

Falkirk Council

Title: Scottish Government Budget and Local Government Settlement 2017/18

Meeting: Falkirk Council

Date: 19 December 2016

Submitted By: Director of Corporate & Housing Services

1. Purpose of Report

- 1.1 The report advises Members of the key matters coming out of the Scottish Government draft Budget for 2017/18 which will impact on local government, together with the Local Government Financial Settlement for 2017/18. The latter, subject to the standard process of checking the figures, advises the Council's 2017/18 revenue support grant and thus establishes what the Council's Budget gap is for 2017/18.
- 1.2 The Settlement also advises the level of General Services Capital Grant for 2017/18.

2. Recommendations

- (1) **Council is asked to note the Draft Scottish Government Budget and Local Government Settlement 2017/18**
- (2) **Council to determine whether a response is required to Mr Mackay's appended letter in terms of para 4.2.1**

3. Background

- 3.1 The Revenue Budget 2017/18 report at item 4 on this agenda, noted that the timing of the Scottish Government announcement necessitated the need for this supplementary report. The former report provides Council with a broader context for considering both the Settlement itself and the Council's 2017/18 Budget position.

4. Considerations

4.1 Draft Scottish Government Budget 2017/18

- 4.1.1 In his foreword to his draft Budget the Cabinet Secretary for Finance and the Constitution notes that, "these proposals are rooted in the priorities expressed in the Programme for Government published in September and the direction provided by Scotland's Economic Strategy and the National Performance Framework". Policy imperatives of inclusive economic growth, reforming public services and empowering communities are emphasised. Moreover, "Education is our Government's defining mission".

- 4.1.2 This is the first Budget in which the Scottish Government has wider powers over income tax under the Scotland Act 2016. The draft Budget proposes to freeze rates at 20, 40 and 45%. The higher rate threshold will increase by inflation and this differentiates Scotland from the rest of the UK treatment.
- 4.1.3 The Fiscal Framework and the Scotland Act 2016 increase the Scottish Government's capital borrowing limit to £3b with an annual limit of £450m. There are also new powers to borrow up to £600m per annum for resources (revenue) within an overall cap of £1.75b.
- 4.1.4 The previously announced City Region Deals including Stirling (and Clackmannanshire) and the Tay Cities (Perth & Dundee together with Angus and the north of Fife) are to be progressed. There is also encouragement for regions facing economic challenge to identify and deliver a vision for inclusive growth, beginning with the proposals being developed by the three Ayrshire Councils.
- 4.1.5 The draft Budget launches the £500m Scottish Growth Scheme which provides for digital investment to improve connectivity together with the provision of 50,000 affordable homes, including 35,000 for social rent, over the life of this Parliament.
- 4.1.6 In terms of Business Rates, the poundage will be 46.6p which matches the rate in England and represents a 3.7% reduction. The Large Business Supplement is set at 2.6p and with the threshold increased to £51,000. The Small Business Bonus Scheme threshold for 100% relief will rise to £15,000. The Scottish Government has committed to respond promptly to the Barclay review of business rates when it concludes in the summer.
- 4.1.7 With respect to Welfare Reform, funding is retained to support the Welfare Fund, mitigation of the “bedroom tax” and Discretionary Housing Payments. The draft Budget gives notice that using the new powers under the Scotland Act 2016 a new devolved social security system for Scotland will be developed.
- 4.1.8 The Scottish Government's Public Sector Pay Policy for Staff Pay Remits sets the framework for public sector pay and was published on 15 December 2016. The key elements of this policy are an overall cap of 1% on the cost of the increase in the baseline paybill for those earning more than £22,000, specific measures for supporting the lower paid, including providing for a minimum pay uplift of more than 1% and the intention to negotiate extensions to No Compulsory Redundancy agreements.

4.2 Local Government Settlement

- 4.2.1 The Settlement is set out in terms of Derek Mackay's letter dated 15 December 2016 to Leaders which is appended. Council will see at the bottom of the penultimate page of the letter that the offer “must be viewed as a package” and Councils “will not be able to select elements of the package”. Any Council not agreeing to the full package is required to write to Mr Mackay no later than 13 January 2017 and with a consequential less favourable settlement resulting. The Settlement letter does not contain an explicit penalty regime in the manner of previous letters. The letter also “opens the way for a new partnership between the Scottish Government and COSLA”.

