Scottish Government Draft 2015/16 Budget – Local Government and Regeneration Committee – 26 November 2014

The following comments reflect the Council's views on the various topic areas contained in the Letter from the Committee of the 24th October

Funding Formula and Method of Distribution

1. In terms of background, the current structure for distributing funding allocations between councils is based around a group representing the Scottish Government and Councils called the Settlement and Distribution Group (SDG). Its role is a strategic one around consideration of settlement and distribution issues and specifically around the updating of indicators and dealing with any outstanding issues from the previous 3 year settlement. It also has a role in considering any issues that could impact on the stability of the settlement and feed into the checking of the local government settlement prior to publication and can establish an ad hoc sub-group, when the need arises, to consider specific issues requiring more detailed consideration and report back to the SDG. Membership of the sub-group is normally agreed on a case by case basis.

2. Its other key role is to direct the work of the Data Issues Working Group – again a joint group of council and Scottish Government officials - and in particular to remit any detailed technical issues on the methodology to this group to enable it to provide advice on the practical implications of the indicators used to determine allocations and to receive and consider the recommendations this group makes to the SDG

3. The Data Issues Working Group (DIWG) is a technical advisory group which exists to assist the analytical work undertaken in support of the Grant Aided Expenditure (GAE) calculations which underpin the existing needs-based local government funding distribution methodology. The DIWG will provide technical scrutiny of any changes to current GAE methodologies and formulae being investigated. Any changes to the membership of this group need to be agreed between COSLA - liaising with Directors of Finance - and Scottish Government. The Manager of the Council's Central Research Unit has been on the DIWG since 2003.

Principles of the Distribution Method

4. In the main, the Council supports the work of the Settlement and Distribution Group (SDG) and under this, the Data Issues Working Group (DIWG). The work of the DIWG is appreciated in that it provides the SDG with advice and guidance on options to distribute funding with its work programme determined by the SDG.

5. In particular, the Council believes that it is important that the strength of the underlying principles of the current approach are recognised:

   (a) Council officials on the DIWG are not there representing their respective councils but are chosen for their knowledge and expertise around data that could be used to inform the distribution of resources between councils for particular expenditure lines. Their independent role in the process is supported.

(b) that any indicator data used to determine the allocation of funding cannot be influenced by council policy decisions or lead to perverse incentives for councils in service provision and planning in respect of that spending line.

(c) It is also important that it is recognised that the allocations that flow from the formula are not prescriptive of the level of spending that should take place and that councils remain able to look at the totality of their funding and use this to deliver services that reflect local needs and priorities. As a consequence of Council policy decisions, current budget allocations for certain areas are greater than the GAE indicative level of spend. Table 1 shows examples of the GAE indicator of funding compared to the Council's own budget allocation attributed to that service area, demonstrating the Councils ability to reflect local priorities and needs in spending decisions:

Table 1: GAE indicative spend and Council agreed spend 2014-2015

GAE Distribution Line	GAE Indicated Spend (2014/15 Green Book) for SLC	Council Budget (2014/15 BE)	Impact of Locally agreed spending decisions
Roads and Transport (Total)	£23.391m	£36.685m	£13.294m
Primary School Teaching Staff	£57.032m	£67.659m	£10.627m

6. In terms of the way the distribution process has evolved over the years, there has been, in general, the use of a client based approach to distribute funding. In the 2014-15 Green Book, it shows that 97.52% of GAE (£7,705m) is distributed through the use of Primary indicators and 2.48% (£196m) on the basis of the use of Primary and Secondary indicators as well as budget based estimates and actual spending. Table 2 indicated some of the largest GAE lines in terms of spend and the Primary indicator that the funding is distributed on.

Table 2: GAE funding distribution lines and primary indicator used

GAE Distribution Line	Primary Indicator	GAE National Budget Allocation 2015/16
Social Work – Services for People with a Disability	Population aged 16-64	£373m

Education – Special Education	Population aged 2-19	£244m
Education – Community Education	Total Population	£122m

7. The Council believes that the client based method remains robust and the approach adopted is still fit for purpose.

8. As well as using primary indicators, there are 15 distribution lines where the allocations are based on both primary and use of secondary indicators too, to reflect special conditions. An example of this would be the GAE allocation for School Transport which takes into account the population dispersion as well as the school population.

