as changes to Members Offices at Holyrood and constituencies following election and various projects and minor works. The Committee may wish to ask for a more detailed breakdown on this figure, in particular around spending on the 25 year maintenance plan which also receives funding under the property costs budget.

22. The table in schedule 3 provides a breakdown of the costs associated with the different projects accounted for in this budget. This also includes £230K for changes to the service yard in line with security advice and £135K for the commencement of Session 5. Other items included in this budget are £1.315m for information technology/ digital change and £160K for the HR/Organisation Development programme.

23. The Committee was also interested to hear last year that savings could be expected following the £400K planned spend on the replacement of Chamber lighting. In its report last year the Committee welcomed initiatives that had a positive environmental impact and resulted in savings. The Committee asked for details on the savings resulting from the replacement of the Chamber lighting and requested that potential savings from any other similar initiatives be included in future budget submissions. No information on these types of savings has been included and the Committee may wish to explore this further.

Commissioners and Ombudsman

24. The proposed 2016-17 budget for Officeholders amounts to £8.4m, an increase of £75k (0.9%) on the approved 2015-16 budget. The Scottish Information Commissioner and the Scottish Public Services Ombudsman have both requested additional staff to meet increased workloads; the requests have still to be considered by the SPCB. The Officeholder Contingency Fund for 2016-17 has been increased by £50K to £350K to provide flexibility should additional staff be required.

25. The Committee will recall that a discussion was held last year regarding the additional costs facing the Scottish Public Sector Ombudsman when he takes over...
responsibility for second-tier appeals. Concerns were raised by the Committee and the Welfare Reform Committee on these additional costs imposed by the Welfare Funds (Scotland) Bill. The Committee heard that while there had been constructive discussions with the Ombudsman, the SPCB would not enter into any firm agreement that additional resources should be released until both it and the Committees were satisfied.

26. The Committee may wish to explore how the discussions with the Ombudsman and the Scottish Information Commissioner are progressing.

27. In its report last year the Committee welcomed co-location of Commissioners and the Ombudsman being an objective of the SPCB. The Committee may wish to explore the progress that has been made on co-location arrangements in the last year.

_Capital expenditure_

28. The 2016-17 budget for capital expenditure shows a year on year increase of 25%, increasing from £1.2m to £1.5m. The breakdown of this budget shows that expenditure will be largely on IT equipment including network / end user refresh and providing newly elected members with suitable equipment.

_Conclusion_

29. The Committee is invited to consider the SPCB’s budget proposal for 2016 – 17.

Alison Wilson
Senior Assistant Clerk to the Committee
Kenneth Gibson MSP  
Convener, Finance Committee  
The Scottish Parliament  
T3.60  

2 December 2015

Dear Kenneth,

SPCB BUDGET SUBMISSION FOR 2016-17

I am pleased to submit our budget bid for the financial year 2016-17, which is set against the context of preparation for the next 5 year parliamentary session, starting with the Scottish Parliament election in May 2016. Additional challenges for 2016-17 include the need to address one-off election costs and the emerging demands arising as a result of the complex new powers which the Parliament will exercise in the next session. The latter includes an increase in the staff support available to Members, approved by the Parliament on 10 November.

Over the course of the current 5 year parliamentary session, the Corporate Body has delivered a 10% real terms reduction in the total SPCB budget from 2010-11 to 2015-16. This has been achieved by a combination of pay freezes and pay restraint (for Members, Members’ support staff and SPS staff), and a change management programme, which has reviewed every aspect of the Parliament’s operations and which has reduced staffing in the Parliamentary Service by over 10%.

Despite these significant budget reductions, the SPCB has consistently delivered against its strategic plan and has supported demanding programmes of parliamentary business. It has also invested in essential improvements to the Holyrood building infrastructure; better use of mobile technology to support Members’ work and enhancements to the Parliament’s engagement with the public throughout Scotland.

Members continue to rate the Scottish Parliamentary Service highly and our staff remain motivated and well supported to carry out their roles against the backdrop of changing powers and expectations of the Parliament.

Headline figures

The SPCB has identified a total budget requirement, including capital charges and non-cash items, of £96.7m for 2016-17 as shown on the attached schedule 1. This represents an increase in cash terms of £6.8m (7.6%) compared to the current year.
budget of £89.8m. Schedule 1 also sets out indicative estimates for the 2017-18 financial year.

The directly controllable costs of the Parliamentary Service are budgeted at £47.3m for 2016-17, an increase in cash terms of £3.3m (7.5%) compared to the current year. This includes an increased contingency from £1m in 2015-16 to £4m in 2016-17 within the overall Corporate Body budget bid. This increase is to cover the one-off costs associated with the 2016 election; a prudent contingency for emergencies; and emerging cost pressures from additional powers the Scottish Parliament will assume during the course of the next session.

Excluding the capital charges and non-cash items, which do not represent a cash funding requirement, the total SPCB budget submission for revenue and capital expenditure is £84.4m, £6.8m (8.8%) higher than the approved 2015-16 budget. The increase from the indicative figures presented to the committee last year is largely attributable to the recently agreed increase in the Staff Costs Provision (£2.7m) and a prudent increase in the projected amount of the resettlement grants and redundancy payments to better reflect the outturn figures in the previous election year of 2010-11.

I attach an analysis of our budget bid (schedule 2) together with a briefing paper (schedule 3) and further analysis schedules to assist the Finance Committee in its scrutiny of our budget bid.

Approach to setting the budget

Over the current parliamentary session, we have continued to hold down costs through a combination of the recurring savings arising from our earlier change management programme, referred to above, and from on-going pay restraint, below the level of inflation, for staff.

The MSP pay budget for 2016-17 is calculated on the basis that MSP pay will be uprated on 1 April 2016 by the mechanism directly linking MSP salaries to public sector pay rises in Scotland (the Annual Survey of Hours and Earnings (ASHE)). This replaced the previous link to MP salaries, which the Scottish Parliament voted to break in March 2015. An annual increase of 0.7% was applied in April 2015 under this mechanism and an increase of 2.7% will be applied for 2016-17, based on the most recent index published in November 2015.

Members’ costs represent an increase of £3.0m (21.8%) on the 2015-16 budget and is calculated taking the following into account:-

- the Staff Cost Provision being increased to £85k with effect from 6 May 2016, which will enable Members to employ up to the equivalent of 3 full time support staff. This was agreed by resolution of the Parliament on 10 November.
• the limits for the other provisions within the Members’ Expenses Scheme being uprated on 1 April 2016 from the agreed 2015-16 level in line with the uprating provisions of the scheme.
• An assumption that not all Members will claim the full entitlement, reflecting our experience of the scheme to date.