- 4.2.2 The following paragraphs provide initial and high level comment on the elements of the Settlement.

Public Sector Reform

- 4.2.3 Continuing dialogue on this agenda is anticipated with COSLA. The Scottish Government has already advised that it is intending to pursue the de-centralisation of local government functions, financial and democratic oversight and reform of education to empower communities to drive improvement in schools.

Health & Social Care

- 4.2.4 The circular provides information on Integration Funding. The £250m allocated through NHS Board budgets in 2016/17 has been base-lined for 2017/18 and increased by a further £107m. This sum will once again be allocated to Integration Joint Boards via NHS Boards. At this stage, individual allocations have not been provided.
- 4.2.5 The additional £107m noted above is to meet the full year costs of delivering the living wage, sleepovers and sustainability and removal of social care charges for those in receipt of war pensions along with pre-implementation work in respect of the new carers legislation pressures. It is anticipated that further details on this funding will be available shortly.
- 4.2.6 Initial review suggests that the funding provided will be sufficient to cover the full year costs of the living wage for Falkirk Health and Social Care Partnership, but further analysis is being conducted.
- 4.2.7 The circular limits the adjustment that local authorities can make to their funding allocation to Integration Authorities. The limit is based on each local authorities' share of £80m below the level of budget agreed with the Integration Authority for 2016/17. At this time, Falkirk Council's allocation of the £80m has not been provided but it is estimated to be c£2.2m. No difficulties are anticipated with meeting this requirement in terms of the savings proposal submitted by the IJB for Council consideration.
- 4.2.8 Overall, the treatment of the Integration Funding is much more straight forward than last year and this is to be welcomed.

Education

- 4.2.9 A significant change in position has been advised with the additional council tax yield arising from the statutory changes to the higher bandings now being retained by local government. For Falkirk Council, this represents a very welcome c£2m. An enhanced sum of £120m will now be centrally funded and distributed directly to schools, via Councils as a ring-fenced grant, allocated on the basis of free school meals. This is part of the £750m Attainment Scotland Fund. "It is a condition of this agreement that this funding is additional to each Council's individual spending on schools rather than substitutional ...".
- 4.2.10 Councils are required to continue to maintain the overall pupil:teacher ratio at 2016/17 levels and secure places for all probationers who require one under the teacher induction scheme. In terms of the Settlement, this constrains the Council's actions on teacher numbers.

4.2.11 Additional funding outwith the Local Government settlement is also noted for the expansion of early learning and childcare to 1,140 hours. This includes £30m of revenue funding to support workforce development and capacity building and a further £30m to support infrastructure investment. The Scottish Government will engage with local authorities and COSLA over how this will be deployed.

Council Tax

4.2.12 After nine years, the Council Tax freeze has been lifted and councils now have the flexibility to raise the rate by up to 3%. A rise at the maximum level would yield an estimated £1.7m for Falkirk Council. Further reform of local taxation is flagged.

Revenue and Capital Grant Settlement

4.2.13 On 15 December 2016 the Scottish Government issued Finance Circular No. 9/2016 which provides local authorities with details of their provisional revenue and capital allocations for 2017/18.

4.2.14 As part of the Settlement arrangements, there is a checking process, led by COSLA, to review the provisional allocations and inform the Scottish Government by the 13 January 2017 of any discrepancies. Indeed the circular notes that the allocations for Strategic Waste Funds (both revenue and capital) will have to be revised. Therefore the circular properly stresses that the allocations detailed in the letter are very much provisional at this stage.

4.2.15 In his letter to Leaders, the Cabinet Secretary notes that overall package of proposals represents an increase of around 2.3% in comparison with 2016/17. This increase is disputed by COSLA, who point to the overall reduction in the grant of £350m. The difference in the two positions is (largely) explained by taking the overall grant (incorporating the £350m reduction) and adding back the increase in Council Tax of £181m, which includes the £111m from Council Tax reform and the 3% uplift, and the £107m to support the integration of Health and Social Care.

