

To: POLICY AND RESOURCES (FINANCE & CUSTOMER SERVICES) SUB-COMMITTEE		Subject: SCOTLAND'S DRAFT BUDGET 2015-16
From: EXECUTIVE DIRECTOR OF FINANCE AND CUSTOMER SERVICES		
Date: 22 October 2014	Ref: AC/EK/DM	

1. Purpose of Report

1.1. This report updates Committee on the announcement by the Cabinet Secretary for Finance, Employment and Sustainable Growth of the Scottish Government's Draft Budget for 2015-16.

2. Background

2.1. The UK Government announced the outcomes of its Spending Review in June 2013, setting out budget totals for 2015-16. Following this, the Scottish Government identified its projected plans for 2015-16. A summary of the indicative spending was reported to Committee in November 2013.

2.2. The Scottish Government has now outlined its spending plans for 2015-16 with the broad aims to make Scotland a more prosperous country, tackle inequality, and protect and reform public services.

3. Scottish Draft Budget

3.1. Overall, the funding provided to the Scottish Government by the UK Treasury will decrease by 1.7% in real terms (i.e. Inflation adjusted) in 2015-16, with cuts of around 3% anticipated in 2016-17 and 2017-18.

3.2. The Scottish Government stated in October's Draft Budget announcement that the budget allocated from the UK Government for revenue has reduced by around 10% in real terms, and by around 26% in real terms for capital between 2010-11 and 2015-16.

3.3. Spending plans for local government in Scotland, outlined in Appendix 1, as a whole are included within the Draft Budget. Details of the allocation of grant funding for individual councils will be published in the Local Government Finance Settlement in early December.

4. Local Government Budget Element

4.1. In 2015-16, the Scottish Government will provide a total baseline package of resource and capital funding of £10.757bn to local government, revenue funding totalling £9.895bn.

4.2. The Budget has changed from the indicative funding announced in September 2013 for 2015-16. The changes to funding are as follows:

- an increase of £54m (NLC allocation £3.763m) to give all children in primary 1 to primary 3 the option of free school meals
- an additional £83m (NLC allocation £3.515m with remaining capital element of £39m to be confirmed) to fund the expansion of pre-school entitlement as a result of the Children and Young People Act

- £6.5m to support the administration of the Council Tax Reduction Scheme

- 4.3. As in previous years, the settlement is contingent on the delivery of specific commitments during 2015-16: a council tax freeze and securing places for all probationers who require one under the teacher induction scheme. The Council's share of the Council Tax Holdback (£70m) is £3.766m.
- 4.4. The commitment to maintain teacher numbers as part of the financial settlement is suspended for 2015-16. While the work to reach an in-principle agreement is on-going, if a new agreement is not reached for 2015-16 there will be a continued Scottish Government commitment to maintain teacher numbers in line with pupil numbers at a national level.
- 4.5. Subsequent to the release of the Council's Long Term Financial Plan, presented to Policy & Resources (Finance & Customer Services) Sub-Committee on 21st May 2014, the indicative 2015-16 Scotland-wide spending plans indicated a flat cash settlement would be in place. However, a further Finance Circular revised allocations to take account of up-rated needs based indicators for 2015-16, resulting in the Council's General Revenue Grant reducing by £3.872m. The Financial Outlook report will take account of this further reduction in revenue grant funding and will identify how the Council plans to mitigate the impact of this in 2015-16.

5. Capital Investment

- 5.1. The Local Government capital budget for 2015-16 totals £861.300m, representing an increase of £64.600m from 2014-15, as forecast in the Council's 5 year capital programme.
- 5.2. Capital funding has been subject to an increase in 2015-16 due to re-profiling of the capital settlement. A reduction in funding of £120m and £100m in 2012-13 and 2013-14 respectively, offset by a corresponding increase of £120m in 2014-15 and the remaining £94.2m¹ added back in 2015-16.
- 5.3. Specific capital funding is available in 2015-16 for Vacant and Derelict Land Fund (£10.7m) and Cycling Walking and Safer Routes (£8.0m). In 2015-16, the Council are anticipated to receive £2.236m and £0.507m respectively.
- 5.4. Scotland's new borrowing powers, which come into effect from April 2015, will enable the Government to borrow up to 10 per cent of the capital budget in any one year. The Government plans to borrow the full amount of £304m in 2015-16, assumed to be drawn down from the National Loans Fund with repayments over 25 years at a rate of five percent, in order to maximise investment in infrastructure.

6. Scotland Act 2012 – Devolved Taxation and Borrowing Powers

- 6.1. The Scottish Government has legislated for two new taxes, considered to be revenue neutral – the Land and Buildings Transaction Tax (LBTT) and the Scottish Landfill Tax (SLfT), using the further devolution powers outlined in the Scotland Act 2012.
- 6.2. The Land and Buildings Transaction Tax is set to replace Stamp Duty Land Tax from April 2015, and will implement a progressive tax structure. It is not anticipated the changes will result in additional costs to the Council, however this is dependent on future purchasing and lending decisions.
- 6.3. The Scottish Landfill Tax will also be effective from April 2015, with a standard rate of £82.60 per tonne and a lower rate, for materials listed in the Scottish Landfill Tax (Qualifying Material) Order 2014 will be £2.60 per tonne. This is broadly in line with UK Landfill rates, resulting in no envisaged additional costs to the Council.

¹ Reduced from £100m to £94.2m proportionally due to police and fire reforms.

7. Welfare Reform

- 7.1. The Scottish Government will, maintain £33m of funding for the Scottish Welfare Fund (SWF) for 2015-16 and funding of £5m for SWF administration.
- 7.2. Following the UK Government's abolition of Council tax benefit, the Scottish Government worked with local authorities to fund the 10% (£40m) gap in funding from the UK Government for successor arrangements. The Scottish Government contribution of £23m in 2014-15 will continue into 2015-16. As in 2014-15, Local authorities will be expected to fund £17m of this gap from their own resources.
- 7.3. As in 2014-15, the Scottish Government confirmed funding to help mitigate the effects of the spare room subsidy (£35m) via the top up of discretionary housing payments to mitigate the effects of the 'Bedroom Tax'

8. Other Announcements

- 8.1. The integration of health and social care continues to be a key part of the Scottish Government's commitment to public sector reform. To support the integrated funding arrangements for health and social care, resources of £100m will be available to be allocated via NHS Boards in 2015-16 to help drive the shift towards prevention.
- 8.2. The Finance Secretary confirmed the Scottish Government would continue to implement the two year public sector pay policy outlined in the Draft Budget 2014-15, with a 1% pay cap applicable for public sector workers directly controlled by the Scottish Government i.e. civil servants, NHS managers and Quango staff. This applies to staff earning over £21k.

9. Recommendations

9.1. Committee are asked to note:

- a) the publication of the Draft Scottish Budget for 2015-16;
- b) that details of grant funding for individual councils will be published in early December;
- c) further information on funding which affects Local Government shall be reported as and when it is announced.



EXECUTIVE DIRECTOR OF FINANCE & CUSTOMER SERVICES

Members seeking further information on the contents of this report are asked to contact Elaine Kemp, Corporate Finance Manager, on telephone number 01698 302408.