
Report To:	Policy & Resources Committee	Date:	31 January, 2017
Report By:	Chief Financial Officer	Report No:	FIN/09/17/AP/CM
Contact Officer:	Alan Puckrin	Contact No:	01475 712223
Subject:	2017/18 Funding Settlement		

1.0 PURPOSE

- 1.1 The purpose of this report is to advise Committee of the detail of the Council's draft Funding Settlement for 2017/18 and to highlight the implications to be considered at the Council meeting on 16 February, 2017.

2.0 SUMMARY

- 2.1 The Scottish Government announced the Draft 2017/18 Budget on 15 December and within this was the Local Government Settlement including individual Council draft funding figures for 2017/18.
- 2.2 Overall core Local Government funding has been reduced and whilst other funding has been announced for Schools, Integrated Joint Boards and Councils are retaining the extra income coming from the national changes to the Council Tax multipliers, it has been acknowledged by external commentators that Local Government received a relatively poor settlement compared to most other Sectors.
- 2.3 There are conditions attached to the settlement around the need to maintain teacher numbers, provide opportunities for teacher probationers and not increasing Council Tax beyond 3%. It is not clear what sanctions would be applied if these conditions were breached. The letter from the Cabinet Secretary for Finance and the Constitution and the initial response from the Council Leader are attached as Appendices 1 and 2.
- 2.4 Based on the figures announced and taking into account subsequent corrections made to the Government's figures, Inverclyde received an estimated £6.812million reduction in General Revenue Grant/NDR Income when compared to 2016/17. This is partially offset by a projected £1.14million increase in Council Tax due to the increase in Band E–H Council Tax levels. This means a like for like reduction in core cash funding of £5.672million as set out in Appendix 3.
- 2.5 The Council has been advised that it will receive £2.464million from the £120million National Attainment Fund. Exact details as to how this will be distributed and what it can be spent on are awaited however the Government has stated that this funding cannot be used to substitute for existing funding. This will therefore increase pressure on remaining areas of the Council budget to absorb the like for like cash funding cut.
- 2.6 Out with the Local Government Settlement, £107million has been allocated to IJBs as part of the Health Budget. The guidance from the Scottish Government is that up to £80million of this can be used to reduce Council contributions to the IJB. Proposals in this regard will be considered as part of the overall Budget on 16 February.
- 2.7 Officers are refining the 2017/18 budget figures and will present the latest 2017/19 Budget position to the Council on 16 February taking into account the approved Strategy of using Reserves to meet any Revenue Budget funding gap in 2017/18.

2.8 The Council received £922,000 more in General Capital Grant in 2017/18 than previously estimated in addition to £960,000 Flooding Grant for previously approved projects. This gives the Council £9.182million Capital Grant in 2017/18. It should be noted that the £1.443million temporarily removed from the Council's 2016/17 allocation by the Government is due to be returned over 2018/20. Proposals for a 2017/20 Capital Programme will be presented to the Council meeting on 16 February.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Council note the Draft Funding settlement received from the Scottish Government for 2017/18 and that the Council will decide at its meeting on 16 February whether to accept the offer from the Scottish Government.
- 3.2 It is recommended that the Committee note that detailed report on the latest position of the Revenue and Capital Budgets will be presented to the Council meeting on 16 February, 2017.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

- 4.1 The Scottish Government announced the Draft 2017/18 Budget on 15 December and within this was the Local Government Settlement including individual Council draft funding figures for 2017/18.
- 4.2 The Local Government Finance (Scotland) Order 2017 will be considered by the Scottish Parliament in late February and it is only after this point that final allocations will be confirmed.

5.0 SETTLEMENT DETAILS

- 5.1 The Government circular advises that the overall Revenue Grant Settlement for Local Government reduced by £265 million in cash terms between 2016/17 and 2017/18. Local Government received the largest reduction in funding of all areas of the Scottish Budget with a real terms grant reduction of between 4.5%-5.8% based on analysis carried out by SPICe (Scottish Parliament Information Centre).
- 5.2 The real terms cut is partially offset by Councils being able to retain the extra Council Tax income generated by the increase in Band E-H Council Tax multipliers and by a further £107million funding being allocated to IJBs as part of the Health settlement out of which Councils have been advised they can use £80million to reduce contributions to the IJB.
- 5.3 There are conditions attached to the settlement around the need to maintain teacher numbers, provide opportunities for teacher probationers and not increasing Council Tax beyond 3%. It is not clear what sanctions would be applied if these conditions were breached. The full letter from the Cabinet Secretary for Finance and the Constitution detailing the settlement and the initial response from the Council Leader are attached as Appendices 1 and 2.
- 5.4 Appendix 3 shows the position for Inverclyde Council from which it can be seen that the reduction in General Revenue Grant plus NDR Income between 2016/17 and 2017/18 is £6.812million (4.16%). This is before adding back an estimated £1.14million of increased Council Tax arising from the increase in Band E-H multipliers. Once this has been netted off, the cash funding reduction is £5.672million.
- 5.5 The Council has been advised that it will receive £2.464million from the £120million National Attainment Fund. Exact details as to how this will be distributed and what it can be spent on are awaited however the Government has stated that this funding cannot be used to substitute for existing funding. This will therefore increase pressure on remaining areas of the Council budget to absorb the like for like cut in cash funding.
- 5.6 The net funding reduction is approximately £2.87million greater than had been factored into the Budget Strategy and officers are refining figures and developing proposals to reduce the funding shortfall however, in line with the approved Budget Strategy, a significant level of Reserves will be needed to be used on a one off basis in 2017/18 to deliver a balanced budget.
- 5.7 The Committee is asked to note that this report only deals with the funding part of the Council budget. On the expenditure side there are increased costs associated with Pay Awards, Living Wage, Auto enrolment, Apprenticeship Levy, increases in demand for services and general inflation which require to be funded from a reduced funding settlement.
- 5.8 The Council received £922,000 more in General Capital Grant in 2017/18 than previously estimated in addition to £960,000 Flooding Grant for previously approved projects. This gives the Council £9.182million Capital Grant in 2017/18. It should be noted that the £1.443million temporarily removed from the Council's 2016/17 allocation by the Government is due to be returned over 2018/20. Proposals for a 2017/20 Capital Programme will be presented to the Council meeting on 16 February

