

To: Council

On: 21 December 2017

Report by: Director of Finance & Resources

Heading: Scottish Government Draft Budget and Provisional Local Government Finance Settlement 2018/19

1. **Summary**

- 1.1 This report provides an overview of the Scottish Government Draft Budget 2018/19 issued on 14 December 2017, and the provisional Local Government Finance Settlement for 2018/19.
- 1.2 The provisional local government settlement outlines on a like for like basis a cut in revenue resources for the Council of approximately 1% moving into 2018/19 and a cut in general capital grant of 8%. This provisional position may be subject to further change as the Scottish Government's draft budget progresses through the Parliamentary approval process. The full impact of the settlement on the Council's medium-term budget strategy will be outlined in detail as part of the report to the Council's statutory budget meeting along with any other changes that emerge over the coming weeks. Interim briefings will be provided to elected Members should there be any material movements between now and the statutory budget meeting.
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2. **Recommendations**

- 2.1 Council is requested to note the detailed content of the report, to note the specific conditions associated with the provisional local government finance settlement as outlined and the requirements if the terms of the offer are not intended to be accepted.

3. Background

- 3.1 On the 14th December 2017 the Scottish Government published their draft budget for 2018/19 which will be subject to parliamentary approval in early 2018. At the same time, the provisional local government finance settlement was published, which sets out the provisional revenue and capital grant allocations for local government across Scotland.
- 3.2 The purpose of this report is to provide members with an initial outline of the key elements of the Scottish Government's draft budget and provisional local government settlement. This report is based on information made available to date from the Scottish Government. It is anticipated that there may be further clarifications and/or adjustments to the draft local government finance settlement figures as further supporting information is released from the Scottish Government, and as the draft Budget progresses through the Parliamentary approval process. Subject to any further updates received in the intervening period, it would be expected that key elements detailed in this report will form part of the reports that will be presented to the Council's statutory budget meeting in 2018.

4. Scottish Government Budget

- 4.1 Based on the published budget information, the total Scottish public sector spending for 2018/19 is set at £40,639 million representing a £1,261 million (3.2%) cash increase across the total Scottish budget. This net increase includes an increase in total revenue spend of £730 million (2.6%), an increase in the capital budget of £472 million (11.9%) from the 2017/18 figures and an increase in Annual Managed Expenditure (AME - principally pensions costs and non-domestic rates income) of £59 million (0.8%).
- 4.2 The 2018/19 budget will operate under the Fiscal Framework, established in support of the 2016 Scotland Act. The additional powers over income tax rates and thresholds (with the exception of the personal allowance), add to the already devolved powers that existed in relation to the Land and Building Transaction tax (LBTT) and Scottish Landfill Tax (SLT). In total the Scottish Government's budget in 2018/19 includes assumed tax receipts in excess of £13.3 billion. The budget figures for 2018/19 reflect the intention of the Scottish Government to again utilise devolved borrowing powers available through the Scotland Act to support £450 million of borrowing to support capital investment and a number of tax changes to be implemented under new devolved powers which are expected to generate £164 million of net growth in resources.
- 4.3 2018/19 is the first year that the Budget has been supported by economic forecasts provided by the Scottish Fiscal Commission (SFC)

which were also published on 14 December. The SFC operates in a manner similar to the Office of Budget Responsibility (OBR) at the UK Government level in providing independent economic forecasts which the Scottish Government will utilise in assessing potential tax receipts. Significantly, the SFC forecast of GDP growth over the next five years averages at less than 1%. This is lower than the OBR forecast at a UK level over the same period:

Forecast GDP Growth

	2018	2019	2020	2021	2022
SFC Forecast for Scotland	0.7%	0.9%	0.6%	0.9%	1.1%
OBR Forecast for the UK	1.4%	1.3%	1.3%	1.5%	1.6%

Low and sustained growth forecasts of this nature increases the risk of more limited growth in future tax receipts which may be an additional constraining factor on future spend across the public sector in Scotland.

- 4.4 As in previous years, there is significant cash growth directed to prioritised areas of the Scottish Government budget in contrast to the cash reduction applied to the local government settlement. The overall Health Portfolio will benefit from a revenue cash increase of £430 million (3.5% cash increase) however the capital allocation will reduce by £57 million (14% cash reduction).
- 4.5 In addition to the real terms protection provided to the Health budget, £20.4 million of cash growth (1.8%) has provided real terms protection to the budget of Police Scotland, in addition to an estimated £25 million increased spending power due to the change in VAT status of Police Scotland.
- 4.6 By contrast the main elements of the local government budget have reduced in cash terms as summarised in the table below. It should be noted that the figures below include the impact of new burdens included within the local government budget. This includes £120 million of ring fenced Pupil Equity Funding to be provided direct to head teachers, and £52.2 million revenue and £150 million capital funding related to the Early Years expansion of nursery provision to 1140 hours.