4.2.16 Falkirk's provisional revenue allocation is £261.457m, after adjusting for specific revenue grants of £6.361m which includes the school attainment fund and criminal justice funding. This is broadly consistent with our overall estimated reduction in grant of £10m and thus budget gap of c£20m, although subject to further checking and review.

4.2.17 The 2017/18 general capital grant settlement provisionally announced by the Scottish Government, does not include the 2016/17 re-profiling adjustment of £150m across all Councils. Falkirk Council's share of this is c£2.6m and Scottish Government has advised that this will be repaid in the next Settlement period 2018-20.

4.2.18 The 2017/18 settlement has been provisionally confirmed at £17.167m. In comparison to the 2016/17 grant, after amending for the re-profiling adjustment, this is an increase of c£0.4m which equates to 2.18%. Grant figures for 2018/19 and 2019/20 have not been announced but Scottish Government has indicated that they will adhere to their commitment to maintain the local government share of the overall Scottish Government capital budget.

5. Consultation

- 5.1 Consultation has taken place as an integral part of the broader Budget process.

6. Implications

Financial

- 6.1 The Settlement contains vital information informing Council's determination of the 2017/18 Revenue Budget.

Resources

- 6.2 There are significant resources required to prepare the Budget and the ultimate Budget decisions will of themselves impact on resources.

Legal

- 6.3 No legal implications arise from the report recommendations, other than to note that it is a legal requirement to set a balanced Budget before the statutory deadline date in March.

Risk

- 6.4 There are no particular risk implications arising from this report.

Equalities

- 6.5 Preparation of Equality & Poverty Impact Assessments (EPIAs) are an integral part of the Budget process.

Sustainability/Environmental Impact

- 6.6 This will be considered as part of the evaluation of savings options.

7. Conclusions

- 7.1 The draft Scottish Government Budget for 2017/18 reflects their grant settlement from Westminster and the Scottish Government's policy priorities, including protection for Health & Police.

- 7.2 The Council now has the key figures of its revenue and capital grants, subject to checking, and this will allow the progression of the 2017/18 Budget. It is clear that there is still a very significant challenge to achieve a balanced revenue Budget with a gap of c£20m to be addressed.

- 7.3 The Settlement is presented as a package, albeit this year without the range of explicit sanctions for non-compliance.

- 7.4 It is disappointing, if understandable, that there is only a one year Settlement as this is not conducive to medium term planning.
- 7.5 The Scottish Parliament will consider the draft Budget in February.

pp Director of Corporate & Housing Services

Author –Bryan Smail, Chief Finance Officer, 01324 506300,
bryan.smail@falkirk.gov.uk

Date: 15 December 2016

Appendices

Letter from Scottish Government dated 15 December 2016

List of Background Papers:

The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:

- None



T: 0300 244 4000
[E: scottish.ministers@gov.scot](mailto:scottish.ministers@gov.scot)

Councillor David O'Neill
COSLA President
Verity House
19 Haymarket Yards
Edinburgh
EH12 5BH

Copy to: The Leaders of all Scottish local authorities

15 December 2016

Dear David

Thank-you to you, Cllr Cook and the COSLA political leadership for participating in negotiations over recent weeks on the shape of the Local Government settlement for 2017-18. I have sought to engage with you and your team on the basis of openness and mutual respect and with the intention of building relationships around shared ambitions for people and communities.

As a result of these negotiations, I am able to set out the package of proposals below which I believe are a fair and reasonable offer that delivers on our shared ambitions. This letter, therefore, contains proposals for the local government finance settlement for 2017-18 resulting from the 2016 Budget process.

While the terms of the settlement have been negotiated through COSLA on behalf of its member councils, the same proposal is being offered to those councils who are represented by the Scottish Local Government Partnership. I believe this proposal opens the way for a new partnership between the Scottish Government and COSLA and, from that, the wider benefits of partnership working, including joint work on public service reform.

