

Briefing Note to: Policy & Resources Committee
 Subject: Item 11 2019/20 Budget Update – Addendum
 Date: 5th February 2019
 By: Chief Financial Officer

The purpose of this note is to update Members on the initial assessment of the improved offer to Local Government arising from Stage 1 of the Budget Bill on the 31st January 2019.

The Letter from the Cabinet Secretary for Finance, Economy and Fair Work is attached as Appendix 1 to this briefing note which outlines the details of the changes made to the Local Government Settlement. A number of the announcements within this letter will not impact on the 2019/20 Budget but the increased potential tax raising powers and the commitment to announcing a three year budget for 2020/23 is to be welcomed. The specific matters which have a potential financial implication on the 2019/20 are as follows:-

- a) **A £90 million increase in the core resource for Local Government** – this extra funding is not directed in anyway and as such the Council has full flexibility as to how it is to be used. The Councils share of the £90 million equates to £1.355 million.
- b) **Further guidance in respect of how the extra £160 million for Health & Social Care investment is to be treated** -Officers are seeking clarity from Cosla and the Scottish Government as to how this change is to be applied in detail and whether it impacts on the draft 2019/20 Council Contribution to the IJB which has been considered by the Members Budget Working Group.
- c) **Increase in the Council Tax Cap from 3% to 4.79%** - the figure of 4.79% is calculated based on the GDP deflator of 1.79% to give a 3% real term increase in Council Tax were the Council to opt for the full 4.79% increase. This extra flexibility is assessed to potentially generate £525,000 extra Council Tax per year.
- d) **Increased Employer Contributions to public sector pensions including Teachers** – The current draft 2019/20 Council Budget includes £550,000 provision representing an estimated 33% of the estimated costs arising from this change triggered by HM Treasury. The Scottish Government estimate that Councils should be providing only 21% of the overall sum which if followed through would reduce the Council's allowance by £200,000. The Scottish Directors of Finance Section are currently reviewing the Scottish Government's figures with a view to having this matter clarified before Councils set their budgets.

On the basis that reduction in the Councils provision for Teachers Superannuation is confirmed then the funding gap of £4.944 million as per the current Policy & Resources report will reduce to £3.389 million prior to any increase in Council Tax..

The increased funding and extra flexibility in respect to Council Tax is welcome but Members need to be aware that there still remains a considerable funding gap to be closed by the Special Council Meeting on 21st March 2019.

AP/CM
01/02/2019

Cabinet Secretary for Finance, Economy & Fair Work
Derek Mackay MSP



Scottish Government
Riaghaltas na h-Alba
gov.scot

T: 0300 244 4000
E: scottish.ministers@gov.scot

Councillor Alison Evison,
COSLA President
Verity House
19 Haymarket Yards
Edinburgh
EH12 5BH

Copy to: Leaders of all Scottish local authorities

31 January 2019

Dear Alison,

I have listened carefully to the points you and other Leaders have raised with me following our consultation, and most recently in our meeting on 30 January, on the terms of the local government settlement and the issues you have sought to resolve as being important to you. The Scottish Greens have also raised many similar points in my discussions with them to secure support for the Budget.

In the Budget Bill Stage 1 debate in Parliament today I announced a package of further measures covering local taxation and local government finance which I consider will be the biggest empowerment of local authorities since devolution. I write now to confirm the details.

The Scottish Government has committed to make a number of changes to local government taxation between now and the end of this Parliament and clearly COSLA will have a key role as that works unfolds. These potential changes include:

- To consult, in 2019, on the principles of a locally determined tourist tax, prior to introducing legislation to permit local authorities to introduce a **transient visitor levy**, if it is appropriate for local circumstances;
- To support an agreed amendment from the Scottish Greens to the Transport (Scotland) Bill that would enable those local authorities who wish to use such a power, to introduce a **workplace parking levy**. Scottish Government support will be contingent on the exclusion of hospitals and NHS properties; and
- To devolve Non-Domestic Rates **Empty Property Relief** to local authorities in time for the next revaluation.

Both the Scottish Government and the Greens also supported the recommendation of the Commission on Local Tax Reform, which was co-chaired by the then COSLA President, that the present council tax system must end.

In order to make progress the Scottish Government will convene cross-party talks on its replacement with a view to publishing legislation, should cross-party agreement on a replacement be reached, by the end of this Parliament, with that legislation taken forward in the following Parliament.