An analysis of projects scheduled to be taken forward or continued over the next financial year is attached at Schedule 3. This sets out an analysis of revenue project expenditure totalling £3.0m (a decrease of £0.9m against 2015-16) and capital projects totalling £1.5m (an increase of £0.3m against 2015-16). The project expenditure budget is utilised to fund both the prudent maintenance of existing infrastructure (e.g. IT equipment and building assets) and investment to make improvements to the Parliament’s services and facilities (e.g. the continued development of more modern, cost effective online services for Members and the public and more efficient ways of working for staff).

As 2016-17 is an election year, the budget is strongly focussed on projects to set up the required facilities for Members at the start of the new Parliamentary Session. The project portfolio will be reviewed again ahead of the 2017-18 budgeting round.

Commissioners and Ombudsman

The proposed 2016-17 budget for Officeholders amounts to £8.4m, an increase of £75k or 0.9% on the approved 2015-16 budget. An analysis of the officeholders’ budget bids, together with further supporting information on their individual submissions, is provided in schedules 4(a) and 4(b).

The Officeholder Contingency Fund for 2016-17 has been increased by £50k to £350k. This is to allow flexibility should it be required for additional staff for the Scottish Information Commissioner and the Scottish Public Services Ombudsman who have both requested additional staff to meet increased workload - their determinations have still to be considered by the SPCB.

We have a challenging responsibility to balance the financial impact on the public purse of these budget proposals with the need to ensure that Officeholders are funded to undertake their statutory responsibilities. In this context, we strongly welcome the involvement of the Parliament’s committees in scrutinising the work of the Officeholders as this greatly assists us with our consideration of their budget submissions.

Indicative Forecasts for 2017-18

Schedule 2 also provides an analysis of our indicative revenue and capital expenditure forecast for 2017-18. This shows a 0.7% decrease from 2016-17 in cash terms and a 2.5% reduction in real terms in the SPCB’s net revenue and capital expenditure.
The SPCB is submitting its budget to the Finance Committee in advance of the publication of the draft Scottish Budget on 16 December. This will tell us more about budget pressures in future years and the SPCB will respond accordingly.

We will be happy to expand on any aspects of our budget submission when we appear before the Committee on 9 December.

Yours sincerely

[Signature]

TRICIA MARWICK
<table>
<thead>
<tr>
<th></th>
<th>Approved Budget 2015-16 £'000</th>
<th>Budget Bid 2016-17 £'000</th>
<th>Indicative Forecast 2017-18 £'000</th>
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<tbody>
<tr>
<td><strong>A) REVENUE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Revenue Expenditure (Schedule 2)</td>
<td>76,366</td>
<td>82,909</td>
<td>82,276</td>
</tr>
<tr>
<td><strong>B) CAPITAL</strong></td>
<td></td>
<td></td>
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<tr>
<td>Capital Expenditure (Schedule 2)</td>
<td>1,200</td>
<td>1,500</td>
<td>1,500</td>
</tr>
<tr>
<td><strong>C) TOTAL EXPENDITURE EXCLUDING CAPITAL CHARGES AND NON CASH ITEMS (A+B)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Revenue and Capital Expenditure</td>
<td>77,566</td>
<td>84,409</td>
<td>83,776</td>
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<td><strong>D) CAPITAL CHARGES AND NON CASH ITEMS</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Total Capital Charges and non cash items (schedule 3)</td>
<td>12,267</td>
<td>12,269</td>
<td>12,669</td>
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<td><strong>E) TOTAL EXPENDITURE INCLUDING CAPITAL CHARGES AND NON CASH ITEMS (C+D)</strong></td>
<td></td>
<td></td>
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<tr>
<td>Total Net Expenditure</td>
<td>89,833</td>
<td>96,678</td>
<td>96,445</td>
</tr>
</tbody>
</table>
# SPCB Budget Submission 2016-17 - Summary

## Schedule 2

### Net Revenue and Capital Budget

<table>
<thead>
<tr>
<th></th>
<th>Approved Budget 2015-16</th>
<th>Budget Bid 2016-17</th>
<th>Indicative Forecast 2017-18</th>
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<tbody>
<tr>
<td><strong>Revenue Expenditure</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td><strong>Recurring Annual Costs</strong></td>
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<tr>
<td>Staff Pay</td>
<td>22,973</td>
<td>23,693</td>
<td>24,120</td>
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<tr>
<td>Staff Related and General Costs</td>
<td>864</td>
<td>864</td>
<td>880</td>
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<tr>
<td>Property Costs</td>
<td>7,483</td>
<td>7,596</td>
<td>7,733</td>
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<tr>
<td>Running Costs</td>
<td>6,787</td>
<td>6,889</td>
<td>7,012</td>
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<tr>
<td><strong>Total</strong></td>
<td>38,107</td>
<td>39,042</td>
<td>39,745</td>
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<td><strong>Projects and One-Off Costs</strong></td>
<td>3,900</td>
<td>3,000</td>
<td>3,000</td>
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<td><strong>Total Parliamentary Service Costs</strong></td>
<td><strong>42,007</strong></td>
<td><strong>42,042</strong></td>
<td><strong>42,745</strong></td>
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<tr>
<td><strong>MSPs’ and Officeholders’ Costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MSP Pay</td>
<td>11,440</td>
<td>11,860</td>
<td>12,073</td>
</tr>
<tr>
<td>MSP Office, Staff and Accom. Costs etc.</td>
<td>13,870</td>
<td>16,900</td>
<td>17,204</td>
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<tr>
<td>Commissioners &amp; Ombudsman Costs</td>
<td>8,294</td>
<td>8,369</td>
<td>8,520</td>
</tr>
<tr>
<td><strong>Total MSPs’ &amp; Officeholders’ Costs</strong></td>
<td><strong>33,604</strong></td>
<td><strong>37,129</strong></td>
<td><strong>37,797</strong></td>
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<tr>
<td>Contingency</td>
<td>1,000</td>
<td>4,000</td>
<td>2,000</td>
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<td><strong>Total Revenue Expenditure</strong></td>
<td><strong>76,611</strong></td>
<td><strong>83,171</strong></td>
<td><strong>82,542</strong></td>
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<td><strong>Less:- Income</strong></td>
<td>(245)</td>
<td>(262)</td>
<td>(266)</td>
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<tr>
<td><strong>Total Net Revenue Expenditure</strong></td>
<td><strong>76,366</strong></td>
<td><strong>82,909</strong></td>
<td><strong>82,276</strong></td>
</tr>
<tr>
<td><strong>Capital Expenditure</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>1,200</td>
<td>1,500</td>
<td>1,500</td>
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<tr>
<td><strong>Total Capital Expenditure</strong></td>
<td><strong>1,200</strong></td>
<td><strong>1,500</strong></td>
<td><strong>1,500</strong></td>
</tr>
<tr>
<td><strong>Total Net Revenue and Capital Expenditure</strong></td>
<td><strong>77,566</strong></td>
<td><strong>84,409</strong></td>
<td><strong>83,776</strong></td>
</tr>
</tbody>
</table>

### Memorandum:-

**Directly Controllable Parliamentary Service Costs**

| Total Expenditure less MSPs’ and Officeholders’ Costs | 43,962 | 47,280 | 45,979 |

**Excluding contingency for one-off costs**

| Total Expenditure less MSPs’ and Officeholder Costs and one-off costs associated with the election in 2016-17 | 43,962 | 44,280 | 45,979 |
Finance Committee Briefing 9 December 2015 - SPCB Net Revenue and Capital Budget

The net revenue and capital expenditure of the SPCB is forecast to increase from £77.6m in 2015-16 to £84.4m in 2016-17, an increase of £6.8m (8.8%) in cash terms.