9. For these distribution lines, the approach adopted by the DIWG is that the lines are tested every year to ensure that the relationship between council spending and the indicators chosen remains statistically significant. If a relationship fails this test for 3 consecutive years, then work is undertaken to consider other indicators that might explain the spending pattern of councils on these budget lines. The results of this work are communicated to the SDG who have the final decision on whether to make changes.

10. For some new funding streams, in attempting to link them to desired policy outcomes, there has been some discussion on the use of information from the 2001 Census of Population to provide the indicator data to allocate funding against particular client groups on in the absence of more recent data. The approach taken by the DIWG has been to discount this data on the grounds of its age. The Council supports this decision as old data is not an indicator of current need

11. It should be acknowledged that there may be issues over the communication of the approaches used and the understanding of the principles that apply to any distribution formula

12. In summary the Council believes that the approach to distribution is acceptable in terms of the principles and method employed. However, how this is used in the actual distribution process, in some areas, can be questionable and does raise concern.

Concerns

13. One area of concern relates to the move away from a straight client based approach to one where floors and ceilings or top slicing are implemented to ensure that every council gets an allocation. This has been a relatively recent development and now that it has been introduced, its use seems to have grown. Any use of floors/ceilings/top slicing obviously reduces the level of funding available for distribution between councils on the needs based methodology and so dilutes the targeting of funding. Table 3 gives some examples of distribution lines where floors / ceilings / minimum allocations have been used.

Table 3: GAE lines where floors / ceilings / minimum allocations have been made

Recent examples of the use of floors/ceilings/minimum allocations are distributions for:

- Looked After Children provisions relating to Kinship Care and Continuing Care
- Smarter Choices for Smarter Places funding for 2015/16

14. Another issue is the desire to bring in a secondary indicator to support the primary needs base indicator. As noted above, this can be appropriate in some circumstances. However, recent examples of this approach seem to focus on the introduction of rurality into the formula (often by the use of road length statistics).

15. Apart from the move away from the favoured needs based approach, this brings the requirement for a decision on what weighting to attach to this, and also the need for communication of the reasons for this, to councils. This in itself dilutes the integrity of the process as it becomes subjective in terms of deciding on a percentage weighting.

16. Recent examples of the incorporation of rurality into allocations include <u>the distribution of ESF funding programmes</u> – where concerns have been raised as to why rurality should be given an equal weighting to needs in the distribution of funds and <u>the capital element for the extension of childcare to two year olds.</u>

17. Whilst the principle of the distribution of funds not being based on data which can be influenced by the individual authorities is normally enforced through the work of the DIWG and SDG, there are occasions when this is not adhered to. <u>A recent example is the capital funding in relation to the Extension of eligible for Free School Meals where a significant level of funding has been distributed based on estimates prepared by local authorities</u>

18. There have recently also been examples of new policy decisions being introduced for which there is limited client data at a council level to inform the distribution of the funds. Where this takes place in the context of a perceived lack of an appropriate level of funding to deliver the policy, this can heighten concerns due to a lack of consensus on appropriate data to use and any weighting if more than one indicator is used.

19. In terms of the principle of distribution on the basis of indicators, it can at times be over-ridden by decisions taken the Scottish Government. <u>An example is Free School Meals – the cost of this policy decision cannot be readily ascertained and therefore could impose a burden locally which cannot yet be quantified</u>.

20. South Lanarkshire Council will always work to maximise the impact of the policy for its citizens, however, the funding provided has relied on estimates and cannot be verified until implementation is complete. While the Scottish Government have advised that they will review any shortfall, this gives the Council no certainty in its budgeting. This is a practical challenge to councils, and with only estimated funding, causes difficulty in planning service delivery.

21. On a similar vein, another area of perceived issue can be the age of the source data used. A recent example of distribution was using data from 2001 to allocate funds – more recent data would be a better representation of need. In terms of GAE lines which are still based – at least in part on 2001 Census of Population data – some examples are included in Table 4. In the case of these GAE lines the delay by National Records of Scotland in producing new definitions of urban and rural settlements from the 2011 Census of Population has resulted in the continuing use of the 2001 Census data.

