

To: Leadership Board

On: 17th February 2016

Report by: Director of Finance & Resources

Heading: Scottish Government Draft Budget 2016/17 and Local Government Finance Settlement 2016/17

1. Summary

- 1.1 On the 16th December 2015 the Scottish Government published their draft budget for 2016/17 which will be subject to parliamentary approval towards the end of February. At the same time, the Scottish Government published the draft local government finance settlement, which sets out the provisional revenue and capital grant allocations for local government across Scotland. In a similar vein, the local government settlement is at this stage draft and is subject to parliamentary approval towards the end of February.
- 1.2 At the Council meeting on the 17th December, an initial verbal update was provided to members on the headline information presented in the Scottish Government's announcements and a subsequent written briefing provided to all elected members prior to Christmas.
- 1.3 Since that time, a number of issues have progressed and in this context, this report provides a formal update on the current position for the Board and the impact on the Council's financial outlook.

2. Recommendations

- 2.1 Members are asked to note the content of the report and that the Leader of the Council has written to the Deputy First Minister on the 9th February indicating an in principle agreement to the offer presented as part of the local government finance settlement subject formal approval by full Council.

3. Scottish Government Budget

- 3.1 Based on the published budget information, the total Scottish public sector spending for 2016/17 is set at £37,133.5 million representing a £187.8 million (0.5%) cash decrease across the total Scottish budget. This net decrease includes a decrease in total revenue spend of £147.7 million (0.5%), an increase in the capital budget of £54.8 million (1.6%) from the 2015/16 figures and a decrease in Annual Managed Expenditure (AME - principally pensions costs and non-domestic rates income) of £94.9 million (1.4%).
- 3.2 The budget figures for 2016/17 reflect use of budget flexibility mechanisms available to the Scottish Government between financial years and the intention of the Scottish Government to utilise the maximum capital borrowing powers available through the Scotland Act 2012 to support £316 million of Scottish Government borrowing.
- 3.3 In addition, the 2016/17 budget includes for the first time, the impact of proposals on the Scottish Rate of Income Tax (SRIT). This represents the third and final tax power being devolved under the Scotland Act 2012 and follows on from 2015/16 which included for the first time both the Land and Building Transaction tax (LBTT) and Scottish Landfill Tax (SLT).
- 3.4 As part of the draft budget the Scottish Government have proposed to set the SRIT at 10% maintaining parity with overall tax rates operating in the rest of the UK. The forecast level of receipts from this rate has been set at £4,900 million, for which a corresponding adjustment is to be made to the Scottish Block settlement from the UK Government. In terms of the LBTT, there is no change to the core rates, however similar to the UK Government, the Scottish Government propose to introduce a LBTT supplement of 3% on all purchases of buy to let or second homes above £40,000. Taken together it is forecast that the LBTT will raise £538 million in 2016/17, of which £23 million is linked to the new supplement and which compares to the £441 million budgeted in 2015/16. For the SLT it is estimated that £133 million will be raised in 2016/17 in comparison to the budgeted £117 million in 2015/16.
- 3.5 Similar to previous years there is cash growth directed to prioritised areas of the Scottish Government budget in contrast to the cash reduction applied to the local government budget in 2016/17. The overall Health Portfolio will benefit from a cash increase of almost £689 million (5.7% cash increase) of which approximately £397 million (3.3% cash increase) relates to the revenue budget and £292 million (144% cash increase) relates to capital resources. Within this overall increase across the portfolio, £476 million (5.5% cash increase) relates to territorial health boards of which the Scottish Government have indicated that £250 million relates to an intended investment in Social Care and which is expanded on in more detail in paragraph 3.9 below.
- 3.6 In addition to the protection provided to the Health budget, £17.6 million of cash growth (1.7%) has provided real terms protection to the revenue budget

of Police Scotland and cash protection has been provided to the revenue budget supporting Higher and Further Education.