The main elements of this are:-

<table>
<thead>
<tr>
<th>Total Staff Costs</th>
<th>Budget 2015-16 £'000</th>
<th>Budget Bid 2016-17 £'000</th>
<th>Increase / (decrease) £'000</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>22,973</td>
<td>23,693</td>
<td>720</td>
<td>3.1%</td>
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Staff pay including use of contractors is budgeted at £23.7m, a net increase of £720k (3.1%) in cash terms from the approved 2015-16 budget. Since the baseline year of 2010-11, the staff pay budget has increased by £0.6m (2.5%) in cash terms (equivalent to a real terms reduction of 9.3%).

There was a one year pay deal of 1% for 2015-16. There will be new negotiations for 2016-17 and future years. For budgetary purposes, we have assumed a modest increase to pay scales on 1 April 2016, in line with other public sector pay increases. However, no discussions have yet taken place with the TUS. The proposed staff pay budget also takes account of the projected movement of staff through the incremental pay scales on the SPCB’s single pay spine. This is a prudent budget assumption, reflecting the contractual entitlements for existing staff.

Budgeted staffing costs for 2016-17 have increased by c £459k (2.0%) as a result of Treasury changes to the national Insurance contribution rate changes relating to the State Second Pension.

The 2016-17 staff costs budget also includes provision for the second year costs of the apprenticeship programme, aimed specifically at young people aged 16-24.

We know from experience that staff turnover reduces the net cost of incremental pay progression. This is therefore reflected in a vacancy factor, which is applied to the staff pay budget as a credit. The vacancy factor is budgeted at £468k or 2% of salaries, in line with the figure budgeted for the current financial year.
Staff Related costs

<table>
<thead>
<tr>
<th></th>
<th>Budget 2015-16 £’000</th>
<th>Budget Bid 2016-17 £’000</th>
<th>Increase / (Decrease) £’000</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>864</td>
<td>864</td>
<td>0</td>
<td>0.0%</td>
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</tbody>
</table>

Staff-related costs, which include investment in our staff’s learning and development, are budgeted at £0.9m. We aim to maximise the impact of this budget, whilst pegging it at the same level as 2015-16, by more innovative use of online resources, for a more modern and dynamic approach to skills development. The staff related costs budget also includes provision for travel and associated costs to support the Parliament to extend its work to communities across Scotland via the highly impactful Parliament Days and the committee engagement programme. Staff related costs also include provision for childcare vouchers.

<table>
<thead>
<tr>
<th>Property Costs</th>
<th>Budget 2015-16 £’000</th>
<th>Budget Bid 2016-17 £’000</th>
<th>Increase / (decrease) £’000</th>
<th>%</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>7,483</td>
<td>7,596</td>
<td>113</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

Property Costs comprise :- £k
- Rates 3,896
- Maintenance 2,096
- Utilities 922
- Cleaning 526
- Other 156
  7,596

Property Costs of £7.6m show a net increase of £113k (1.5%) on the 2015-16 budget.

Rates, at £3.9m, account for over half of total property costs. The projected costs include a further reduction in rateable value following the successful appeal in 2015-16 of the rateable value initially attributed to the External Security Facility element. This follows previous successful negotiation with the Lothian Assessor to secure a 19.6% reduction in the high rateable value initially placed on the Scottish Parliament by the 2010 Rating Revaluation.

Utility costs of £922k show a net increase of £25k (2.8%) on the 2015-16 budget. We benefit from the use of the competitively priced Scottish Government negotiated contract for electricity and have also continued our efforts to drive down energy consumption for gas and electricity through targeted investment in energy efficiency initiatives and by encouraging good practice by all building users.

Maintenance costs are projected to decrease by 0.7% from £2,111k in 2015-16 to £2,096k in 2016-17. The nature of this work is that there will be peaks and troughs over the years in line with FM’s 25 year maintenance plan, though we aim to smooth these as much as possible.
All other property costs remain broadly at 2015-16 levels for next year.

### Running Costs

<table>
<thead>
<tr>
<th></th>
<th>Budget 2015-16 £’000</th>
<th>Budget Bid 2016-17 £’000</th>
<th>Increase / (decrease) £’000</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6,787</td>
<td>6,889</td>
<td>102</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

Running costs of £6.8m are projected to increase by £102k (1.5%) over the 2015-16 budget levels. Running costs mainly consist of the SPCB’s outsourced contracts for the provision of goods and services. They also include the SPCB’s engagement initiatives in respect of Parliament led events and contributions to the Business Exchange and Futures Forum.

### Revenue Projects

<table>
<thead>
<tr>
<th></th>
<th>Budget 2015-16 £’000</th>
<th>Budget Bid 2016-17 £’000</th>
<th>Increase / (decrease) £’000</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3,900</td>
<td>3,000</td>
<td>(900)</td>
<td>(23.1%)</td>
</tr>
</tbody>
</table>

Project expenditure is budgeted separately from recurring annual costs to provide greater transparency in our management reporting. The revenue project expenditure budget is utilised to fund major elements of planned maintenance and investment to make on-going improvements to the Parliament’s services and facilities:

- **Information Technology/Digital Change** including scheduled technology refresh projects such as updating the technical environment (Windows10/Office 365) for members and their staff; provision of suitable IT equipment for newly elected members and their staff at Holyrood and in regional and constituency offices; and further development of more mobile and efficient business processes such as the Member’s Portal. £1,315k

- **Facilities Management programme** including planned project expenditure in line with FM’s 25 year maintenance plan for the building, changes to Members Offices at Holyrood and constituencies following election, various projects and minor works. £1,110k

- **HR/Organisational Development programme** including staff costs to support programme delivery, new time and attendance system, new candidate management system for recruitment, support auto enrolment for members staff from 1 July 2016. £160k

- **Service Yard** – changes in line with security advice £230k

- **Session 5 Events** for the commencement of Session 5 for opening, KIrking and members orientation. £135k

- **Other** £50k
The MSP pay budget for 2016-17 is calculated on the basis that MSP pay will be uprated on 1 April 2016 by the mechanism directly linking MSP salaries to public sector pay rises in Scotland, which was used for the first time for 2015-16 salaries and replaced the previous link to MP salaries. The budget of £11.9m represents an increase of £420k (3.7%) on the 2015-16 budget. This includes a 2.7% salary increase as a result of the Annual Survey of Hours and Earnings (ASHE) index at November 2015. Part of the increase is attributable to budgeting for 129 members in 2016-17 compared to 128 members in 2015-16 and changes in cabinet constitution from that budgeted previously.

