Agenda Item 11

Local Government Settlement and Scottish Government Budget 2019/20

Falkirk Council

Title:	**Local Government Settlement and Scottish Government Budget 2019/20**
Meeting:	**Executive**
Date:	**15 January 2019**
Submitted By:	**Director of Corporate and Housing Services**

1. Purpose of Report

1.1 This report provides an update on the Local Government Settlement and the Scottish Government Budget, noting that this is a provisional position pending agreement by the Scottish Parliament. This may prove to be late in the day relative to the Council's Budget meeting on 27 February 2019. Moreover, the Cabinet Secretary has warned that he may need to revisit the Budget in the event of a disorderly Brexit.

2. Recommendation

2.1 Executive is invited to note the report and in particular its implications for the Council's 2019/20 General Fund Revenue and Capital Budgets.

3. Background

3.1 In a break from previous years, the formal Circular was not issued on the day of the Budget announcement [12/12] but on the 17th December. This was to allow initial checking of the very detailed spreadsheets supporting the Settlement outcome.

3.2 It is again a one year Budget. The Spending Review next year offers another opportunity to implement multi-year budgets.

3.3 As one economist has noted, "the Scottish Budget gets more difficult to assess year by year, as both its complexity and non-comparability across different years increases".

3.4 The Member Budget Working Group considered an initial analysis of the Settlement at its meeting on 18 December.

3.5 The grant Settlement is by far the biggest variable which determines the Council's financial position.

3.6 Copies of the letter dated 12 December from the Cabinet Secretary to the Cosla President and the Settlement Circular are appended.

4. Considerations

4.1 Fiscal Framework Context

4.1.1 Under the terms of the Fiscal Framework, the size of the Scottish Budget is now determined by the following elements:-

- The block grant allocation from the UK Budget, with changes to this determined by movement in English spending on comparable devolved functions.

- The block grant adjustment, which is essentially a forecast of revenue foregone by the UK Government by devolving taxes/welfare benefits to the Scottish Parliament.

- A Scottish Fiscal Commission [SFC] forecast of the revenue raised from each devolved or shared tax [and spend on devolved benefits].

These three elements plus the capital borrowing powers devolved by the Scotland Act 2016 comprise the spending power of the Scottish Budget.

4.1.2 For the Scottish budget to be better off than it would otherwise have been without fiscal devolution, the SFC forecasts need to exceed the size of the block grant adjustment noted above. Relative economic/tax revenue performance between Scotland and England is thus a key factor.

4.1.3 The SFC performs a similar role to the office of Budget Responsibility [OBR]. The SFC's overall economic forecast for economic growth is subdued, averaging just over 1% over the next five years. This forecast is more cautious than other prominent forecasters such as Fraser of Allander and Ernst & Young.

4.2 Settlement Overview

4.2.1 As the Scottish Parliament Information Centre [SPICe] note in their recently published review of the Settlement, "Presentation of the headline figures for local government can be complicated" and different presentation of the elements "…..can lead to huge variations in the headline £ millions and percentage change figures that are presented". SPICe give examples of the areas of difference, some of which are noted below:

- Whether capital and specific, ring-fenced grants are included.

- Whether council tax is included.

- Whether figures are presented in cash or real terms.

- Whether funding from portfolios outwith local government are included.

4.2.2 Illustrating the above, and again drawing on the SPICe analysis, the following two positions for revenue can be presented:

(a) The Cabinet Secretary in his Budget speech referred to a cash increase of 3.8% or 2% in real terms.

(b) If however, non-ring-fenced funding is deducted, the support for core services falls by 1.7% in cash terms or 3.4% in real terms.

A simpler position arises for capital:-

(a) An increase of 23.7% in cash terms or 21.5% in real terms.

(b) If adjustment is made for the return of the "reprofiled" grant from 2016/17 then there is a reduction in cash of 7.5% and in real terms of 9.1%.

4.2.3 The Settlement is again presented as a partnership with a package of measures to be provided by local government in return for the provisional funding. Examples of these measures are set out below and detailed in the appended Circular and Cabinet Secretary letter to the Cosla President:-

- Baselining of the £170m additional revenue negotiated as part of the 2018/19 Settlement.
- Additional ring-fenced funding in both capital and revenue for Early Learning and Childcare.
- Cap of 3% rise in council tax.
- An additional £160m ring-fenced for IJB's to be added to the IJB's 2018/19 budgets.
- Maintenance of the pupil teacher ratio at the national level.

