

Has the Scottish budget increased or decreased since 2010/11?

The [Finance Committee meeting last Wednesday](#) included a lively exchange about the extent to which the Scottish Government's budget has changed since 2010/11.

Murdo Fraser argued that the Scottish budget has increased in real terms between 2010/11 and 2017/18. Cabinet Secretary for Finance Derek Mackay replied that there had been a real terms reduction in the Government's discretionary spending.

Pointing to Annex G of the Draft Budget (which shows an increase from £34.2bn to £37bn), Mr. Fraser then asked whether Mr. Mackay had 'got his sums wrong'. Mr. Mackay reiterated that there had been a real terms reduction in the government's spending power of 9.2% over the period.

How can two such contrasting views be arrived at? Here we aim to shed some light on this debate.

## **The Components of the Scottish Budget**

To get to the bottom of this it is important to understand the different components of the Scottish budget.

The total amount of money the government spends in a given year is known as Total Managed Expenditure (TME). The budget table that showed a rise in the Scottish Budget that Mr. Fraser was referring to was TME.

TME is split into two components - Department Expenditure Limit spending (DEL) and Annually Managed Expenditure (AME).

The elements of DEL spending are:

- Fiscal revenue DEL (RDEL) of £26.5bn in 2017/18 - the resource the Scottish Government has for spending on day-to-day public services (the number of nurses, textbooks in schools, policing budgets and so on). The RDEL grant from Westminster has declined by just over 6% (£1.7bn) between 2010/11 and 2017/18.
- Non-cash DEL of around £1bn in 2017/18 - an accounting adjustment largely for depreciation of public assets and other technical accounting non-cash items. Whilst incorporated into the accounts (and included in the portfolio spending totals in the draft budget), it is not *real* money that can be spent on goods or services. Non-cash DEL has increased in real terms since 2010/11 by around £300m.

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- Capital DEL (CDEL) of just over £3bn in 2017/18 – the amount the government has for new capital investment (e.g. schools or hospitals). In real terms, this has declined by 16% (just under £600m) between 2010/11 and 2017/18. From 2015/16 however, the Scottish Government received substantial new borrowing powers, which effectively increased its discretionary spending totals. By using these powers, Mr Mackay can effectively add on a further £300m this year, and up to £450m in 2017/18 and future years (within an overall envelope of £3bn) to his annual CDEL budget.
- Finally, financial transactions are Barnett consequential that flow from UK Government investment in equity/loan finance schemes mainly in the housing market. Whilst not CDEL per se, they enable the Scottish Government to support equity/loan schemes (such as Help to Buy) to build new homes with some – but not full – discretion over how the programmes operate. The 2017/18 budget includes financial transactions of £285m. In 2010/11, the Scottish budget essentially contained no budget for financial transactions.

From now on, the Scottish Government RDEL budget will vary depending upon the tax performance and policy choices of the Scottish Government. The net effect of these in 2017/18 is £70m.

What about AME?

AME typically covers the elements of spending that cannot be easily controlled by a fixed limit each year and are instead driven by demand (such as welfare spending). Typically the UK Government aims to set broad overall targets for the growth of AME spending at the start of each spending review.

The Scottish Government's AME budget is £6.5bn in 2017/18. In contrast to DEL budgets this has increased by 27% in real terms since 2010/11.

- The majority of AME is accounted for by the payments made to retired Scottish public sector workers in respect of their pension entitlements built up over the years. Whilst this element of AME is administered by the Scottish Government (largely from the Pension Agency in Galashiels) these payments are made by the UK Government. In reality the Scottish Government has no discretion over this element of the budget. Such spending has increased by over a third in real terms since 2010/11.
- The second element is Non-Domestic Rates Income (NDRI). NDRI is raised through taxing business properties and is ear-marked for local government. As the Scottish Government has full responsibility for NDRI, this element of AME is very much part of

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the discretionary budget. NDRI has increased by 14% in real terms between 2010/11 and 2017/18.

There is one grey area in that AME can also be used to support guarantees to business. The recently announced £500 million [Scottish Growth fund](#) relies on AME resource in this way. Thus AME can - on occasion - be used to support discretionary spending through more ways than simply the NDRI element.

Overall however, the majority of the Scottish Government's AME budget cannot be used to support discretionary spending - and as Audit Scotland state ["does not affect the Scottish Government's spending power"](#).

### **The amount of 'discretionary spend'**

In this context, how should we summarise the debate about whether the Scottish budget has been increasing or decreasing in real terms?

In terms of *discretionary spending*, and the amount the government has to spend on day-to-day public services such as schools and hospitals, in our view the most appropriate measure is to consider the government's budget for RDEL, CDEL (including financial transactions), and the element of AME that is derived from NDRI (which they have full discretion over).

On this measure the budget has declined by around 5% in real terms since 2010/11. As a result of constitutional reform, added to this should be the new capital borrowing powers - which would lead to the discretionary element falling by 3.8%.

### **Where does Derek Mackay's figure of a 9.2% real terms cut come from?**

This is based on the forecast for the change in the Scottish Government's grant from Westminster for fiscal RDEL (excluding non-cash DEL) and CDEL (excluding financial transactions and capital borrowing). It covers the period 2010/11 to 2019/20, factoring the UK Governments plans for [further real terms reductions in 2018-19 and 2019-20](#).

It thus covers a slightly different period, and a different basket of spending measures. Between 2010/11 and 2017/18, this measure of spending power declined by 7.4%.

### **What about TME?**

TME is still a useful measure, however, but in another context. It gives the full picture of the Scottish Government's share of public spending in the national accounts - and is an

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important measure of the government's overall contribution to demand in the economy. Taking TME as a whole, this has increased by 0.4% in real terms between 2010/11 and 2017/18 (although for the period 2010/11 to 2016/17 it actually fell by 0.3%).

## **Final Thoughts**

It is debateable whether or not comparisons just with 2010/11 are appropriate. 2010/11 marked the year when the Scottish Government's RDEL budget was at its historic peak following years of significant growth. The 2017/18 RDEL budget in real terms is around that in 2007/08.

And of course, the Scottish Government can - if it wants to - increase its discretionary budget by raising tax. And here lies a weakness in the Scottish Government's argument. Budgets are about choices. The Scottish Government this year will raise just over £100m from its policy to set a lower threshold for the Higher Rate of income tax than set in the rest of the UK. But it could raise substantially more than this if it chose to, through its control over income tax and land and property taxation in Scotland.

In our view none of this debate is helped by the way in which the Scottish Government presents its budget.

The information in the budget isn't particularly easy to understand. And the selective data that the government presents often appears designed to support their arguments rather than to help inform debate.

As we will argue in a blog tomorrow, an improved budget process is a necessity. With the Scottish budget now dependent not simply on a block grant from Westminster but on devolved taxes, debates are only going to get even more complex. We urgently require a process that is more fit for purpose.

*(NB: the figures in this blog are from budget documents which set out spending plans. Outturn expenditure in specific years can vary slightly from budget figures).*