Members’ Costs are budgeted at £16.9m. This represents an increase of £3,030k (21.8%) on the 2015-16 budget and is calculated on the following assumptions:

- The budget for Members’ Expenses and the associated limits for provisions within the scheme will be uprated on 1 April 2016 from the agreed 2015-16 level in line with the uprating provisions of the Members’ Expenses Scheme.
- Not all members will claim the full entitlement, reflecting our experience of the scheme to date.

A significant change to the Members Expenses Scheme was agreed in November 2015 to apply from 6 May 2016. The Staff Cost provision of the Scheme will be uprated from £62,300 in 2015-16 to £85,000 for 2016-17 to enable the employment of 3 members of staff under standardised contracts and salary scales. This also impacts on associated staff on costs such as pension and ERNIC contributions which are uncapped provisions.
The proposed 2016-17 budget for Officeholders amounts to £8,369k, representing an increase of £75k or 0.9% on the approved 2015-16 budget. The analysis is shown in schedule 4.

The level of contingency provided directly within the Commissioners’ and Ombudsman’s budget has been increased to £350k. This is to allow flexibility should it be required for additional staff for the Information Commissioner and the Ombudsman who have both requested additional staff but their determinations have still to be considered by the SPCB (£150k) with a general contingency of £200k for legal advice, representation etc.

<table>
<thead>
<tr>
<th>Contingency</th>
<th>Budget 2015-16 £’000</th>
<th>Budget Bid 2016-17 £’000</th>
<th>Increase / (decrease) £’000</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,000</td>
<td>4,000</td>
<td>3,000</td>
<td>300.0%</td>
</tr>
</tbody>
</table>

The proposed contingency of £4.0m within the overall Corporate Body budget bid is to cover:-
- the one-off costs associated with the 2016 election
- a prudent contingency for emergencies
- emerging cost pressures from the additional powers the Scottish Parliament will assume during the course of the next Session.

The actual cost of resettlement grants and MSP staff redundancies at the May 2011 election amounted to £3.1m. It is therefore recommended that £3.0m of the contingency is notionally set aside for this purpose, with the remainder equally split between providing for emergencies and for the emerging cost pressures resulting from additional powers.

The appropriate level of contingency is a matter of judgement. From a financial control and governance perspective, it is important to ensure that the level of contingency is related to expectations.

<table>
<thead>
<tr>
<th>Income</th>
<th>Budget 2015-16 £’000</th>
<th>Budget Bid 2016-17 £’000</th>
<th>(Increase) / decrease £’000</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(245)</td>
<td>(262)</td>
<td>(17)</td>
<td>6.9%</td>
</tr>
</tbody>
</table>

The projected income of £262k is all for the Parliament shop and represents a 6.9% increase against the 2015-16 budget. We also continue to seek opportunities to increase the revenue generated from catering services and events. However, it should be noted that these are accounted for as an offset against running costs, rather than as income.
### Capital Expenditure

<table>
<thead>
<tr>
<th>Capital Expenditure</th>
<th>Budget 2015-16 £'000</th>
<th>Budget Bid 2016-17 £'000</th>
<th>Increase / (decrease) £'000</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,200</td>
<td>1,500</td>
<td>300</td>
<td>25%</td>
</tr>
</tbody>
</table>

The capital expenditure projects planned for 2016-17 comprise:-

- IT equipment including network refresh, end user refresh. £730k
- IT election planning providing newly elected members with suitable equipment. £460k
- Digital Parliament Programme – Members portal and Business Products Phase 1 and 2. £80k
- Official Report linking official report to video of parliamentary proceedings £70k
- Legislative refresh replacing obsolescent software £60k
- Facilities Management, replacement of multi-function devices (MFDs). £60k
- Organisational Development replacement of HR systems. £40k
- Total £1,500k

### Total Net Revenue & Capital Expenditure

<table>
<thead>
<tr>
<th>Total Net Revenue &amp; Capital Expenditure</th>
<th>Budget 2015-16 £'000</th>
<th>Budget Bid 2016-17 £'000</th>
<th>Increase / (decrease) £'000</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>77,567</td>
<td>84,409</td>
<td>6,842</td>
<td>8.8%</td>
</tr>
</tbody>
</table>
## Capital Charges (Schedule 1)

<table>
<thead>
<tr>
<th>Capital charges and non cash items</th>
<th>Budget 2015-16 £'000</th>
<th>Budget Bid 2016-17 £'000</th>
<th>Increase / (decrease) £'000</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DEL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>11,200</td>
<td>11,200</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Audit fee</td>
<td>67</td>
<td>69</td>
<td>2</td>
<td>3.0%</td>
</tr>
<tr>
<td><strong>Total DEL</strong></td>
<td><strong>11,267</strong></td>
<td><strong>11,269</strong></td>
<td><strong>2</strong></td>
<td><strong>0.0%</strong></td>
</tr>
<tr>
<td><strong>AME</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension finance cost (net)</td>
<td>1,000</td>
<td>1,000</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total AME</strong></td>
<td><strong>1,000</strong></td>
<td><strong>1,000</strong></td>
<td><strong>0</strong></td>
<td><strong>0.0%</strong></td>
</tr>
<tr>
<td><strong>Total capital and non cash items DEL + AME</strong></td>
<td><strong>12,267</strong></td>
<td><strong>12,269</strong></td>
<td><strong>2</strong></td>
<td><strong>0.0%</strong></td>
</tr>
</tbody>
</table>

Depreciation on the Holyrood Building is calculated on valuation figures. Projected increases to asset values are estimated using RICS building valuation indices.