4.3 <u>Falkirk Council Impact</u>

4.3.1 Falkirk revenue grant has reduced by £7.148m (2.64%) from its 2018/19 level after adjusting for new spend commitments. This is more severe than assumed in the Medium Term Financial Plan and is closer to the pessimistic end of the scenarios spectrum in the Plan. In consequence, the estimated Budget Gap has increased to circa £20m after allowing for other mitigations [18+3-1]. Officers continue to work to identify additional savings options to bridge this extremely challenging figure.

4.3.2 Cosla pressed the Cabinet Secretary to allocated some of the health consequentials to adult social work and not give it all to the NHS and he has done this. There is, however, a sting in the tail. The extra funding is ring-fenced for the Integration Joint Board (IJB) and their 19/20 resource allocation from councils must be this sum added to the 2018/19 IJB Budget. This materially constrains councils' ability to have the IJB contribute towards closing their Budget Gaps. Falkirk currently assumes the IJB will contribute £3m – this rule is estimated to restrict this to c£1m. The c£20m Gap noted above is therefore now an even greater challenge.

4.3.3 The net Capital grant impact after allowing for specific grants and the return of the reprofiled grants is a reduction of c.£300k. This can be managed in the draft General Services Capital Programme by covering it with borrowing.

4.3.4 A national Town Centre Fund of £50m has been established. Once the procedures for accessing this Fund are determined Falkirk Council will no doubt seek to access it.

4.4. Other Elements

4.4.1 The Non Domestic Rate poundage in Scotland has been capped below inflation at 49p which provides a benefit to most businesses compared with the position in England. The Large Business Supplement for 2019/20 remains at 2.6p. Transitional relief for hospitality properties will continue in 2019/20 and through to 2021/22. The Small Business Bonus Scheme threshold for 100% relief remains at £15,000. The Scottish Government no longer intend to take forward the proposed power for councils to levy a Non-Domestic Rates supplement as proposed by the Barclay Review.

4.4.2 No substantive movement on discretionary tax, notably the “tourist tax”. Nor are there any proposals for reform of council tax.

5. Consultation

5.1 No issues directly arise.

6. Implications

Financial

6.1 The grant settlement is the major item in the Council’s general fund revenue Budget.

Resources

6.2 Other than the comment above, no issues directly arising.

Legal

6.3 No issues directly arising.

Risk

6.4 No issues directly arising.

Equalities

6.5 No issues directly arising.

Sustainability/Environmental Impact

6.6 No issues directly arising.

7. Conclusions

7.1 The Settlement has resulted in a revenue grant award c£3m below the Council's central planning assumption and has consequently increased the Budget Gap to c£20m. Moreover, the Council is now restricted as to how it may bridge that Gap by the IJB rule. As has been the case in recent years, Councils are unlikely to find out their definitive funding position until late January. Members are facing very challenging decisions. It remains essential that the Council's transformational Council of the Future agenda is driven forward with both pace and vigour.

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Director of Corporate and Housing Services

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Date: 20 December 2018

Appendix

1. Letter dated 12 December 2018 from Cabinet Secretary to Cosla President and copied to Council Leaders.

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:

- SPICe Scottish Budget 2019/20
- Local Government Financial Circular No. 8/2018 [The Settlement Circular]

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Copy to: The Leaders of all Scottish local authorities

12 December 2018

Dear Alison,

Today I set out the Scottish Government's draft spending and tax plans for 2019-20. Further to my announcement I write now to confirm the details of the local government finance settlement for 2019-20.

As agreed with COSLA, details of the indicative allocations to individual local authorities for 2019-20 will be formally published on 17 December in a Local Government Finance Circular.

This settlement takes into account the fact that the finances I have at my disposal are constrained by continuing UK Government policies that do not meet Scotland's needs. Even after the additional Health consequentials and other non-Barnett allocations in 2019-20 announced as part of the 2018 UK Budget, Scotland's fiscal resource block grant is still almost £2.0 billion (6.9%) lower in real terms than it was in 2010-11.

If the consequentials for investment in the NHS are excluded, this year's block grant would be £340 million or 1.3% less in real terms than it was last year.

Nobody should understate the real financial challenges that has posed and the tough and difficult decisions that means for us, both collectively and individually. Despite that, I am absolutely clear that the Budget plans I have announced are ambitious for Scotland and continue to be targeted at providing value for tax payers and support our vital public services.

The total revenue funding to be provided through the settlement for 2019-20 will be £9,987 million, which includes distributable non-domestic rates incomes of £2,853 million.