Table 4: GAE allocations where 2001 Census of Population data is still in use

There are still some GAE lines where allocation is based, in part, on 2001 data. Some examples include:

- School non-teaching staff, (aged data relating to urban settlement), funding of £859m in 2015/16
- Childcare Strategy, (aged data relating to children in lone parent families), funding of £45m in 2015/16
- Sure Start Scotland, (aged data relating to urban settlement and children in lone parent families), funding of £60m in 2015/16
- Supporting Young People Leaving Care (aged data relating to children in lone parent families), £5m in 2015/16

Balance between Central Government Funding and Locally-Generated Funding

The current and historic balance between central government funding and locally generated funding and the implications of this for local authorities.

22. A key issue the Council would like to raise is its concerns over the quantum of money being distributed as oppose to the distribution method itself. An example of this is that whilst the Council's population levels are growing, they are not growing as fast as some others. The result of this is that, while you would expect to be allocated more money due to increased demand/service requirements, the reality is that due to the their increase being greater, other councils received a higher percentage allocation, and we actually received a lower allocation of the monies available. This is due to the relativity involved in the distribution method and the fact that it is restricted by the quantum of money available. In addition, no account is taken of inflationary pressures faced by councils and this then falls as a burden on the local budget allocation – which can increase pressure on budgets where councils experience a flat cash or less settlement which involves a real terms cut in the allocation.

23. In terms of the allocation of local government funding from the Scottish Government, this has remained relatively constant in percentage terms – though with the removal of police and fire spending from local government it is difficult to be precise about a trend on actuals over time. Against this, there has been additional burden of non or partially funded policies (expansion of childcare) and increased demand through changing demographics, augmented by a reduced share of the same pot of money purely because the pressure on other Councils. Overall, it must be stressed that if there are new obligations, then the funding must follow in order to minimise the impact on Council's budgets.

24. Whilst in general, it is believed that the proportion of Scottish Government funding to councils has remained relatively constant, the recent draft Budget 2015-16 figures indicate a declining share of Scottish Total Managed Expenditure being allocated to Local Government – as shown in Table 5.

Table 5: Scottish Government Budget Draft 2015/16

	Local Government **Total Managed Expenditure**	**Scottish Government** **Total Managed Expenditure**	**Local Government Share of Scottish Government Funding**
2013-14	10,310.5	34,393.9	30.0%
2014-15	10,586.7	35,416.9	29.9%
2015-16	10,756.7	37,443.3	28.7%

25. The current balance of funding between Scottish Government funding and locally generated funding sits at approximately 80% (Scottish Government) to 20% (local).

26. This means that the Council therefore only has flexibility to increase a relatively small proportion of its overall funding. However, the Council Tax Freeze which has been in place for the past 7 years means that this local flexibility is removed almost entirely.

27. By removing the flexibility to change Council Tax, the Council's level of funding is effectively non controllable. Whilst it is accepted that in the early years of the introduction of the Council Tax Freeze, additional funds were included in the overall Local Government grant allocation, however since 2012, there have been no additional funds in the Settlement to recompense councils for not increasing council tax.

28. Whilst the Council Tax is frozen, in theory the increase in the number of properties should increase the amount of Council Tax that can be generated, which would therefore increase income.

29. While it would be fair to anticipate that this would generate additional income for councils, the current funding methodology used by the Government takes account of additional local income generated and reduces the level of government funding – this is counterproductive and does not incentivise councils to support housing developments.

30. It is also important to recognise that when the Council experiences an increase in the number of properties, it inevitably experiences an increase in costs across a number of service areas which may be only partially offset by the changes in client groups that then impact on the distribution of GAE.

31. There is also a concern that by taking proactive measures in terms of investment in key council assets, councils can be disadvantaged at a later stage in policy development. In terms of the allocation of new Government monies, there has been at least one example where councils have made local decisions, and funded local priorities, only to then be disadvantaged when the Government allocate monies for the very same thing.

32. A specific South Lanarkshire example relates to the Council's investment in its School Estate. The Council has already invested heavily in new primary schools (through prudential borrowing) and Secondary schools though a PPP – (the route being promoted at the time the decisions were made). This has seen all Secondary schools in South Lanarkshire either modernised or replaced and the Council is close to completing the modernisation or replacement of all its Primary schools.