The pension finance AME charge represents provision for the notional funding costs for the Members’ pension fund arising from the movement of actuarial factors.
<table>
<thead>
<tr>
<th>Office / Department</th>
<th>Approved Budget 2015-16</th>
<th>Budget Bid 2016-17</th>
<th>2016/17 Increase/(decrease) vs 2015-16 approved budget</th>
<th>2016/17 Increase/(decrease) vs 2015-16 approved budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scottish Public Services Ombudsman</td>
<td>3,242 £'000</td>
<td>3,253 £'000</td>
<td>11 £,000</td>
<td>0.3%</td>
</tr>
<tr>
<td>Scottish Information Commissioner</td>
<td>1,464 £'000</td>
<td>1,492 £'000</td>
<td>28 £,000</td>
<td>1.9%</td>
</tr>
<tr>
<td>Commissioner for Children and Young People in Scotland</td>
<td>1,287 £'000</td>
<td>1,264 £'000</td>
<td>(23) £,000</td>
<td>(1.8%)</td>
</tr>
<tr>
<td>Scottish Commission for Human Rights</td>
<td>952 £'000</td>
<td>958 £'000</td>
<td>6 £,000</td>
<td>0.6%</td>
</tr>
<tr>
<td>Commissioner for Ethical Standards in Public Life in Scotland</td>
<td>811 £'000</td>
<td>812 £'000</td>
<td>1 £,000</td>
<td>0.1%</td>
</tr>
<tr>
<td>Standards Commission for Scotland</td>
<td>238 £'000</td>
<td>240 £'000</td>
<td>2 £,000</td>
<td>0.8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7,994 £'000</strong></td>
<td><strong>8,019 £'000</strong></td>
<td><strong>25 £,000</strong></td>
<td><strong>0.3%</strong></td>
</tr>
<tr>
<td>Central contingency for legal action, staffing (SPSO &amp; SIC) etc</td>
<td>300 £'000</td>
<td>350 £'000</td>
<td>50 £,000</td>
<td>16.7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,294 £'000</strong></td>
<td><strong>8,369 £'000</strong></td>
<td><strong>75 £,000</strong></td>
<td><strong>0.9%</strong></td>
</tr>
</tbody>
</table>
## Schedule 5

**SPCB Statement of Financial Position**

<table>
<thead>
<tr>
<th></th>
<th>31 Mar 2015 Actual (£'000)</th>
<th>31 Mar 2016 Projected (£'000)</th>
<th>31 Mar 2017 Projected (£'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Holyrood land and buildings</td>
<td>304,000</td>
<td>306,943</td>
<td>313,523</td>
</tr>
<tr>
<td>Other fixed assets</td>
<td>4,774</td>
<td>4,337</td>
<td>4,204</td>
</tr>
<tr>
<td><strong>Total non current assets</strong></td>
<td>308,774</td>
<td>311,280</td>
<td>317,727</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>258</td>
<td>258</td>
<td>258</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>1,237</td>
<td>1,237</td>
<td>1,237</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>1,703</td>
<td>1,703</td>
<td>1,703</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>3,198</td>
<td>3,198</td>
<td>3,198</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>311,972</td>
<td>314,478</td>
<td>320,925</td>
</tr>
<tr>
<td>Liabilities (including current and non current)</td>
<td>(25,667)</td>
<td>(25,069)</td>
<td>(24,934)</td>
</tr>
<tr>
<td><strong>Assets less liabilities</strong></td>
<td>286,305</td>
<td>289,409</td>
<td>295,991</td>
</tr>
<tr>
<td><strong>Taxpayers’ equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General fund</td>
<td>244,766</td>
<td>236,057</td>
<td>227,189</td>
</tr>
<tr>
<td>Revaluation reserve</td>
<td>58,415</td>
<td>70,228</td>
<td>85,678</td>
</tr>
<tr>
<td>Pension reserve</td>
<td>(16,876)</td>
<td>(16,876)</td>
<td>(16,876)</td>
</tr>
<tr>
<td><strong>Total taxpayers’ equity</strong></td>
<td>286,305</td>
<td>289,409</td>
<td>295,991</td>
</tr>
</tbody>
</table>
### SCOTTISH PARLIAMENTARY CORPORATE BODY

#### Shop Trading Accounts

<table>
<thead>
<tr>
<th></th>
<th>Actual 2013-14</th>
<th>Actual 2014-15</th>
<th>Budget 2015-16</th>
<th>Budget 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td>Sales</td>
<td>260</td>
<td>273</td>
<td>245</td>
<td>262</td>
</tr>
<tr>
<td>Cost of Sales (1)</td>
<td>150</td>
<td>180</td>
<td>119</td>
<td>144</td>
</tr>
<tr>
<td>Net Contribution</td>
<td>110</td>
<td>93</td>
<td>126</td>
<td>118</td>
</tr>
<tr>
<td>Direct Salaries (3)</td>
<td>83</td>
<td>82</td>
<td>87</td>
<td>89</td>
</tr>
<tr>
<td>Other Direct Costs (2)</td>
<td>4</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total Direct Costs</strong></td>
<td><strong>87</strong></td>
<td><strong>88</strong></td>
<td><strong>93</strong></td>
<td><strong>95</strong></td>
</tr>
<tr>
<td><strong>Net Surplus/(Deficit) after direct costs</strong></td>
<td><strong>23</strong></td>
<td><strong>5</strong></td>
<td><strong>33</strong></td>
<td><strong>23</strong></td>
</tr>
</tbody>
</table>

### Notes
1. Cost of sales is the cost of items for sale in the shop.
2. Other direct costs are expenditure incurred directly in the operation of the shop such as stationery and credit card and cash uplift charges.
3. Salaries have been updated to reflect revised retail function staffing (1 Manager, 1.5 G2 plus allowances and overtime).

Shop relocated within Main Hall midway through 2013-14

This statement does not include general overhead costs, e.g. for a proportion of business rates, utility costs and other operational and support costs.
Finance Committee
32nd Meeting, 2015 (Session 4), Wednesday 9 December 2015

Scottish Rate of Income Tax

Introduction
1. From 1 April 2016 the Scottish Parliament will have responsibility for a Scottish Rate of Income Tax (SRIT). This new power arises from the Scotland Act 2012 and additional powers in relation to income tax are due to be devolved following the recommendations of the Smith Commission. Section 26 of the Act provides for the basic rate, higher rate and additional rate of the non-savings income of a Scottish taxpayer to be reduced by 10 percentage points. The Scottish Parliament is then required to set a new SRIT on an annual basis which will apply equally to all of these rates.

Evidence
2. As part of its scrutiny of draft budget 2016-17 the Committee issued a call for evidence prior to summer recess seeking views on—

- What should the rate be for SRIT and why?
- If SRIT should be above 10%, how should the additional funding be allocated?
- If SRIT should be below 10%, how should the reduction be funded from existing public expenditure?
- Has the introduction of SRIT been sufficiently well publicised to employers and tax payers?

3. The Committee received 24 responses which can be accessed via the Committee’s website. Hard copies have previously been circulated to members. The Committee’s budget adviser has produced a summary of the written evidence.

4. At this meeting, the Committee will take evidence on the SRIT from the following representatives of the business community in Scotland—

- David Lonsdale – Scottish Retail Consortium
- Susan Love – FSB Scotland;
- Rain Newton-Smith – CBI Scotland;
- David Watt – Institute of Directors Scotland; and

5. Hard copies of the written submissions provided by all witnesses attending this meeting are attached.

Conclusion
6. The Committee is invited to consider the above.

