



Scotland Bill Briefing Note

Local Government

Foreword by the Secretary of State for Scotland

The Scotland Bill delivers in full the legislative elements of the all-party Smith Commission Agreement and has been widely recognised as doing so – including by Lord Smith of Kelvin himself. The UK Government is delivering its commitment to the people of Scotland: a stronger Scottish Parliament in a strong United Kingdom.

The Bill sets out the new powers that are being transferred to the Scottish Parliament and the Scottish Government. In particular the Scotland Bill amends sections of the Scotland Act 1998 and rebalances the devolved and reserved responsibilities.

By devolving historic new powers, it will make the Scottish Parliament one of the most powerful devolved parliaments in the world. It includes the devolution of around £11 billion of income tax powers and £2.7 billion of welfare powers on 2014-15 figures. This represents a significant transfer of power which will increase the Scottish Parliament's responsibility and accountability to voters.

This balances the desire for more decisions to be taken in Scotland, closer to those they affect, whilst retaining the strength and security which comes from membership of the larger United Kingdom and which people voted for in the referendum.

Interested parties need to understand the scale of the changes that are coming. What is important now is how these new powers will be used for the benefit of people in Scotland.

I hope you will find the information in this booklet of use in understanding those powers more clearly.



The Rt Hon David Mundell MP
Secretary of State for Scotland

THE NEW DEVOLUTION SETTLEMENT

The Bill delivers on the UK Government's commitment to the people of Scotland, but it also brings a **better balance** to Scotland's devolution settlement and strengthens the Union as a result.

The Scottish Parliament was created with **extensive powers** - **today it has a budget of around £30 billion** - but with little responsibility for raising the funds it spends.

The Bill will give the Scottish Parliament **much greater tax raising powers**. From responsibility for raising **around 10%** of what it spends today, Holyrood will in future be responsible for raising **more than 50%** of what it **spends**.

The Scottish Parliament will be given unprecedented flexibilities on **income tax**: to set income tax rates and thresholds for earned income, including the ability to introduce new bands. This represents **around £11 billion** of income tax revenues.

The Scottish Government will also be assigned **VAT revenues** of around **£4.5 billion** per year. Assigning VAT to Scotland's budget will strengthen the financial responsibility of the Scottish Parliament and provide a real incentive to boost economic activity in Scotland.

All of these are **powerful levers** which the Scottish Parliament will be able to use to make important spending decisions, closer to the people affected by them. This lasting settlement for Scotland will provide for a **stronger, more vibrant and competitive Scottish economy** within the **UK's internal single market**.

These reforms have been designed to operate within existing tax systems and most businesses will not see a change. VAT will still be collected exactly as now. Income tax will continue to be collected by HMRC and most employers and employees operating PAYE will see no change in how they pay tax.

The Scottish Parliament will be responsible for raising more than 50% of what it spends

Devolution within Scotland

The question of **further devolution** within Scotland is one which Lord Smith of Kelvin discussed in the Smith Agreement. He said:

"There is a strong desire to see the principle of devolution extended further, with the transfer of powers from Holyrood to local communities... The Scottish Government should work with the Parliament, civic Scotland and local authorities to set out ways in which local areas can benefit from the powers of the Scottish Parliament."

Any such transfer of powers from Holyrood to local communities will be the responsibility of the Scottish Parliament to implement. For example, the transfer of the management and revenue of the Crown Estate in Scotland to Scottish Ministers was envisaged by the Smith Agreement as a first step in devolution. The Bill will give the Scottish Ministers the ability to deliver the next step in that process.

The Scottish Parliament will be able to set income tax rates and thresholds for earned income - including the ability to set new bands

Income Tax

The Scottish Parliament will be able to **set income tax rates** and thresholds for earned income. This includes the ability to introduce **new bands** - including setting a **0% band** for the first category of non-saving income, effectively increasing the personal allowance for income tax payers in Scotland.

This gives Scotland **additional financial levers** on top of the Scottish Rate of Income Tax. It will also deliver greater accountability, allowing more decisions affecting Scotland to be made in Scotland.

Scotland will retain the receipts from the income tax on the earnings of Scottish tax payers. This represents a significant devolution of powers, with Scotland retaining around £11 billion of income tax receipts. This accounts for over **95% of income tax receipts** collected in Scotland. This gives Scotland greater fiscal accountability with incentives to increase employment and increase wage growth. The personal allowance, rates on dividends and savings incomes and reliefs from income tax will continue to be set by the UK Government - as agreed by all parties on the Smith Commission.