The Scottish Government and local government share the same ambitions for stronger communities, a fairer society and a thriving economy. This funding proposal delivers a fair financial settlement for local government, which will be strengthened by our joint working to improve outcomes for local people by improving educational attainment and through health and social care integration.

Following the work of the joint Settlement and Distribution Group, details of the indicative allocations to individual local authorities for 2017-18 are also being published today as set out in Local Government Finance Circular No. 9/2016.

I have carefully considered the representations made to me by COSLA and this is reflected in the detail of the settlement and the package of measures included in this letter.

My aim throughout our extensive discussions has been to reach an agreement with councils around the implementation of these commitments. I now invite local authorities to agree the terms of the settlement which are set out below.

Under the settlement we will look to all local authorities to work in partnership with the Scottish Government in pursuit of our Joint Priorities, including delivery of the Government's programme as set out in *A Plan For Scotland: The Scottish Government's Programme For Scotland 2016-17* published on 6 September and the *Draft Budget 2017-18*.

Renewing our partnership approach will enable close working on public service reform building on recent joint political and joint officer discussions.

On key priorities and following consideration of specific points you have raised I propose the following:

Public Service Reform

As an essential partner in the delivery of public services, the Cabinet sub-committee on Public Service Reform prioritised early discussion with COSLA to explore how we might work together around our shared priorities of health & social care, education attainment & governance, tackling inequalities & inclusive growth and enterprise, innovation, skills & employability. This political engagement and the productive discussions which followed at official level, including SOLACE, is an example of what we can achieve through a re-setting of partnership working at national level.

The Cabinet sub-committee anticipates further dialogue with COSLA on these emerging themes early in the New Year.

Health and Social Care

In 2017-18 an additional £107 million will be transferred from NHS Boards to Integration Authorities to protect our collective investment in social care. Of which, £100 million will support continued delivery of the Living Wage, sleepovers and sustainability in the care sector, and £7 million to disregarding the value of war pensions from financial assessments for social care and pre-implementation work in respect of the new carers legislation. This is additional to the £250 million added in the 2016-17 budget, bringing the total support available from the NHS through Integration Authorities to protect social care to £357 million. NHS contributions to Integration Authorities for delegated health functions will be maintained at least at 2016-17 cash levels. The provision included for sleepovers (£10 million) will be reviewed in year to consider its adequacy, with a commitment to discuss and agree how any shortfall should be addressed. To reflect this additional support local authorities will be able to adjust their allocations to integration authorities in 2017-18 by up to their share of £80 million below the level of budget agreed with their Integration Authority for 2016-17 (as adjusted where agreed for any one-off items of expenditure which should not feature in the baseline). Taken together, these measures will enable Integration Authorities to ensure the collective overall level of funding for social care is maintained at £8 billion. I am sure you would agree that that would be a significant achievement and reflects the shared priorities of local government, the NHS and the Scottish Government.

Education (including the Attainment Fund)

I have considered the representations made on the Scottish Government proposals to adjust the local government settlement to pave the way for an additional £100 million investment per year, generated through reform of council tax, to go directly to schools to close the gap in the educational attainment of young people from Scotland's most and least deprived areas.

I can now confirm that provision for the additional funding to meet our commitments on the Attainment Fund will be met directly from the resources available to the Scottish Government at a national level, rather than from an adjustment to the local government finance settlement.

As the next step towards investing £750 million over the life of this Parliament we will go further than our manifesto commitment and will increase the additional resource to be made available directly to schools through the Attainment Scotland Fund from £100 million to £120 million in 2017-18. This will be paid as a ring fenced grant and distributed on the basis of P1 to S3 pupils known to be eligible for free school meals, as part of the local government settlement.

It is a condition of this agreement that this funding is additional to each council's individual spending on schools rather than substitutional and is to be used at the discretion of schools to close the attainment gap between children from the least and most deprived areas within their communities. This is on top of the existing £50 million Attainment Scotland funding that will continue to provide targeted support for those authorities and schools supporting children and young people in greatest need.