Alan Hunter,
Assistant Clerk to the Committee
INTRODUCTION

1. Retail is an exciting, diverse and dynamic industry undergoing transformational change. The SRC is at the forefront – enhancing, assisting, informing and shaping. Our mission is to make a positive difference to the retail industry and to the customers it serves. Our broad range of stakeholders demonstrates how retailing touches almost every aspect of our culture. The SRC leads the industry and works with our members to shape debates and influence issues and opportunities that will help make that positive difference. We care about the careers of people who work in our industry, the communities retail touches and competitiveness as a fundamental principle of the industry’s success – our 3Cs.

2. In addition to publishing leading indicators on retail sales, footfall and shop vacancies in town centres, our policy positions are informed by our 255-strong membership and determined by the SRC’s Board.

3. The retail industry employs 257,000 people across every part of Scotland, 14 per cent of the total private sector workforce. Earlier this year the SRC published ‘Retail Pay & Benefits’, a research paper into the pay and benefits packages offered by retailers. Since then we note that the UK Government has unveiled plans for a new National Living Wage and a new Apprenticeship Levy, with further statutory increases in employers’ pension contributions scheduled.

4. The SRC welcomes the opportunity to contribute to the Finance Committee’s deliberations on the new Scottish Rate of Income Tax (SRIT) which will be paid by Scottish based taxpayers from April 2016. The retail industry takes a great interest in personal taxation issues\(^1\) for several reasons, including:

- The potential impact on customers’ discretionary spending and disposable incomes (given that SRIT is expected to generate approximately £4.3 billion in revenues initially before rising to £10.9 billion annually once the Smith Commission Agreement is enacted in the new Scotland Bill);

\(^1\) The SRC set out positions on personal and business taxation in its June 2014 paper on the Scottish Government’s 2015-16 Budget.
The potential impact on retail industry employees\(^2\) and retailers administrative systems;

The potential knock on implications for other taxes that affect households or businesses.

**KEY MESSAGES**

5. The Scottish Parliament has an expanding range of taxation and fiscal powers and is set to exert significant influence over take home pay, the amount of money in people’s pockets and the competitiveness of firms operating in Scotland. Of course the amount of money consumers earn and have to spend is influenced by a wide range of factors including their income and the cost of living, which can be affected by broader public policy decisions over housing supply and transport costs and more directly through duties and charges (e.g. charges for water and sewerage, carrier bags, deposit return schemes etc). Retailers\(^3\) can and do play their part in keeping down the cost of living. The SRC believes policy makers can enhance Scotland’s prospects further by using the new devolved tax and fiscal powers including SRIT to positively support the economy and consumer spending.

6. The SRC has previously\(^4\) voiced concern over the balance in the burden of taxation between personal and business taxpayers\(^5\) over recent years in terms of funding local government. Increases in Business Rates\(^6\) have been wholly out of step with Council Tax (see graph below), with rises tied to an annual escalator whilst Council Tax has been frozen. Since 2007-08 there has been a 42 per cent increase in the tax revenue from Business Rates compared to a 9 per cent increase in Council Tax revenues, with businesses\(^7\) disproportionally picking up a greater share of local authority funding. We have deep reservations about this discrepancy, and certainly do not want to see a similar principle extended or applied more widely in the context of personal taxes like SRIT and business taxes with firms having to pick up a greater share of taxation.

---

\(^2\) Income tax receipts in Scotland from retail industry staff totalled £335 million in 2011/12, with a further £351 million from employee and employer national insurance contributions – p11, ‘Scottish Retail: The Economic & Social Contribution’, SRC January 2015

\(^3\) Retailers are responding to the squeeze on household budgets and strong industry-wide competition with keen prices and promotions, helping to keep down the cost of living. Shop prices have fallen for 27 consecutive months, food inflation is at its lowest recorded level.

\(^4\) See SRC’s submission to the Commission on Local Tax Reform, June 2015

\(^5\) Scottish retail contributes £2 billion each year from the top 5 direct and indirect taxes: SRC’s ‘Holyrood 2016: Business Rates’ paper.

\(^6\) The not-for-profit International Property Tax Institute claims tax on property in the UK as a percentage of all taxation is higher than in other OECD countries, with commercial properties picking up a disproportionate burden.

\(^7\) At the same time as business rates have risen firms have also faced higher statutory costs in the form of increases to the minimum wage and for pension contributions, as well as a 25% leap in planning application fees over the past 2 years. Grocery retailers have encountered additional staff training costs to do with new alcohol and tobacco legislation, and face the prospect of a new costly deposit return scheme for bottles and cartons.
7. The SRC is keen to understand how the new Scottish Rate of Income Tax and the proposed replacement or reform of Council Tax, which currently generates £1.9 billion in tax revenues annually, will affect earnings, the amount of money in people’s pockets and indeed consumer spending more widely.

8. Lower prices in shops and at the petrol pump and a more optimistic outlook for employment has yet to translate into increased retail sales in Scotland. Whilst pay rises in the economy are forecast to continue to outstrip inflation, the fact is that shoppers remain cautious and retail sales remain lacklustre. We would therefore caution against any changes in the tax rate or bands which might cast a pall over what is likely to remain a tentative recovery in consumer confidence, for example if the aim is to achieve a substantial increase in the tax yield. This could ultimately affect devolved receipts from VAT, which are due to be assigned to the Scottish Government once the new Scotland Bill becomes law. Indeed a flourishing retail industry providing greater levels of VAT receipts should be encouraged if for no other reason than it will directly benefit government revenues.

9. Scotland is an attractive place to live and work, and in order for it to remain so we would caution against any moves which would lead to those working in Scotland having to pay higher taxes than elsewhere in the UK, as this could affect the ability of retailers to retain or attract talent - either or a permanent or temporary basis - especially when compared to other parts of the UK. If Parliament was determined to vary tax rates then we would prefer it to fall rather than rise. If it were minded to increase tax then we would expect any higher revenues which may result to be spent on measures to increase the economic and productive capacity of the economy, e.g. digital or transport infrastructure or skills development.

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8 SRC’s Scottish Retail Sales Monitor, August 2015
9 The cost of employing people includes employers’ NICs and has risen lately due to the introduction of pensions auto-enrolment and changes to the national minimum wage.
10. Once the new Scotland Bill’s income tax provisions come into effect and the ‘triple-lock’ is ended, then we would support an examination of the income tax burden faced by lower earners. Any such examination would need to take into account the scope of the personal allowance at that time and the state of the public finances.

11. It is six years since the publication of the Calman Commission’s report on sharing income tax responsibility between Holyrood and Westminster, and three years since the approval of the Scotland Act introducing SRIT. HMRC has responsibility for liaising with employers over the practical implications and identifying employees resident in Scotland who will be subject to the new tax, and we are not aware of any difficulties that have arisen other than some disquiet that the detailed technical guidance for employers was not published until June of this year. We would certainly encourage Scottish Ministers to give as much predictability and certainty as possible over future variations in the tax rates and bands applicable under SRIT - in order for HMRC and employers to implement necessary changes - and ideally with a clear vision and sense of the medium to long term direction articulated in the upcoming Scottish Budget.