33. As such, the Council's revenue budget is bearing the ongoing financial implications of this – however, there is a danger that that no new monies are allocated to the Council due to the good condition of the schools, unlike other councils who have not made the same level of investment and get a share of the funds available.

34. Table 6 summarises major investments by the Council which have created pressures on its Revenue budget for which the Scottish Government makes no allowance.

Table 6: Major Council Investment

The Council's commitment to its schools and roads has formed a significant portion of the capital programme across the past 10 years.

The Roads and Rural Investment programme has spent approximately £66m over the past 6 years (2008/09 – 2013/14) and this has been funded by borrowing. The Borrowing costs have been met from the Council's revenue budget.

Similarly, since 2004, the Council has embarked on a Schools Modernisation Programme for its Primary Schools. Total spend anticipated by the end of 2017/18, which is expected to be in excess of £830m has, in the main, been funded from borrowing so again, the Revenue budget supports this.

This local decision making has meant a consequence on the Revenue Budget of the Council and it would be unfortunate that the Council would miss out on any new monies made available due to taking the initiative, and bearing the costs, itself.

Non Domestic Rates

The level of Non-Domestic Rates collected by your authority, and how this impacts on your funding.

35. The level of Non-Domestic Rates collected by the Council has no bearing on the overall level of funding from the Scottish Government – the split between General Revenue Grant and Non Domestic Rates (NDR) Income received from the Scottish Government is set at the start of the year. While the overall level of Government funding generally remains the same during the year, there have been instances where the split between General Revenue Grant and NDR has changed – to reflect the increased collection levels for NDR.

36. South Lanarkshire Council is a high rates collector (with a 97.8% collection rate in 2013/14). Compared to the level of funding received from NDR, the monies collected by the Council mean that we are a Net Contributor to the National Non Domestic Rates Pool due, in the main, to the collection of rates from public undertakings that are based here for rateable purposes but whose assets are in a number of areas. The Council is supportive of greater fiscal empowerment at a local council level and feel that this would bring financial benefits and improve local decision making. The local control, collection and retention of NDR would be an incentive to councils to support economic growth.

37. The Business Rates Incentivisation Scheme (BRIS) was introduced from 2012/13 following joint discussions between the Scottish Government and COSLA. The scheme

was based on national targets and provided each Council with the potential to retain 50 per cent of any increase in business rates income over and above the agreed target for 2012-13, and future years, by maximising their existing business rates income and growing their tax base.

38. The reward for councils meant that the Scottish Government still carried the full risk of any drop in business rates as the annual local government funding package, including business rates income, is guaranteed and because any rewards to councils are based on individual targets being exceeded without the all-Scotland target being met first.

39. The agreed BRIS guidance set out that either central or local government could request a change in the annual BRIS targets in the event of a material change in the predicted non domestic rates income (described in the guidance as "a significant event".) In early 2013, Scottish Government called for a significant event to be recognised and for the national target to be revised upward to recognise the large number of revaluation appeals that had been delayed and would be pushed into future years. This decision was not negotiated with Councils, and the change effectively wiped out any financial benefit for South Lanarkshire Council. Based on original targets SLC would have received £8.3m, based on revised targets SLC received nothing.

40. Pre revision of the 2012/13 targets, 26 councils would have received money under BRIS, totalling £63.2m. Post revision, 18 councils will receive money back totalling £9.7m.

41. A joint COSLA and Scottish Government Review group have been working on the development of a new BRIS, which should conclude this year. The main aims of the review are detailed in the table below. What is imperative is that the new scheme needs to reflect the incentive for economic growth in council areas, and not allow technicalities or undefined significant events to result in the scheme breaking down.

