

Local Government and Communities Committee

Draft Budget 2018-19

Supplementary Written Submission from COSLA

Additional information to Local Government and Communities Committee

This additional information to the Committee covers three areas.

1. COSLA's summary of the local government settlement.
2. Calculation of £545m as requested by the Committee and as referred to in COSLA's Essential Services document.
3. Level of subsidy that Councils receive for new build social housing compared with RSLs.

Part 1: COSLA summary of settlement

COSLA has stated that local government has not received a 'flat cash' settlement and the section below sets out the rationale for this and the calculations behind the position COSLA has put forward.

Revenue

COSLA's view is that there is a £153m revenue reduction to the core 2018/19 settlement. To calculate this we have simply taken the SG's flat cash position and highlighted the new burdens that have been confirmed would be fully funded for local government. Our view is that if these items are funded then there is a reduction to the core settlement. If converted to real terms it would clearly be greater.

The £153 is made up of the following:

£153m

- £52.2m for early learning and childcare expansion to 1140 hours.
- £11m for early learning and childcare expansions to 600 hours (this was originally in the financial memorandum to the Bill for further flexibility and SG are referencing this as total resource for ELC.).
- £66m for health and social care (not ring-fenced) – see below explanation.
- £24m for additional 1% for teachers pay (not this does not include funding for the supply changes as this was not an area which SG said they would directly fund).

£66m for Health and Social Care

- £30m for additional living wage for adult social care
- £10m for sleepover pressure.
- £19m for Carers Act (as per the amount in the financial memorandum).
- £2m Free personal care uplift.

This equals £61m that we highlighted in our essential services document. However, £66m is the figure which came through from the UK budget as Health and Social Care consequentials.

Pay

The above does not include funding for any local government pay award. Whilst Thursday's announcement does not directly impact on local government pay it will undoubtedly set expectations. Local government has a significant proportion of workforce earning under £30k so a 3 % increase will be significant pressure. We are currently calculating the impact of this but as stated above this has not been funded.

Capital

Similar to revenue, local government was expecting the £150m for the delivery of Early learning and childcare expansion to 1140 hours to be fully funded. If you take this off the capital total in the circular then this gives you a **£60m reduction** to core capital funding.

Part 2: What local government needs in 2018/19 - Calculation of £545m from Essential Services Document

This model was included to show the impact of demand and inflation on local government. The key point was that as a result of these two factors local government will be facing budget gaps if services are delivered in the 2018/19 in the same way as 2017/18.

To demonstrate this, we took the 2017/18 revenue grant received from Scottish Government and applied demand growth and inflation. This was to show how much extra grant would be required to cover these pressures.

The 3% inflation figure used was the CPI 12-month rate, which was for September and October (not including housing costs). We felt that this was an appropriate measure of inflation that local authorities will endure however recognising that Scottish Government use the GDP deflator at 1.56% for 2018/19 the calculation below reflects this.

The demand figure is based on a model we developed with the Improvement Service to forecast expenditure. It's essentially made looking at what population groups use each service area and the used the population projections to see how demand will increase.

	Inflation at 3% (£'m)	Inflation at 1.56% (£'m)
2017/18 grant	£9,640	£9,640
Inflation	£297m	£150
Demand	£248m	£248m
Required in 2018/19	£10,185	£10,185
Total increase	£545m	£398m

The above therefore does not include council tax or income from services. However, these were not on either side of the equation. To reflect these areas, we would take total expenditure from the POBE¹ returns and this is demonstrated below.

	Inflation at 3% (£'m)	Inflation at 1.56% (£'m)
2017/18 grant	£11,900	£11,900
Inflation	£357m	£186m
Demand	£309m	£309m
Required in 2018/19	£12,566	£12,395
Total increase	£666m	£495m

Part 3: Level of subsidy that Councils receive for new build social housing compared with RSLs

COSLA welcomed the move to devolve housing investment responsibilities to councils, through the Resource Planning allocations approach, that said we continue to have concerns around the difference in grant subsidy level available per unit to councils and RSLs. Overall, these levels currently stand at £57k per unit for councils and £70k per unit for RSLs.

The complex argument used to justify the £13k differential includes the different borrowing mechanisms available to RSLs, council land-ownership and councils' increased ability to provide associated utilities and infrastructure. COSLA disputes this and has continued to raise concerns around the difference and particularly that Local Government's ability to meet affordable housing supply targets would be enhanced if the subsidy levels were equitable.

To date the Scottish Government has resisted change on this issue on the basis that the question was last examined by a working group, in late 2015, and that the rates have been set in the medium term. COSLA Leaders, earlier this year, agreed that this specific issue should be revisited at a future date. COSLA will continue to assert the social justice implications of differing subsidy levels which – if inadequate – will place further pressure on local authorities to increase rents in order to raise revenue. Given the significant pressures many living in social housing already face, in particular from continued welfare reforms, any additional financial strain on these groups should be avoided.

¹ <http://www.gov.scot/Publications/2017/06/9589/downloads#res521777>