- 3.7 By contrast the local government portfolio budget has reduced materially in cash terms as summarised in the table below.

| | 2015-16 £ms | 2016-17 £ms | Change £ms | % |
|-------------------------|----------------|-----------------|---------------|--------------|
| Revenue Support Grant | 7,096 | 6,777 - | 319 | -4.5% |
| Non Domestic Rates | 2,800 | 2,769 - | 31 | -1.1% |
| Total Revenue | 9,896 | 9,546 - | 350 | -3.5% |
| Capital Grant | 861 | 607 - | 254 | -29.5% |
| Total LG Support | 10,757 | 10,153 - | 604 | -5.6% |

- 3.8 The Deputy First Minister (DFM) has written, most recently on the 27th January, to Council Leaders confirming the set of conditions which accompany the provisional funding allocation for local government. Following on from that letter, a number of areas of uncertainty remained following which clarifications were sought from the DFM. The following outlines the key terms of the offer from the Government based on the 27th January letter and subsequent clarifications that were provided by the DFM on the 4th February:

- The measures set out in the settlement offer, linked to a continuation of the council tax freeze, maintenance of teacher numbers and places for probationers and lastly investment in social care, must be viewed as a package and that in order to access all of the funding councils must agree to deliver all of the measures.
- Council Leaders who intend to take up the offer and agree to the full package of measures were asked to respond to the Deputy First Minister by Tuesday 9th February setting out their position. The Council Leader has written to the Deputy First Minister by the deadline date indicating an in principle agreement to the offer presented as part of the local government finance settlement, subject to formal approval by full Council and asking the Deputy First Minister to note a number of factors relating to the commitment associated with the Living Wage.
- Any council that does not sign up to the full package of conditions and measures will not receive their share of £408 million, made up of integration funding for social care (£250m), support for teachers (£88m) and council tax freeze support (£70m). For Renfrewshire this total funding package equates to an estimated £13.8 million.
- The DFM has also confirmed that in the event a council that signs up to the package then subsequently fails to deliver on any of the specific commitments on social care spend, including delivery of the £8.25 per hour living wage to care staff, national teacher targets, or council tax levels then the Government have reserved its position to apply individual sanctions for

authorities. In such circumstances steps will be taken to remove access to or recover some or all of the additional funding support earmarked to deliver the specific measure or measures. If it proves necessary to apply a sanction then the Government have indicated that this will be applied in a proportionate manner to the scale of the failure.

3.9 Further details in relation to each of the specified conditions are outlined below:

- £70 million of the revenue funding is conditional upon a continuation of the council tax freeze (Renfrewshire's share is £2.327 million).
- Maintaining the pupil teacher numbers at 2015 levels **nationally** and securing places for all probationers who require one under the teacher induction scheme. In terms of the pupil teacher ratio, the condition is that the pupil-teacher ratio should be maintained at the same level as 2015; a national target of 13.7. If however, the pupil teacher ratio is not maintained nationally then the Scottish Government reserves its position on individual sanctions for authorities' whose pupil teacher ratio rises and steps will be taken to recover proportionate shares of the £88 million which is being provided for the teacher and probationer commitments in 2016-17. The full distribution of all of this funding has not yet been made as part of the draft finance settlement but in line with previous years this is likely to amount to approximately £2.7 million for Renfrewshire Council.
- In terms of Social Care funding within the Health Budget, the DFM has set out that:
 - £125 million of this £250 million is to be directed to support additional spend on expanding social care to manage increased demand and demographic growth and making progress on charging thresholds for all non residential services to address poverty by increasing the charging buffer from the existing 16% level to 25%.
 - The remaining £125 million is intended to support cost pressures including the aspiration to pay all adult Social Care workers the living wage of £8.25 per hour, including care workers employed by external providers in the 3rd and independent sector who provide commissioned services to local authorities.
 - The Government have assumed that as part of delivering a living wage that the independent and third sector providers will meet a share of the associated costs and which has been verbally confirmed by the DFM as being 25%. The Government have also confirmed that although they have calculated estimates at a national level of achieving this position, no calculations have been made of resources required to deliver this at a local council level.
 - In this context the Scottish Government in a clarification response confirmed that achievement of the Living wage in this sector would be

a shared endeavour between the Scottish Government, Councils and providers.