Table 7 – New BRIS Scheme

It has been agreed that the revised BRIS should:

- be tightly focussed on incentivising growth in the business tax base by creating targets based on buoyancy alone;
- be based on 32 individual local rather than national targets to enable a closer correlation between local circumstances, actions and results;
- provide targets for more than one year at a time to match the local government finance settlements provided after each Spending Review;
- include a clear process of how targets are recalculated at the end of an agreed review period and the period of retention of any accrued benefits;
- have a clear, agreed, definition of a significant event expressed as a percentage change and incorporating the relevant cause e.g. business closures;
- not focus on collection figures given existing very high collection rates; and
- not change the current risk sharing arrangements e.g. no need to reach an overall national target

Any ways in which the current system for collection and distribution of Non-Domestic Rates might be improved

42. In terms of Non Domestic Rates collection procedures, changes to the appeals timescales and tax avoidance would be welcomed (it is generally accepted that with any tax system there will be those who seek to avoid payment – either fraudulently or through the use of loopholes). A major improvement for collection would be ability to commence the recovery process earlier than current statutory timescales. The current appeals scheme is too restrictive and does not cope well with market changes during the life of the revaluation period. Improved timescales for appeal consideration are suggested. It is acknowledged that there would be an administrative burden which needs to be considered.

43. The Council is supportive of any proposal to introduce local flexibility, with consideration to the cost and benefit to the council tax payer.

44. The Council would also support the use of the rating system to support local development. It believes that consideration could be given to a deferral scheme for new businesses (and potentially extended to existing businesses that needed capital for a specific project or improvement). Under such a scheme a significant proportion of the first year bill for the organisation would be deferred to the next, or future years (obviously restrictions would need to be placed on such a scheme to prevent abuse). As these are deferral schemes, these should be relatively cost neutral, but should be designed to have no detrimental impact for councils.

45. The Council would also be concerned around any new proposals that change discretionary reliefs that have been proposed in the past as these can affect councils who have arms length organisations with properties.

<u>2015/16 Budget – Impact on Services</u>

The anticipated impact of the 2015/16 settlement on your services.

46. As has been mentioned earlier in the response, whilst there may be headline announcement of Flat Cash, in reality, the impact of inflation and the recalculation of the indicators means that the Council is actually receiving less cash and suffering a reduction in spending power. Alongside that, the distribution method incorporating relativity with a fixed quantum of money means reduction in grant is experienced while real demands on Council services are on the increase.

47. In 2015/16, there will be a reduction in the Scottish Government Revenue Grant that the Council receives. This follows agreement in 2013 between Cosla and the Scottish Government that a “Flat Cash” settlement would actually mean that each councils’

revenue grant for 2015/16 would not change from the level paid in 2014/15. Subsequently this decision was overturned, and a return to a formula based recalculation resulted in the Council's grant reducing by £3.5m compared to what we would have received under flat cash

48. This reduction in grant has led to an increasing requirement to make savings. Due to the increasing pressures facing the Council, both in terms of inflation, pay awards, committed increasing expenditure and increasing demand for services, there is a continued need to make savings.

49. Even if the level of grant received was to remain static, the Council still has to make significant level of savings just to stand still. In 2015/16, taking into account a reducing revenue grant, the level of savings that are required total £20m.

50. It has always been the Councils aim to try to minimise the impact on front line services when making savings. The Council can evidence that it has been successful at achieving challenging savings targets whist minimising the effect on service users, however it is becoming harder to find further savings without impact. Our focus is to look to try to protect the most vulnerable residents, especially the young and the old.

51. The Council has a well established process for considering, and identifying savings, where we will always look to areas of true efficiency, rather than cuts, first. Inflationary increases to charges are considered, before we look at savings which will have an impact on service users. At the time of writing, a package of savings for 2015/16 totalling £19.9m is being considered by our elected members.

52. In arriving at a package of savings, areas targeted do include efficiencies but the overall package of savings will have an impact on service users.

53. Whilst the Council has worked hard to minimise the impact for service users, the package of savings still affects nearly 290 posts. It is a fact that continued levels of grant cuts, or even flat cash settlements will result in more tough choices in the years to come.

54. Current estimations for 2016/17 show that approximately £23m of savings will be required, and that is assuming the level of grant we receive does not reduce further. This continued level of savings can only impact negatively on services, especially when taken in context of the savings made over recent years. Table 8 shows the level of savings achieved by the authority in recent years.

Table 8: Savings required by the Council in order to meet statutory duty to balance budgets

Year	**Value of Savings**
2014/15	£13.309m

2013/14	£12.200m
2012/13	£12.249m
2011/12	£26.137m
2010/11	£17.550m