Scottish Retail Consortium
August 2015
Kenny Gibson MSP
Convener
Finance Committee
Scottish Parliament
Edinburgh
EH99 1SP

Dear Kenny

**Scrutiny of the Draft Budget 2016-17 – Scottish Rate of Income Tax**

Further to the Committee’s call for evidence regarding implementation of the Scottish Rate of Income Tax (SRIT), I thought it would be helpful to provide some brief comments from the small business perspective.

The FSB has been involved in a number of discussions with HRMC regarding implementation of SRIT. These commenced shortly after the passing of the Scotland Act 2012 with the FSB attending several roundtable meetings to discuss the technical aspects of introducing a Scottish rate of income tax. In the intervening period, most discussions were largely technical in nature and have therefore been more appropriately attended by payroll and tax specialists. However, more recently discussions have turned to implementation and communication. In January 2015 the FSB hosted a roundtable discussion for the main Scottish business organisations and HMRC to discuss communications with the business community.

Thus far, from a stakeholder perspective, we have found the level and nature of cooperation between HMRC, the Scotland Office and the Scottish Government to be excellent. HMRC have been both helpful and responsive to our requests for information and clarification.

While we have not conducted any survey work on SRIT with our membership to date, informal discussions suggest that most small businesses are unaware of the change. With most responsibility for change falling on both HMRC and individual employees, this is perhaps unsurprising. However, we have highlighted to HMRC that we believe all employers
will require information about the introduction of SRIT prior to their employees being notified of their new Scottish tax code (scheduled for November 2015 onwards). This is to support employers who may face questions from employees unsure about what is changing.

At present we have not expressed a view on the best tax rate for small businesses but are likely to consult with our members on the matter nearer the budget.

Yours sincerely

Andy Willox OBE
Scottish Policy Convener
3 December 2015

Kenny Gibson MSP
Convenor
Finance Committee
Scottish Parliament
Edinburgh
EH99 1SP

Dear Mr Gibson

Further to the Scottish Finance Committee’s call for written evidence regarding implementation of the Scottish Rate of Income Tax (SRIT), we outline below our comments.

The CBI is the UK’s leading business organisation, speaking for some 190,000 businesses operating across the UK. CBI members directly employ at least 500,000 people in Scotland, which represents a quarter of the private sector workforce. This includes companies headquartered in Scotland as well as those based in other parts of the UK that have operations and employ people in Scotland.

The CBI submitted a written response to HMRC’s request for comments on the technical guidance for Scottish taxpayers in July 2015, which I have enclosed a copy of. Our response requested greater clarity on uncertain and complex cases, especially how SRIT will interact with other elements of the tax system. Whilst responsibility for determining Scottish taxpayer status sits rightly with the individual, employers would have liked to have seen a greater level of communication at an earlier stage to raise awareness.

Following further consultations with CBI members in Scotland and the rest of the UK, HMRC’s communication strategy to individuals and employers remains a concern. A more effective communication strategy in which HMRC works in tandem with employers to raise awareness of the changes among employees would aid implementation.

On the question of what the rate for SRIT should be, our members believe that it should be maintained at 10% for the time being. Businesses like a roadmap approach so they have some predictability around future rates allowing them to plan effectively. Frequent changes to the rate add complexity and uncertainty for businesses, so we would advise allowing more time to focus on the implementation of SRIT and the additional income tax powers that are likely to be devolved as a result of the Scotland Bill 2015-16 process.

I would be happy to expand on these points and the other questions that you asked for evidence on during the oral evidence session on 9th December.

Yours sincerely

Rain Newton-Smith
Director of Economics
30 July 2015

CBI RESPONSE TO SCOTTISH RATE OF INCOME TAX – TECHNICAL GUIDANCE ON SCOTTISH TAXPAYER STATUS

The CBI welcomes the opportunity to comment on the technical guidance on Scottish taxpayer status published by HMRC on 11 June 2105. The CBI is the UK’s leading business organisation, speaking for some 190,000 businesses that together employ around a third of the UK’s private sector workforce. We represent businesses of all sizes from all sectors and we have drawn on that expertise from around our membership to address this issue.

Following our consultation with members there are three key points we would like to raise in response to this consultation. Firstly we would like to see greater clarity that the responsibility for determining Scottish taxpayer status sits with individuals, not businesses. Secondly, more examples of a complex nature need to be provided in the guidance to help in uncertain cases. Thirdly, employers would like to see evidence of HMRC’s communication strategy in a timely manner to ensure there is enough time to administer this transition and reduce the potential role that employers may be left to play.

1. Greater clarity on responsibility for determining Scottish taxpayer status and interactions with other elements of the tax system

While it may be implicit, we would like to see the guidance explicitly state that it is not the responsibility of the employer or pension provider to determine Scottish taxpayer status. Without specific signposting of whose responsibility it is to determine the status there may be an expectation by employees that their employer is responsible.

The guidance should offer some practical advice on what happens if an individual comes to the conclusion they are a Scottish taxpayer, or where they can find further resources or assistance if they require further clarification. It might also be prudent to remind individuals that it is their responsibility to keep HMRC up to date with their latest correspondence address, not their employer.

The technical guidance provides little by way of reference to how Scottish taxpayer status is likely to interact with other parts of the tax system. These are elements that employers will need awareness and guidance on, for example DTAs or PAYE Settlement Agreements (PSAs). The position of the current technical note on PSAs will render PSAs pointless for large employers with Scottish taxpayers if they are expected to identify and strip them out from the calculation.

Guidance on interactions with modified payroll will also be required to determine by whom and how an individual is assessed if there is no tax code. Furthermore guidance from HMRC on how the penalties regime will interact with this would be useful to ensure determining the correct status is taken seriously by the appropriate person.