	2017/18	2018/19	Movement	
	Budget	Draft Budget	Cash	%
	£m	£m	£m	
General Revenue Grant	6,628	6,609	-19	-0.3%
NDRI	2,666	2,636	-30	-1.1%
General Capital Grant	653	598	-55	-8.4%
	9,947	9,843	-104	-1.0%
Specific Resource Grant	211	263	52	24.6%
Specific Capital Grant	133	278	145	109.0%
	10,291	10,384	93	0.9%

4.7 The Cabinet Secretary for Finance and the Constitution has written to Council Leaders detailing the set of conditions that make up the provisional funding allocation for local government outlined in the finance settlement which in line with previous years is focused on teacher numbers, health and social care funding and council tax:

- The £355 million IJB funding provided last year has been mainlined in the health budget. £66 million has been allocated through the local government settlement to support additional expenditure on social care, including implementation of the Carers (Scotland) Act 2016, implementing the commitment to the Living Wage for care staff (including for sleepover cover) and an increase in Free Personal and Nursing Care payments.
- Achieving the pupil teacher ratio of 13.7 (which is presumed to continue to operate at a national level) and provide places for all probationers who require one. This is broadly equivalent to the 17/18 ratio.
- Council tax levels may be increased by up to 3% at the discretion of individual councils – for Renfrewshire a 3% increase would generate around £2.1 million of additional resources. The Cabinet Secretary has outlined that the spending power from a 3% rise would deliver additional income of £77m nationally and would support the overall resource available to local government.

4.8 As a consequence of local government suffering a disproportionately poorer settlement than other major spend areas, local government's share of the overall Scottish Government budget has declined. Taken in the context of the full £40.6 billion Scottish Budget, this represents a loss of around 0.6% of the total Scottish Government budget.

4.9 The Scottish Government has not provided any material details of spending plans beyond 2018/19. It has however published some high-level figures at an overall budget level for 2019/20. In broad terms, the outlook for revenue resources presents very shallow growth of 0.8% in

cash terms to 2019/20. In contrast, capital resources are expected to increase by around 8% in cash terms. As members will be aware and as outlined in the Financial Outlook report to the Leadership Board on 12 December, the Scottish Government has set out their policy priorities over the course of the current parliamentary period in relation to growing in real terms spending in the NHS, protecting Police spending in real terms and the commitment to almost double the level of free early years nursery hours over the course of the next Parliament.

- 4.10 In the context of this presented medium term picture for public finances in Scotland coupled with the Government's stated commitments and the economic growth forecasts for Scotland, the medium term prospects for the local government budget are likely to remain extremely challenging and subject to further contraction in cash terms. There is therefore a significant risk that for 2019/20 and beyond there will be a return to much deeper cuts for local government from the dampened level of cut outlined in the draft 2018/19 budget.

5. Local Government Financial Settlement

- 5.1 The Local Government Finance Circular 5/2017 was issued to councils on 14th December 2017, providing details of the provisional revenue and capital funding allocations for 2018/19 ahead of the Local Government Finance (Scotland) Order 2018 which is due to be presented to the Scottish Parliament in late February 2018. There remains the potential, similar to the 2017/18 budget, that over the course of the Parliamentary Budget approval process that there could be further material changes to the local government settlement prior to the Budget Bill being passed.

- 5.2 Subject to the Scottish budget being approved by Parliament, the circular has confirmed headline revenue grant funding for Renfrewshire for 2018/19 of £299.095 million. The Cabinet Secretary for Finance and the Constitution has written to council Leaders outlining the set of conditions that make up the provisional funding allocation for local government outlined in the finance settlement which as outlined earlier remains focused on teacher numbers (nationally), health and social care resources and changes to the council tax. Any authority not intending to agree to the offer and accept the full package of measures and benefits have been requested to write to the Cabinet Secretary by 19th January 2018. In this event a revised settlement offer would be made, although it is not clear what the scale of the financial penalty would be.

- 5.3 The following summarises the key headlines in the context of the provisional grant position confirmed in the settlement:

Revenue Grant

- The grant floor (which doesn't include all revenue funding but the majority) has been set at a maximum reduction of 0.6% - a

decrease from the 5% last year. 7 councils are immediately on the floor (i.e. have calculated cuts in excess of 0.6% and which are compensated by the floor to reduce their cut to 0.6%), with a further 12 pulled down onto the floor once the floor calculation is applied. There are therefore 19 of 32 councils on the grant floor with the grant change with the floor ranging from a cut of 0.6% to an increase of 2.15%. Renfrewshire is broadly flat in cash terms at a 0.07% increase.