VAT

The **first ten percentage points** of the standard rate of **VAT** and the first 2.5 percentage points of the reduced rate of VAT will be assigned to the Scottish Government.

On the basis of current VAT rates that **represents approximately £4.5 billion**. Control over setting VAT rates isn't being devolved to the Scottish Parliament as EU VAT law does not allow for differential VAT rates within a Member State.

This power will link Scotland's share of VAT to economic activity in Scotland, providing incentives for the Scottish Government to promote growth and allowing it to reap the rewards.

Devolved Taxes

The Bill also makes changes to ensure that the power to charge tax on air passengers (currently known as **Air Passenger Duty** - APD) leaving Scottish airports will be devolved to the Scottish Parliament. It will switch off APD in Scotland and give the Scottish Government the power to charge its own tax on passengers departing from Scottish airports. The Scottish Government will be free to make its own arrangements with regard to the design and collection of any replacement tax.

Air Passenger Duty brought in approximately **£305 million** from Scotland in 2014-15, which is approximately 10% of the total UK revenue.

The **Aggregates Levy** (a tax on the commercial exploitation of aggregate) will be switched off in Scotland and the Scottish Government will be given the freedom to design and implementation any tax on the commercial exploitation of aggregate in Scotland. The Aggregates Levy brought in approximately **£50 million** from Scotland in 2014-15, which was approximately 15% of the total UK revenue. Oil and gas taxation, however, will remain reserved to the UK Parliament.

**Scotland will retain around
£11 billion of income tax
receipts - around 95% of
those collected here**

The Crown Estate

The Crown Estate consists of property owned by the Monarch in right of the Crown. It is not part of the private estate of Her Majesty The Queen. The Crown Estate in Scotland includes urban and rural estates, foreshore and seabed, and mineral and fishing rights.

The Bill provides for the transfer of the management and revenue of the existing Scottish functions of the Crown Estate Commissioners to the Scottish Government. **Revenue** from those assets will also be **transferred to the Scottish Government**. Crown Estate assets in Scotland, which will remain the property of the Monarch in right of the Crown, have a value of around £260 million.

The Bill **empowers the Scottish Parliament** to legislate about **further devolution** of the management of Crown Estate assets to local authority areas, as set out in the Smith Commission Agreement.

Equal Opportunities

The Bill will enable the Scottish Parliament to legislate for equal opportunities in relation to:

- **non-executive appointments to the boards of Scottish public bodies**, except where those bodies only exercise reserved functions; and
- **devolved functions of Scottish public bodies or cross-border bodies**, enabling it to supplement the provisions in the Equality Act 2010, without modifying the existing ones.

The provisions provide the Scottish Parliament with **broad powers**, providing it with flexibility to implement its future plans. This could **include the introduction of new equality protections and requirements** on public and cross-border bodies exercising devolved functions, and implement requirements for recruitment to the boards of public sector bodies, such as **gender quotas**.

The Scottish Ministers will be able to commence provisions in the Equality Act 2010 requiring **Scottish public bodies**, with wholly or mainly devolved Scottish functions, to consider how their decisions might help **reduce social and economic equalities**.

The Scotland Bill contains a number of provisions relating to energy policy

Energy

The Scotland Bill contains a number of provisions relating to **energy policy**. These provide for: the **devolution of the licensing of onshore oil and gas extraction**; **powers to design and implement schemes relating to energy efficiency and fuel poverty**; and a consultative role for the Scottish Ministers in the design or re-design of **renewables support schemes**.

The Bill will also enable Scottish Ministers to take decisions on the safety of navigation for offshore **renewable energy installations in Scotland** and to take responsibility for ensuring that installations are removed at the end of their useful life.

The energy efficiency and fuel poverty provisions mean Scottish Ministers will be able to decide how the **Energy Company Obligation and Warm Home Discount Scheme** are designed and implemented in Scotland. These national programmes require energy suppliers to install energy saving measures in households and to support fuel-poor homes.

The Scottish Ministers will be able to develop rules on the **types of support offered in Scotland to households under supplier obligations** (e.g. replacement boilers or loft insulation), as well as the **types of households and/or areas eligible** (e.g. private properties, rural areas or low income areas) for support under these schemes. Responsibility for setting the way the money is raised (the scale, costs and apportionment of the obligations as well as the obligated parties) will remain reserved as set out in the Smith Commission Agreement.