6.0 IMPLICATIONS

6.1 Finance

The 2017/18 Revenue and 2017/20Capital Budgets will be considered by the Council on 16 February, 2017. As part of this meeting, the Council will approve the Band D Council Tax level for 2017/18.

Financial Implications:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (If Applicable)	Other Comments
N/A					

6.2 Legal

There are no legal issues arising from this report.

6.3 Human Resources

There are no direct HR issues arising from this report.

6.4 Equalities

Has an Equality Impact Assessment been carried out?

Yes See attached appendix

No This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required.

6.5 Repopulation

One factor impacting on Inverclyde's poorer than average settlement is its continued reduction in population. Whilst more recent figures have shown a slowdown in the rate of reduction this will continue to have a negative impact on the Council's overall grant settlement for the foreseeable future.

7.0 CONSULTATIONS

7.1 None

8.0 LIST OF BACKGROUND PAPERS

8.1 Local Government Finance Circular No 9/2016



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

Appendix 1

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

Councillor Stephen McCabe
Ward 1 – Inverclyde East
Municipal Buildings
Greenock
PA15 1LX

Inverclyde
council

Leader of the Council

Appendix 2

Mr Derek MacKay MSP
Cabinet Secretary for Finance and
the Constitution
St Andrew's House
Regent Road
EDINBURGH
EH1 3DG

Direct Line: 01475 712727
Fax: 01475 712976
Email: stephen.mccabe@inverclyde.gov.uk
Our Ref: SMcC/dr
Your Ref:
Date: 21 December 2016

Dear Derek

I am writing regarding your local government settlement 'offer'.

I have carefully listened to the 'spin' being applied to the narrative around your draft budget and it is quite frankly smoke and mirrors.

Your 'offer' involves local government receiving a like for like revenue cut of over £350 million despite your own budget increasing. That cut means a reduction in grant of approximately £6.8 million for Inverclyde Council. This comes on the back of a £350 million cut to local government in last year's budget and it is unsustainable for local government to receive year on year cuts on this scale without there being serious implications for public services and jobs.

Attempts to 'double count' health and social care monies by including them in both the health and local government settlements, including the council tax multiplier changes in the settlement figure when the additional income from this comes directly from council tax payers and not from the Scottish Government and making the assumption that councils will increase council tax by 3%, when you have refused to use your own tax powers, and also include that figure in the settlement, does not negate the fact that your draft budget includes a significant cut to councils.

After factoring in provision for a 1% Pay Award, General Inflation, Apprenticeship Levy, Auto-enrolment and unavoidable pressures, the Council needs to find savings of £8.7 million even after factoring in the Council Tax multiplier changes income. This represents the practical reality of your Local Government funding settlement. This will have a serious impact for communities throughout Inverclyde which cannot be masked by 'spin'.

You have sought confirmation that any individual authority not intending to accept your settlement 'offer' should write to you no later than Friday 13 January 2017. As you will appreciate, in the same way that Parliament still requires to approve the Government's draft budget, Inverclyde Council still require to consider the full financial implications of the settlement and approve its 2017/18 budget. I appreciate that I only need to respond to you if Inverclyde Council intends not to accept the offer. However, our current position is that until the facts, figures and impact are finalised, and until Council and Parliament have exercised their democratic mandates to set their budgets, I neither accept nor reject your 'offer'.

I trust that this makes our position clear.

Yours sincerely



Councillor Stephen McCabe
Leader of the Council



2017/18 Funding Settlement
Like for Like Comparison

	£m	Notes
General Revenue Grant	134.586	Per Circular
Non-Domestic Rates	20.804	Per Circular
	<u>155.390</u>	
Add=<u>Estimated Funding to be Distributed</u>		
Discretionary Housing Payments	0.668	2016/17 Sum - Note 1
Council Tax Reduction-Held back	0.683	Based on 1.9% Share
	<u>156.741</u>	
Equivalent Figure for 2016/17	163.553	
Reduction in Government Grant	(6.812)	Excludes Ring Fenced Grants
Add = Impact of Band E-H Changes	1.140	Net of CTR
	<u>(5.672)</u>	Notes 2/3

Notes

- 1 Excludes Council share of funding previously met by DWP. In 2016/17 this amounted to £232,000. There is also new funding of £22.5 million for Temporary Accommodation transferred from DWP not yet allocated.
- 2 Excludes additional funding of £80 million allocated to IJB which Councils can access. Council share to be confirmed but estimated to be £1.42 million.
- 3 In addition there is £2.464 million for Attainment allocated to schools. This cannot be used to substitute existing spend and therefore does not help offset other pressures.

AP/LA
10/01/2017