- After taking account of changes in the grant funding outwith the floor and adjusting to a like for like comparison basis, the overall cash cut for the Council is adjusted to approximately 1% against a broadly 1% cut across local government in Scotland. This represents an improved position on the planning assumption of up to a 7% cut across the two year period 2018-20. The 2018/19 provisional position represents a lower level of like for like grant cut than that experienced in 2017/18. The Council's share of the revenue settlement has fallen from 3.17% to 3.10%.
- Within the local authority settlement there is specific funding of £52.2m revenue and £150m capital linked to the ongoing expansion of Early Years and which has yet to be distributed across individual local authorities. At present, the Government's indicative funding to be made available over the course of this parliament to deliver this policy agenda, is materially less than that estimated by local government and is subject to ongoing discussion and development between COSLA and Government. It would be expected that progress that will be advanced over the course of 2018/19 in Renfrewshire in relation to the expansion will be driven by the scale of resources subsequently distributed to the Council

Capital Grant

- The Council's draft capital grant for 2018/19 is £16.333 million set against the 2017/18 level of £17.784 million, representing therefore a cash cut of approximately 8%. £150 million of funding re-profiled from the 2016/17, which has already been committed by the Council, will now be repaid as part of the 2019/20 settlement.
- As mentioned above, a further £150 million of capital funding specifically linked to Early Years expansion has yet to be distributed in 2018/19.

Non Domestic Rates

- The rate poundage has been provisionally set at 48p – a 3.0% increase from 2017/18 which is in line with CPI, and not RPI.

- Large business supplement remains the same at 2.6p and the threshold remains at a RV of £51,000. The Small Business Bonus relief threshold also remains at £15,000.
- A new Business Growth Accelerator will apply from 1 April 2018 which will delay any increase in rate liability due to the expansion or improvement of an existing property for 12 months and will also mean new-build properties will pay no rates for an initial 12 months.
- A new 100% relief for day nurseries is also proposed. The Scottish Government has also issued detail of how it will take forward the recommendations of the Barclay Review.

Council Tax

The Scottish Government has again placed a condition on the financial settlement that council tax increases in 2018/19 will be capped to a maximum of 3%.

6. Pay

6.1 In parallel to their draft budget the Government has published a public sector pay policy for Scotland, setting out specifically the following defined pay increases for 2018/19:

- lifting the pay cap by providing a guaranteed minimum increase of 3 per cent for public sector workers who earn £30,000 or less;
- a limit of up to 2 per cent on the increase for those earning above £30,000 and below £80,000;
- limiting the maximum pay increase for those earning £80,000 or more to £1,600;

6.2 As outlined previously to members, local government negotiates and sets its own pay policy and this is recognised by the Government. Nevertheless, the Government's pay policy sets an important backdrop for negotiations with Trade Unions through the national negotiating machinery, however at this level it would represent an increased cost over and above the level of financial provision assumed within the Council's financial planning assumptions.

Implications of the Report

1. **Financial** – the provisional local government settlement outlines a like for like cut in revenue resources for the Council of approximately 1% moving into 2018/19, representing an improved position on financial planning assumption of up to a 7% cut over the two-year period 2018-20. This provisional position may be subject to further change as the Scottish Government's draft budget

progresses through the Parliamentary approval process. The full impact of this on the Council's medium-term budget strategy will be outlined in the report to the Council's statutory budget meeting along with any other changes that emerge over the coming weeks.

2. **HR & Organisational Development** – the provisional financial settlement outlined in the report is a key determinant in the Council's financial plans, and associated workforce plans. It is important to ensure that the workforce continues to be maintained at an appropriate size and shape in order to deliver efficient services.
3. **Community/Council Planning** – none
4. **Legal** - *none*
5. **Property/Assets** - *none*
6. **Information Technology** - *none*
7. **Equality & Human Rights** - The Recommendations contained within this report have been assessed in relation to their impact on equalities and 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. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.
8. **Health & Safety** - none
9. **Procurement** – none
10. **Risk** – the report outlines the financial envelope within which key financial risks must be managed.
11. **Privacy Impact** - *none*
12. **Cosla Policy Position** – Cosla has engaged with the Scottish Government over the budget process, however Cosla remains concerned with the level of the local government settlement.

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