While the Scottish Government maintains the position that money for education, social care and early learning and child care are core functions of local government, we have listened to the arguments that local government requires increased funding and flexibility for the 'core' local government settlement.

I have, therefore, agreed to make the following changes:

- An increase in the core resource local government settlement of £90 million;
- Continue to provide an earmarked £160 million from the Scottish Government for health and social care investment to support social care and mental health services – including those under the direction of Integration Authorities– whilst, as part of this package, allowing local authorities the flexibility to offset their adult social care allocations to Integration Authorities in 2019-20 by 2.2% compared to 2018-19, i.e. by up to £50 million across all local authorities to help them manage their own budgets
- Provide, as you have requested, local authorities with the flexibility to increase the Council tax by 3% in real terms, which equates to 4.79% next year.
- Bringing forward a three year funding settlement for local government from 2020-21 budget onwards; and to develop a rules based framework for local government funding in partnership with COSLA that would be introduced for the next Parliament.

Taken together, this enhanced package offers up to £187 million of increased funding and flexibility to local authorities.

In addition to this, and subject to the successful outcome of negotiations with teachers, the Scottish Government will fully fund its contribution to the cost of the Teachers' Pay deal, providing local authorities with the additional funding required to meet our share of the pay offer.

At our meeting on 30 January I also undertook to follow up and confirm the position on two further points.

Firstly, Local authorities, along with other public bodies, will face increased costs as a result of changes made by the UK Government to employer contributions for public sector pensions, including for Teacher pensions. The UK Government has committed to part fund these costs.

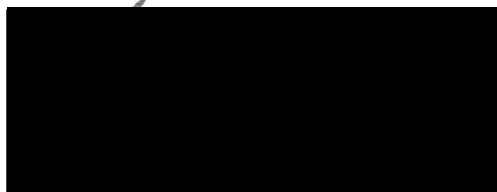
Local authorities were assuming a shortfall of 33% in the funding for these costs. Scottish Government analysis is that this shortfall is likely to be closer to 21%. This difference amounts to around £15 million for local authorities which they should no longer have to budget for.

We will not have formal confirmation of the impact of these changes to the Scottish Budget until the UK Spring Statement on 13 March 2019. However, we are committed to continue to press the UK Government to meet the full cost of these changes to avoid damaging impacts on the delivery of public services across Scotland. The Scottish Government will, however, commit to pass on to local government the consequential that we receive towards the employers' cost increase for local government Teachers' Pension schemes.

Secondly, I can confirm that I intend to bring forward as early as I can (early in the new financial year) changes to legislation which will allow Councils to vary loans fund repayments for advances made before 1 April 2016. Changes to repayments must be based on prudent principles and we will work with COSLA and Audit Scotland to reach a solution.

Throughout the Budget negotiations, I have endeavoured to engage constructively and openly with COSLA. As a result of the continuing UK austerity cuts forced upon us I know local authorities, along with the rest of the public sector, are still facing some difficult financial challenges, but I hope that you can recognise and welcome the significant package of additional measures I have confirmed today, which I truly do consider will be the biggest empowerment of local authorities since devolution.

Set out in the Appendix to this letter are details of the additional allocations to individual local authorities, through the normal formula distribution for the additional £90 million, to be spent at the discretion of individual councils. Subject to Parliamentary approval in the final stages of the Budget Bill, these sums will be added to the Local Government Finance (Scotland) Order 2019 to be presented to Parliament later in February.



DEREK MACKAY

Appendix

Local Authority	Additional Stage 1 Allocation: Core Grant
	£m
Aberdeen City	3.161
Aberdeenshire	4.352
Angus	1.967
Argyll & Bute	1.626
Clackmannanshire	0.834
Dumfries & Galloway	2.678
Dundee City	2.503
East Ayrshire	2.051
East Dunbartonshire	1.874
East Lothian	1.719
East Renfrewshire	1.787
Edinburgh, City of	7.038
Eilean Siar	0.691
Falkirk	2.600
Fife	6.165
Glasgow City	9.969
Highland	4.228
Inverclyde	1.355
Midlothian	1.493
Moray	1.543
North Ayrshire	2.398
North Lanarkshire	5.702
Orkney	0.637
Perth & Kinross	2.477
Renfrewshire	2.941
Scottish Borders	1.990
Shetland	0.719
South Ayrshire	1.890
South Lanarkshire	5.388
Stirling	1.585
West Dunbartonshire	1.576
West Lothian	3.063
Scotland	90.000