- In recognition of the need for preparatory work to deliver living wage arrangements with providers an implementation date from 1 October 2016 has been outlined.
- As part of this particular condition and in recognition that the associated funding will reside within respective Health Board budgets, there will be a requirement to establish arrangements that will support the flow of this funding from the health budget to council budgets to support local authority social care budgets and delivery of the living wage commitment.
- Overall, Renfrewshire share of this £250 million of funding has been confirmed at £8.779 million.

3.10 Notwithstanding the unusual funding architecture associated with the £250 million of social care funding, the cash reduction in the revenue resources represents the most significant direct reduction suffered by the local government portfolio budget since the contraction in resources started in 2011/12.

3.11 The Scottish Government have not provided any material details of spending plans beyond 2016/17 on the basis of the late timing of the UK Government's Comprehensive Spending Review announcement in November coupled with the backdrop of uncertainty linked to the ongoing discussions between the Scottish and UK governments on the fiscal framework that will underpin the future Scottish Block settlements from the UK as part of the Scotland Bill 2015.

3.12 In this context the Scottish Government have provided some high level figures at an overall budget level but with no detail provided at portfolio level. In broad terms, the outlook for revenue resources presents very shallow growth in cash terms, averaging around 0.5% per year up to 2019/20. By contrast, capital resources are expected to increase by an average equivalent rate of around 4% per annum. In addition, the Scottish Government have also set out some broad themes and priorities that they expect to drive the spending review for future years should they continue in government. Most significantly this includes a commitment to maintain real terms protection for both front line NHS and Police services in each year of the spending review period, a commitment to support digital transformation and a commitment to almost double the level of free early years nursery hours over the course of the next parliament. In addition and specific to the local government budget, the Government have also stated priorities to the reform of local taxation in light of the recently published report from the Commission on Local Tax Reform and to review the system of Non Domestic Rates.

3.13 Notwithstanding changes that may yet be made to these high level budget plans by the incoming government in the next parliamentary period, this medium term outlook for public finances in Scotland, coupled with the stated

commitments to protect major areas of the budget in real terms, would present an extremely challenging financial context for local government and an expectation of a further cash terms contraction in budgets over the medium term. Uncertainty will remain over the scale of the reduction however similar to 2016/17 this is likely to continue to be at a material level year on year that will drive a need for further significant and sustained savings across the local government sector to achieve balanced budgets.

4. Local Government Finance Settlement 2016/17

- 4.1 The Local Government Finance Circular 7/2015 was issued to Councils on 16th December 2015, providing details of the provisional revenue and capital funding allocations for 2016/17 ahead of the Local Government Finance (Scotland) Order 2016 which is due to be debated by the Scottish Parliament towards the end of February. Since that time subsequently identified errors in the distribution process have been corrected by the Government in relation to both the revenue and the capital settlement.

Revenue Budget

- 4.2 Subject to parliamentary approval, the settlement has confirmed headline revenue grant funding for the Council for 2016/17 of £300.429 million. Included as part of this settlement offer is grant conditional upon agreement to the continuation of the council tax freeze (£2.327 million) and the maintenance of the pupil teacher ratio and probationer places (£2.8 million).
- 4.3 The following summarises the key headlines in the context of the provisional Revenue Grant position confirmed in the settlement:
- The Grant Floor (the maximum grant reduction applied to an individual council) has been set by the Deputy First Minister at a reduction of 4.5%.
 - After the workings of the floor mechanism, Renfrewshire Council is on the floor at a 4.5% reduction along with 13 other councils.
 - In the context of the grant included within the floor mechanism, the cut in grant ranges from 4.5% for the 14 councils on the grant floor, to a cut of 1.45% for Aberdeenshire with the all Scotland position being a cut of 3.9%
 - After taking account of changes in the grant funding that is distributed outwith the floor mechanism and adjusting to a like for like comparison basis, the overall cash cut for the Council from 2015/16 is 3.4% against a 3.5% cut across local government in Scotland. The Council's share of the overall settlement has increased very marginally from 3.14% in 2015/16 to 3.17% in 2016/17.
- 4.4 The Council's budget strategy for 2016/17 – 2017/18 was framed on an assumed grant reduction of 5% over two years, split at 2% and 3%