In addition, we will continue to require local authorities to maintain the overall pupil:teacher ratio at 2016-17 levels as reported in the Summary of School Statistics published on 13 December 2016, and secure places for all probationers who require one under the teacher induction scheme. This is supported by a continued funding package of £88 million, made up of £51 million to maintain teacher numbers and £37 million to support the teacher induction scheme.

As previously made clear, all of the additional £111 million of Council Tax income raised by the Council Tax banding reforms we have implemented will be retained by each local authority area and, as a result of these decisions, the allocation of that funding will be for councils themselves to take based on their own local needs and priorities.

Local Taxation

2016-17 was the ninth consecutive year of the Council Tax freeze. As we have made clear this will be lifted from 2017-18, when Councils will have greater flexibility and may choose to increase Council Tax by up to a maximum of 3%. This local discretion will preserve the financial accountability of local government, whilst also potentially generating up to £70 million to support services.

Our reforms of Council Tax are only the first steps, and the Scottish Government is fully committed to further engagement with COSLA as we seek to make local taxation as a whole fair and progressive. We will work with COSLA to consider your objectives for local tax reform as set out in the Local Government Funding Review.

We will also deliver our commitment for local government to retain the net incomes from the Crown Estate for the benefit of island and coastal communities. In addition we will explore with authorities other opportunities for the development of fair and equitable local taxation that supports economic growth and public services.

Overall Settlement

As a result of the measures above, the total revenue funding for 2017-18 will be £9,496.4 million, which includes non-domestic rates incomes in 2017-18 of £2,605.8 million.

Capital funding is set at £756.5 million and delivers on our agreed commitment to maintain the local government share of the overall Scottish Government capital budget. I can also reaffirm the commitment to repay £150 million of re-profiled 2016-17 capital with an additional allocation in the period 2018-20.

The total funding which the Scottish Government will provide to local government in 2017-18 through the settlement, including the £120 million of additional support for educational attainment, is £10,252.9 million.

This is a fair settlement for Local Government.

With the addition of the real spending power that comes from the opportunity to raise up to an additional £181 million from Council Tax plus an additional £107 million to support the integration of Health and Social Care, the total spending power available to local authorities from the Scottish Government, and through local taxation will be up to £10,541 million, a total of £241 million more than was available in 2016-17, an increase of around 2.3%.

The difference between the figures reported in the Draft Budget in 2016-17 and 2017-18 will be potential spending on local government services of an increase of £266.8 million, or 2.6%.

In return for this settlement and in pursuit of our Joint Priorities, individual local authorities will deliver the specific commitments set out above.

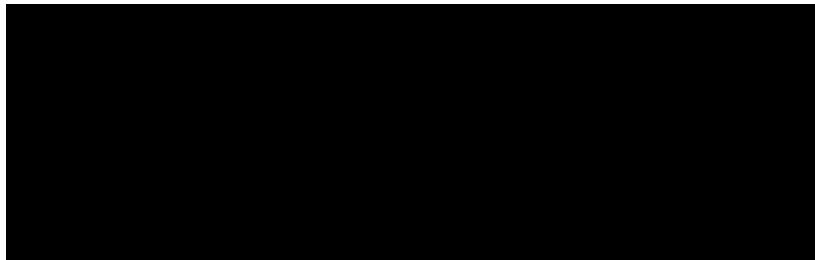
Engagement

In line with our partnership approach we will work jointly with local government to support delivery of these commitments and undertake a review to monitor progress at an agreed mid-point in the year.

The measures set out in the settlement offer must be viewed as a package to protect our shared priorities and intensify a journey of reform. In order to access all of the benefits involved, including those priorities supported by specific financial benefits, local authorities must agree to deliver all of the measures set out in the package and will not be able to select elements of the package.

Any individual authority not intending to agree the offer and accept the full package of measures and benefits should write to me by no later than **Friday 13 January 2017**. For those authorities not agreeing the offer a revised, and inevitably less favourable, offer will be made.

Local government is essential to the health, wellbeing and prosperity of every community in Scotland. The Scottish Government are committed to work together in partnership with local authorities to do all that we can to support local authorities to ensure that the full package of agreed measures is delivered.



DEREK MACKAY

