



28 March 2019

Local Government and Communities Committee

T3.60

The Scottish Parliament
Edinburgh
EH99 1SP

By mail: LocalGovernmentandCommunities@parliament.scot

— Dear Mr Dornan,

Budget Scrutiny 2019-20

Thank you for your letter of 5th February. I welcomed the opportunity to present evidence to the Committee on the Draft Budget and I am pleased to provide more detail about COSLA's presentation of protections within the Local Government Budget.

At the Committee Meeting which I attended on the 9th January, I set out that Scottish Government policies protect 58% of Local Government revenue budgets received from the Scottish Government meaning that savings must be found from the remaining 42%. This was the position in relation to the 2018-19 Settlement and I can now confirm that the impact of the 2019-20 Settlement is that there is now protection of 60% of the Local Government Budget with savings to be found from the remaining 40%.

I set out the impact of this in both written and oral evidence and it is extremely disappointing that the situation has become more acute since then.

Below, I have set out at a high level the areas of protection that exist within local authority budgets and I will look forward to discussing this in more detail with the Committee over the course of this year.

Protection

As you know, Local Government receive the most significant portion of their income from the Scottish Government. Protection within that funding comes in a number of ways:

- **Explicit ring-fencing** – where the funds come ring-fenced for sole use to deliver their specified policy outcomes.
- **Hidden ring-fencing through statutory obligations and policy** – where the funds are within core Local Government budgets but the expectation that a policy outcome

or statutory obligation will be delivered means that there is no choice but to use funds to achieve those policy outcomes.

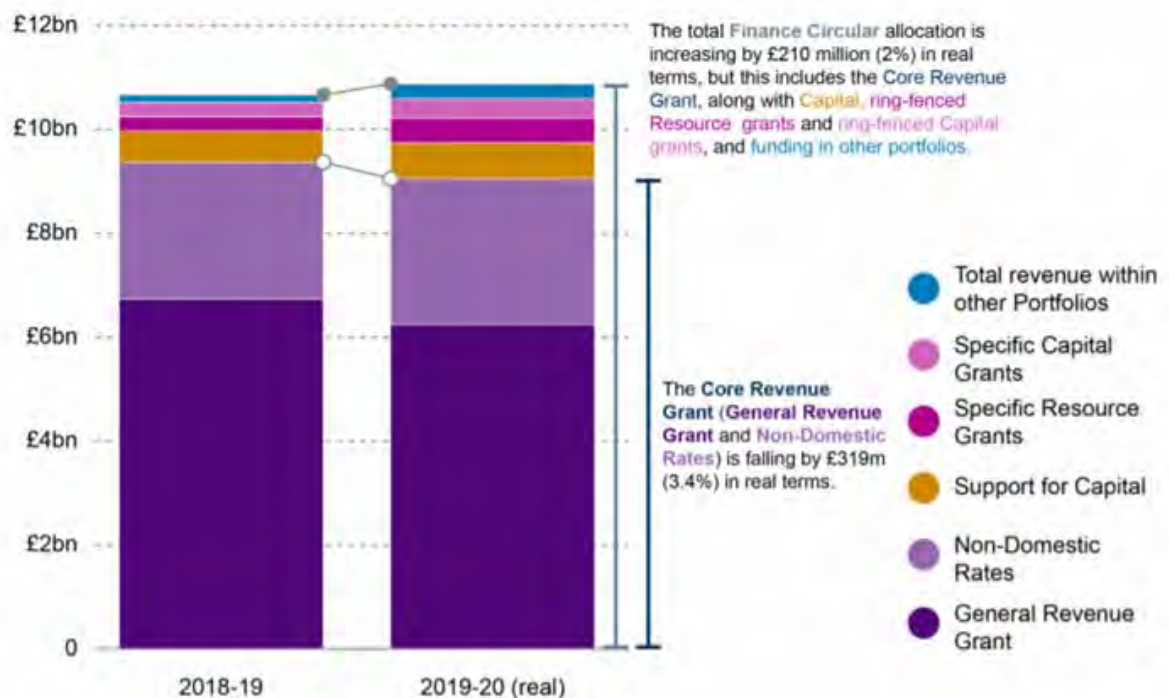
- **Hidden ring-fencing as a result of demand** – where funds are within core Local Government budgets but demand for services means that savings cannot be made
- **Loans Charges**

A detailed explanation of these factors is set out below.