The core Capital funding is set at £759 million but with the inclusion of the continuing expansion of Early Years provision, the addition of an extra £50 million Town Centre Fund and the repayment of the reprofiled capital this increases the Capital funding within the settlement to £1,084 million.

The total funding which the Scottish Government will provide to local government in 2019-20 through the settlement is therefore £11,071 million. This includes;

- Baselining from 2019-20 of the full £170 million additional revenue investment announced earlier this year at Stage 1 of the Budget Bill for 2018-19;
- An additional £210 million revenue and £25 million capital to support the expansion in funded Early Learning and Childcare (ELC) entitlement to 1,140 hours by 2020;
- In addition to the £66 million baselined provision from 2018-19, a further £40 million is included to support expansion of Free Personal and Nursing Care for under 65s, as set out in the Programme for Government, and implementation of the Carers Act;
- £120 million to be transferred from the health portfolio to the Local Authorities in-year for investment in integration, including delivery of the Living Wage and uprating free personal care, and includes £12 million for school counselling services;
- The ongoing additional £88 million to maintain the pupil teacher ratio nationally and secure places for all probationers who require one under the teacher induction scheme;
- An indicative allocation of £3.3 million for Barclay implementation costs;
- Repayment in full of the reprofiled £150 million capital funding; and
- A new £50 million Town Centre Fund to enable local authorities to stimulate and support place-based economic improvements and inclusive growth through a wide range of investments which contribute to the regeneration and sustainability of town centres.

Individual local authorities will, in return for this settlement, be expected to deliver certain specific commitments.

For 2019-20, local authorities will continue to have the flexibility 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 around £80 million to support services.

The revenue allocation, including the additional resources to meet our commitments on the expansion of Early Years and support for social care and mental health, delivers a real terms increase for local government for 2019-20 compared to 2018-19. Taken together with the additional spending power that comes with the flexibility to increase Council Tax (worth around £80 million next year) the total funding (revenue and capital) delivers a real-terms increase in the overall resources to support local government services of £289 million or 2.7%.

The total additional funding of £160 million allocated to Health and Social Care and Mental Health is to be additional to each Council's 2018-19 recurrent spending on social care and not substitutional. It means that, when taken together, Local Authority social care budgets for allocation to Integration Authorities (plus those retained for non-delegated social care functions) and funding for school counselling services must be £160 million greater than 2018-19 recurrent budgets.

In addition to this, the Scottish Government will work with Integration Authorities, Health Boards and Local Authorities to ensure the legislation and statutory guidance on hospital specialties delegated to Integration Authorities, particularly in relation to set aside budgets, is put into practice.

We will also continue to take forward our ambitious programme of educational reform that will deliver an education system led by communities, schools and teachers. The Scottish Government, in partnership with local authorities, will empower schools to make key decisions over areas such as the curriculum, budgets and staffing. In recognising that teachers are central to achieving our ambition of delivering excellence and equity in Scottish education we will continue to commit an overall funding package of £88 million in the local government finance settlement to support both maintaining the pupil teacher ratio at a national level and ensuring that places are provided for all probationers who require one under the teacher induction scheme. We recognise that discussions on teachers' pay are on-going through the tri-partite Scottish Negotiating Committee for Teachers and any additional allocation to fund a negotiated agreement will require to be agreed.

Each local authority area will continue to benefit from Pupil Equity Funding (PEF) which forms part of the overall commitment from the Scottish Government to allocate £750 million through the Attainment Scotland Fund, over the term of the Parliament to tackle the attainment gap. £120 million in Pupil Equity Funding is going directly to headteachers to provide additional support to help close the attainment gap and overcome barriers to learning linked to poverty. PEF is additional to the £62 million Attainment Scotland funding, which is outwith the local government finance settlement. Money from the Attainment Scotland Fund will continue to provide authorities and schools with additional means to provide targeted literacy, numeracy and health and wellbeing support for children and young people in greatest need.

The Scottish Government remains committed to a competitive non-domestic rates regime, underlined by the proposals outlined in this Scottish Budget. The poundage in Scotland has been capped below inflation at 49 pence, a 2.1 per cent increase, ensuring over 90 per cent of properties in Scotland pay a lower poundage than they would in other parts of the United Kingdom.

I believe that the outcome of the financial settlement for local government, presented in the measures set out in this letter, is the best that could be achieved in the circumstances and continues to provide a fair settlement to enable local authorities to meet our priorities of inclusive economic growth and investment in our vital health and social care and education services.

Tony

DEREK MACKAY