It may be that some form of additional technical guidance for employers sits in a separate document if the technical guidance currently under consultation is directed towards a specific audience. The technical note published by HMRC in May 2012 offers some more detailed guidance on some of these points so is a good starting point but there is no reference or link within this guidance.
2. More examples of a complex nature need to be provided in the guidance to help uncertain cases

There are a number of scenarios where further, non-straightforward, examples would be helpful. Some of these are detailed below:

- Would lodgings, week-in, week-out on a long term secondment to Scotland constitute a main residence in Scotland?
- If employees stay in a series of different hotels/serviced accommodation over a long period in Scotland, would you aggregate those different hotels/accommodation to constitute a main residence in Scotland?
- Clarification of the treatment for employees who have a main residence in Scotland but who travel quite regularly to rUK and potentially spend more time in the other location (ie rUK) in terms of day count, probably staying in one or more hotels.
- How does having a property in the UK make a difference to the main residence test?
- Would an individual with a main residence in rUK and a temporary furnished residence in Scotland count number of days in/out?
- For international assignees that would ordinarily only be resident in the UK for part of the tax year, could they become Scottish taxpayers for the full year if determined they are Scottish taxpayers?
- The examples (6 and 7) are misleading and suggest oil rigs could be places of residence.
- Clarification when an individual earns an employee share award in one year when considered Scottish taxpayer, but receives it another tax year when they are no longer a Scottish taxpayer?
- What are the payroll implications for a Scottish taxpayer who only notifies HMRC that they are a Scottish taxpayer in month 12? How will the tax be coded in or out?
- Where an employer needs to make a voluntary disclosure for past years, where granular data is not available, what assumptions can the employer make with regards to determining the liability? For example, an employer may wish to make a disclosure for 500 employees where there has been a BIK reporting error. Currently, the employer may be sure that all the affected employees are higher rate tax payers and HMRC may accept this assumption such that a disclosure can be made on this basis. If the Scottish rate of tax is different, the employer will have to spend more time to identify Scottish and non-Scottish tax payers. This will make the process of making voluntary disclosures much more inefficient.
- Guidance on how quickly HMRC will respond to a notification by an individual that they are a Scottish taxpayer, or indeed to remove that status, would be useful to manage expectations.

3. Evidence of HMRC’s communication strategy in a timely manner

Given the short period of time until a Scottish rate of income tax could potentially come into effect, there is concern that not enough is being done to raise awareness as to how individuals determine their status. The time frame to administer a potential transition to a Scottish income tax rate is short so the more that can be done to communicate to individuals they are responsible for keeping records up to date, not employers will be valuable. In order to reduce the potential role that employers may be left to play, a drive to ensure HMRC has up to date records of individuals would be a good preparatory step.

If you would like to discuss any of the points raised in this response, please do not hesitate to contact Rhiannon Jones in the CBI’s Tax & Fiscal team by email.
1st December 2015

Scottish Parliament Finance Committee

Scrutiny of Scottish Rate of Income Tax (‘SRIT’)

Submission from Institute of Directors

Introduction

In principle, the IoD’s Scottish members are supportive of the introduction of the SRIT but are understandably concerned that its introduction does not impose additional costs on business unless these costs are purely incidental and immaterial. This concern focuses upon the competitive position of Scottish businesses in comparison to businesses in other parts of the United Kingdom, Europe and, indeed, globally.

HMRC Readiness for Introduction of SRIT

We are, of course, aware that HMRC remain confident that the required implementational processes and IT changes required before April 2016 will be in place. We are sceptical, however, that additional implementational issues will not emerge over the next four months which necessitate further implementational changes. Should this occur, we trust that sufficient time will be provided to businesses to identify and prepare any information required.

A particular concern remains the necessary changes to the HMRC self-assessment system a significant minority of our members have incomes from more than one source, often including both consulting income and employment income.

Whilst we appreciate that employers are not required to identify whether an employee (or director) is a Scottish Taxpayer or not, we have concerns that, because of more pressing business issues and priorities faced, many employers may not have reviewed the information and guidance published by HMRC on Gov.UK to the extent that HMRC anticipate this will have occurred. Our recommendation is that all Scottish employers ought to have been contacted by HMRC by telephone to summarise the necessary actions required post April 2016.

We assume that HMRC still intending to write to all identified Scottish Taxpayers (and potential Scottish Taxpayers) in December to ensure that they are aware whether or not they will be treated as a Scottish Taxpayer.

We were surprised at the relatively low annual running costs for the introduction of that HMRC which have estimated by HMRC (around £2-2.5m if the SRIT is set at 10% and £5.5-6m if another rate is set). These estimates seem low to us and we
trust that if these running costs were to be exceeded, the additional costs would not be passed on to Scottish businesses, thereby making them less competitive.

**Anticipated Behavioural Responses to Changes in SRIT**

Assuming that we are interpreting Professor Bell’s evidence\(^1\) correctly, the bottom 60% of Scottish Taxpayers pay only 10% of the tax take whereas the top 10% pay 52% of the total tax take and the top 1% pay 21% of the tax take. These figures are similar to the percentages for the UK as a whole but, from a Scottish business perspective, there must, in principle, be a higher risk that an increase in the SRIT above 10% leads to emigration from Scotland to other parts of the United Kingdom as this might be viewed as a less significant decision than emigrating outside the UK. Similarly, in principle, there ought to be a greater incentive for migration to Scotland if the SRIT were to be set below 10%.

Despite often misguided and exaggerated commentary in the media focus upon the significance of tax planning/tax avoidance motives of businesses, many executive directors will, understandably and rightly, take account of the impact of tax costs on a similar basis to the impact of employment, property and IT costs.

Recent UK experience on changes to tax rates, especially those paid by higher income groups, demonstrates the significant impact of forestalling arrangements (rather than tax avoidance) and there is no valid reason to suggest that this would not occur if it were to be announced that the SRIT were to be changed from 10%. By way of an example, bonuses paid by SMEs are influenced by many factors such as business profitability and growth, remuneration paid by competitors, achievement of targets, employment disruption and, of course, the availability of adequate finance to pay bonuses. We trust that any forestalling measures which might be introduced if SRIT were to be changed would not focus unduly upon the tax outcomes by, for example, applying simplistic metrics to assess the amount of forestalling which might have taken place.

More generally we concur with Professor Bell’s summary that “there is a strong case for moving cautiously when considering changes to the higher rates of income tax in Scotland”\(^2\)

**Employment Income, Self Employment & Personal Service Companies**

Whilst a many of our members in Scotland are paid remuneration which is taxable under PAYE, some members are either self-employed consultants or have personal services companies. The 2015 Summer Budget introduced a dividend tax which, 

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1. Professor David Bell (2015) *Evidence to the Scottish Finance Committee* on SRIT

2. ibid
broadly, increases the taxation liability which arises upon the total dividends received by an individual in a tax year exceeding £5,000. This new tax is likely to influence the choice of the business entity at the margin. We note that the SRIT does not apply to dividend income. We trust that HMRC will not deem the interface between the dividend tax and the SRIT to be grounds to challenge the taxation consequences of the choice made by an individual of their business entity. In practice, the tax treatment generally only represents one of the factors involved alongside the broader commercial, legal and other financial factors drivers.

It would be helpful if HMRC were to issue such an assurance prior to the introduction of SRIT in April 2016.

**Communication to Businesses & Individuals Prior to the Introduction of SRIT in April 2016**

We concur with the comments made by other business and professional groups that the communications concerning the introduction of SRIT have, to date, achieved a woefully inadequate knowledge and understanding of either the broad principles or more detailed provisions of SRIT. We recommend that communication is undertaken in early 2016 on the basis that most SMEs and individual taxpayers currently have no knowledge whatsoever of the structure or implications of SRIT.

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