Explicit ring-fencing

The proportion of ring-fencing has steadily increased over recent years. SPICe very helpfully set out movement in explicitly ring-fenced funds between 2018-19 and 2019-20 in the briefings prepared in the course of the Scottish Budget¹:

Figure 1 - Local Government funding 2018-19 and 2019-20, real (2018-19 prices)



Explicit ring-fencing can be seen in two distinct areas – ‘Specific Resource Grants’ and ‘Revenue within other portfolios’. These funds were broken down in the Scottish Budget 2019-20 document², and while the technical mechanism behind the funds is different, both descriptions represent areas where funds are ring-fenced for achieving a prescribed policy intention.

Specific Resource Grants come to Local Government directly and account for around 5% of total revenue funding. A high profile example of this currently is funding for the expansion of Early Learning and Childcare.

¹ Note: SPICe figures are presented in real terms. These figures represent the situation **before** the Stage 1 announcements: <https://sp-bpr-en-prod-cdneq.azureedge.net/published/2018/12/19/Local-Government-Finance--Budget-2019-20-and-provisional-allocations-to-local-authorities/SB%2018-90.pdf>.

² <https://www.gov.scot/publications/scottish-budget-2019-20/>

'Revenue from other portfolios' describes a situation where a Scottish Government Directorate (the portfolio) holds the budget responsibility for funding of a particular policy. Where it is agreed that Local Government will implement or deliver that policy, the funding is transferred from the relevant Scottish Government Directorate to Local Government. Examples of 'revenue within other portfolios' include Scottish Welfare Fund, Blue Badge Scheme, 1+2 Languages, Child Burial and Crematoria Charges. Of the 21 funding streams listed in the 2019-20 Draft Budget, 14 were for pots of £3.5m and less, while 7 were for pots of £1m and less. The lowest allocation was for £0.2m across all 32 local authorities.

All ring-fenced funds come to Local Government with conditions and reporting requirements which are often time consuming and bureaucratic - particularly in relation to funding from other portfolios. A funding stream of £1m represents roughly 0.01% of the General Revenue Grant and so annual reporting on such small sums is disproportionately demanding.

Hidden ring-fencing – statutory obligations and policy

'Hidden ring-fencing' is a description for the purposes of this letter to illustrate funding which is core Local Government funding from the General Revenue Grant but where the expectation of a policy being achieved means that there is no choice but to use funding to meet a policy outcome. A good example of this is funding relating to teachers.

Local authorities must work within pupil:teacher ratios set nationally, as well as a national commitment to maintain teacher numbers. A commitment to maintain a certain number of teachers means that Councils must budget for the salary, pensions and other costs associated with those teachers. Although this funding is not explicitly ring-fenced, there is no choice but to make budget provision and so there is hidden ring-fencing. Costs associated with teachers alone makes up around 21% of the funding which Councils receive from the Scottish Government. This percentage will increase with increasing costs relating to teachers' pay and pensions.

This kind of ring-fencing happens wherever money in the core Local Government budget is required to fulfil a statutory duty, or to deliver a specified policy. In this Settlement, named policies included funding for the Carers Act and extension of free personal care to under 65's totalling £40m. Implementation of these policies is costed and this funding will be used to implement policies in Councils. Although Councils have flexibility in *how* statutory services or new policies will be delivered, there is no question that they must be delivered and resource is required to allow that delivery.

As has been experienced this year however, core funding has not increased along with the increase in what Councils are expected to deliver with the result that new policy initiatives are not being fully funded. Between explicit and hidden ring-fencing, there were an additional £400m of new commitments which Local Government has no choice but to deliver from 2019-20. Although it has risen by £253m, this is £147m short of the additional funding which Local Government would need to stand still on what was delivered last year *and* deliver the new Scottish Government commitments. As the new commitments have to be delivered, the Local Government core is negatively impacted.

Hidden ring-fencing – demand

There is also hidden ring-fencing within the Local Government funding which is driven by demand for services. This is linked to policy intentions but I wanted to draw out as a specific issue as demand is an area where Councils have no control and where the scale of spend can escalate quickly.

A key area which falls within this category is funding for Health and Social Care. Demand for statutory services continues to grow at pace and so the option for local authorities to realise savings is extremely limited. Around 22% of local authority budgets are spent on Health and Social care with no opportunity for this to reduce without impacting on service delivery.

Loans Charges

Capital investment by local authorities is largely funded through borrowing within criteria setting out that capital spending plans are prudent, affordable and sustainable. As with any borrowing, there are loans charges which must be serviced and these account for around 5% of local authority budgets.

My officers will be pleased to answer any questions you might have on the detail of what I have set out above.

Kind regards,

Councillor Gail Macgregor
COSLA Resources Spokesperson