Elections

The Bill devolves full powers in respect of **the administration and conduct of Scottish Parliamentary and local government elections in Scotland**, with the exception of certain specified subject-matters, to the Scottish Parliament.

The provisions also devolve many of the Electoral Commission's general functions and enforcement functions in relation to elections for membership of the Scottish Parliament. The establishment and constitution of the Electoral Commission remain reserved.

The Bill provides for the **Boundary Commission for Scotland's functions** in relation to reviewing Scottish Parliamentary boundaries to be transferred to the Local Government Boundary Commission for Scotland.

The welfare powers agreed by the Smith Commission mean the Scottish Government will be responsible for welfare spending around £2.7 billion

Welfare Powers

The **welfare powers**, agreed by the Smith Commission, and delivered by the Scotland Bill are significant. The Scottish Government will be responsible for **welfare spending worth around £2.7 billion** in 2014/15. The Scottish Government will have the power to tailor policy to local circumstances and needs across a wide number of benefits. It will have the **ability to take decisions** over how best to help a diverse range of people supported by the welfare system in Scotland – carers, disabled people, those living in social housing, and those struggling to find employment.

Under these new powers, the **Scottish Government will be able to create a tailored system for Scotland to operate alongside the continued work of the UK Government in providing strong, independent and vital support to all people across Great Britain**. Some benefits will be devolved entirely and, for reserved benefits such as Universal Credit, Tax Credits and Child Benefit, the Scottish Government will be able to make top-up payments.

The Bill will give the Scottish Parliament **the power to legislate to change a number of benefits currently claimed by people in Scotland**. These include Attendance Allowance, Disability Living Allowance, Personal Independence Payment, Carer's Allowance and others.

These powers, along with the **ability to create new benefits in areas of devolved responsibility** and make other discretionary payments to help with short-term needs of people not entitled to a reserved benefit, will give **unprecedented power and flexibility** to the Scottish Parliament to make welfare decisions which affect the lives of people in Scotland.

Employment Programmes

The powers being devolved in the Scotland Bill will give the Scottish Parliament the power to create employment programmes to support claimants at risk of long term unemployment and to support disabled people.

The Scottish Parliament will have the freedom to **create programmes** similar to those which the UK Government delivers in this area. The Scottish Government will be able to develop a tailored approach to support currently delivered through contracted programmes, including for some of the hardest to help. Those further from the labour market often require individualised support, and devolution in this area will help Scotland to achieve this where the support provided for claimants must be for at least a year.

Jobcentre Plus will remain part of the UK-wide organisation and continue to deliver its core services and offer schemes to help people find work or deliver skills.

Next Steps & Implementation

The UK Government will continue to discuss the implementation of these important powers with the Scottish Government and work with them to identify where skills and knowledge can be shared to maximise the effectiveness of the transfers of different powers.

The two Governments have already successfully ensured the smooth transfer, to time and budget, of tax powers to Holyrood enabling Land and Building Transfer Tax and Scottish Landfill Tax to commence in April last year – the first new Scottish taxes in over 300 years.

The Smith Agreement stated that the devolution of powers “should be accompanied by an **updated fiscal framework** for Scotland, consistent with the overall UK fiscal framework”. The framework will provide the tools and controls to support the operation of its new powers. It will be based on the principles set out in the Smith Agreement and agreed bilaterally between the UK Government, represented by HM Treasury, and the Scottish Government. Both parties are aiming to reach an agreement as soon as possible.

The Scottish Parliament will have the freedom to create employment programmes, allowing it to develop a tailored approach to support

POLICY BACKGROUND TIMELINE

18 September 2014 - Decisive referendum vote to remain part of the United Kingdom.

19 September 2014 - The Prime Minister establishes the cross-party Smith Commission to agree further powers to be devolved to the Scottish Parliament and the Scottish Ministers.

October 2014 - Members of the Commission receive thousands of submissions from stakeholders and civic Scotland.

27 November 2014 - The Smith Commission Agreement is agreed by all of Scotland's five main political parties.

22 January 2015 - The UK Government produce draft clauses and a command paper that indicated how the Agreement would be implemented.

February – May 2015 - During this period, the draft provisions underwent significant refinement ahead of introduction to Parliament in May 2015.

28 May 2015 - The Scotland Bill introduced to UK Parliament.

9 November 2015 - Bill receives unopposed Third Reading in House of Commons.

10 November 2015 - Bill begins passage in House of Lords.

2016 - The UK Government is working to achieve Royal Assent of the Bill ahead of the Scottish Parliamentary elections.