respectively. The provisional 3.4% reduction is in excess of the assumption made for 2016/17 and at present although the 2017/18 figures will not be confirmed until some point during 2016, there is little to suggest that a 3% reduction assumed for 2017/18 is an unreasonable planning assumption in the medium term context set out in the Scottish Government's budget. Moving the assumed grant reduction to 6.4% over the two years adds approximately £4.2 million of additional cost pressure into the Council's budget strategy. The impact of this outcome in grant for the Council in 2016/17 and projected position in 2017/18 will be outlined in detail in the report to the Council's budget meeting as part of the presentation of the overall budget position.

- 4.5 In addition to the direct revenue grant provided to the Council, 2016/17 will see the added complexity of an element of social care funding, confirmed as £8.779 million for Renfrewshire, provided via the health budget and IJB arrangements. Although this funding is to be directed to fund new cost burdens such as delivering the living wage across the provision of social care, an element is likely to be available to support wider budget pressures in social care and is expected to provide benefit to the Council's budget position in 2016/17. Details in this respect are being progressed and finalised in partnership with the Chief Officer of the IJB.
- 4.6 On capital, the financial settlement has confirmed that the provisional capital grant to be paid to the Council in 2016/17 will be £12.672 million – a reduction in paid grant of approximately 35% from 2015/16, against a 29.5% cut across local government in Scotland. In addition, £3.199m of grant has been confirmed, but will not be paid to the Council in 2016/17 but has been re-profiled to be paid in the next settlement – across Scotland this re-profiled amount totals £150m. Taken together and notwithstanding the deferred payment proposals, the total capital grant confirmed for the Council is £15.871m, approximately 19% less than 2015/16.
- 4.7 The settlement also confirmed the Non Domestic Rate (NDR) poundage rate, which has been provisionally set at 48.4p – an increase of 0.4p or approximately 0.8%. By contrast, the Large Business Supplement has been doubled from 1.3p to 2.6p. For premises that qualify for the large business supplement this will result in an overall net increase of over 3.4% and which will impact on a large number of the Council's larger facilities creating a budget impact of approximately £0.200 million.

Implications of this report

1. Financial Implications

The outcome of the Scottish Government draft budget and provisional local government finance settlement represents a poorer outcome than was anticipated in the Council's budget strategy for 2016/17. The impact of the grant position, in the context of the wide range of variables that influence the Council's financial position will be outlined in detail in the report presented to the Council meeting which will consider the 2016/17 budget.

2. HR and Organisational Development Implications

As previously reported to the Council, the anticipated medium term reduction in resources available to deliver services will require the Council to continue to review and assess the shape and size of the workforce as part of modernising services and delivering significant and sustained budget savings.

3. Community Plan/Council Plan Implications

The Council's financial planning takes full account of the objectives outlined in the Community Plan and Council Plan.

4. Legal Implications – n/a

5. Property/Assets Implications – n/a

6. Information Technology Implications – na/

7. Equality & Human Rights - No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report.

8. Health & Safety - None

9. Procurement – There are no procurement issues arising from the information detailed within the report.

10. Risk – the Council's financial planning arrangements remain a key measure to manage and mitigate financial risk across the organisation and ensure the Council maintains a medium term perspective to its financial decision making as part of managing financial risk and ensuring the Council remains financial stable in the short term and financial sustainable over the medium to longer term.

11. Privacy Impact – None.

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