

There has been much debate since yesterday's Scottish Budget for 2017-18 about the settlement for local government and local services.

The Scottish Government have argued that there is more money for local services, whilst others - primarily the opposition and local government - argue that local government budgets are being cut.

So who is right? The answer is both and depends crucially on how you view the numbers.

Investment in local services vs. local government budgets

As we set out [here](#), the headline announcement from the Scottish Government - on page 11 of the [Draft Budget](#) - was for an increase in the total spending power to support *local authority services* of £267 million.

The crucial emphasis here is *local authority services* - and ultimately how this is defined.

So how this number derived?

For ease, we'll use the numbers in the Scottish Government Draft Budget Table 9.12 published below. The actual numbers that local government will receive are contained in the [local government finance circular](#) which was also published yesterday and they are slightly different - but the key trends are the same.

The amount that is 'spent on local services' is effectively made up of a combination of central government grants to local government and income from business rates.

But the actual resources at a local government's disposal is also shaped by the council tax income they collect. [NB: we ignore fees and user charges]. Council tax is a local tax and fundamental to local accountability. In theory, councils have the freedom to decide by how much (or how little) bills should increase year to year. However, in recent years the Scottish Government has implemented a freeze - in part, funded by an amount equivalent to compensate for a 3% increase but also by linking any failure to agree to the freeze to wider financial penalties.

Moreover, the authority to change the structure of local taxation - e.g. the multipliers between bands - rests with the Scottish Parliament. So if more money is to be raised from a change in the underlying structure of council tax (as is happening next year) this relies on the Scottish Government putting forward proposals to Parliament.

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In short, council tax is a complex mix of a local tax but with significant central government control. In recent years, the level of central government influence has led to questions around local accountability and discretion.

There's another grey area.

The Scottish Government can also direct funding straight to local services through specific grants or tying certain agreements into the core funds distributed to local authorities. In 2007, there was a movement away from central government dictating where and by how much money should be spent by ring fenced grants, but this has been unwound in recent years.

One key area this year is the new - £120 million - fund for educational attainment. The Scottish Government could have simply included this money in the overall grant allocation and empowered local authorities to spend the money as they saw fit (on education or other services) but chose not to.

Instead it is ring-fenced and councils will have to pass the money directly to schools. So on the one hand, the government is right to say that this is money for local services, but equally it is justifiable to point out that this isn't additional money to support local government budgets to deliver existing services.

And this is not the only tied expenditure. Others include funding for teacher numbers and teacher induction schemes.

Finally, there is the issue of health and social care integration. This is the boundary between the health service (provided by the NHS) and social care (provided primarily by local authorities).

The inclusion of health and social care monies in 'local services' is highly controversial. The funding for this actually already appears in the health budget lines - indeed, it is fundamental to the government's commitment to increase the health budget in real terms.

But the government often double counts this as spending on local services. Clearly this isn't right, it either has to be one or the other.

On this occasion however, there can be some justification for the additional £107 million being viewed - in part - as resource for local services as a large chunk will be used to support the living wage for social care workers (in local authorities). But if this is the case, then the money should be deducted from the health budget line and thereby reduce the

level of investment in that major manifesto commitment. You cannot have it both ways.

The Draft Budget figures

The table below sets out the various components by comparing Draft Budget 2016-17 with Draft Budget 2017-18.

Local Government	Draft Budget 2016-17	Draft Budget 2017-18	Cash change
General Revenue Grant	6,685.9	6,557.8	-128.1
Non-Domestic Rates	2,768.5	2,605.8	-162.7
Support for Capital	480.6	623.1	+142.5
Specific Resource Grants	91.0	211.0	+120.0
Specific Capital Grants	126.3	133.4	+7.1
Total Level 2	10,152.3	10,131.1	-21.2
of which:			
DEL Resource	6,776.9	6,768.8	-8.1
DEL Capital	606.9	756.5	149.6
AME	2,768.5	2,605.8	-162.7
GRG+NDRI	9,454.4	9,163.6	-290.8
Other sources of support			
Health and Social Care Integration	250.0	357.0	107.0
Council Tax Reform Income	0	111.0	111.0
Total LG including other sources of support	10,402.30	10,599.1	196.8

What the government points to therefore, is the final line which includes all the various elements of support for local services. On a draft budget to draft budget basis this is an increase of around £200 million. Once you factor in the ability to raise council tax of £70 million **gives the £270 million figure used by the Scottish Government.**

What about the view of local government? The focus of local government is understandably on the resources that they have at their discretion in their budgets.

On this basis, the best indicator is therefore simply the General Revenue Grant and NDRI that they receive from government.

This is down by around £300 million.

The additional council tax income will help plug some of that gap but by only around 1/3. The additional capital allocation of £150 million brings funding up again, but overall it is still a cut in the resource budget that local government has at its direct disposal.

In other words, local governments will have to make cuts in existing spending.

The new elements added to local government funding increases spending in other areas, but does not help them on current areas of spending.

[Aside: comparisons of Draft Budget vs Final Budget]

In looking at how local government funding has changed, there's a further complication which is the difference between the Draft Budget and the final budget figures i.e. what is actually spent in a given year.

Up until last year, only draft budget figures were prepared for comparison. Final budget figures for 2016/17 are now presented alongside the Draft Budget figures for 2017-18.

Final year budgets are useful for illustrative purposes in that they show how much was actually spent in the current year relative to plans at the current moment in time and it is now possible to compare the local authority final budget allocation with actual spending in 2017-18. Comparisons with Draft Budgets need to be used with caution however as one will not be comparing like-with-like. Final budget figures include in-year adjustments which stem from possible Barnett consequentials, transfers between portfolios and monies that may be unallocated at draft budget time but which will turn be re-distributed in year. For example, this year the Draft Budget figure for Finance and Constitution includes around £100 million of spending to support the delivery of Scotland's new fiscal powers. How that will be allocated is unknown - local government may get some if elements of welfare are to be delivered locally.

Local Government	2016-17	Draft Budget 2017-18	Cash change
General Revenue Grant	6,819.4	6,557.8	-261.6
Non-Domestic Rates	2,768.5	2,605.8	-162.7

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Support for Capital	506.5	623.1	116.6
Specific Resource Grants	92.5	211.0	118.5
Specific Capital Grants	126.2	133.4	7.2
Total Level 2	10,313.1	10,131.1	-182.0
of which:			
DEL Resource	6,911.9	6,768.8	-143.1
DEL Capital	632.7	756.5	123.8
AME	2,768.5	2,605.8	-162.7
GRG+NDRI	9,587.9	9,163.6	-424.3
Other sources of support			
Health and Social Care Integration	250.0	357.0	107.0
Council Tax Reform Income	0	111.0	111.0
Total LG including other sources of support	10,563.1	10,599.1	36.0

The key difference here is a rise in the General Revenue Grant between Draft Budget 2016-17 and the latest figure for 2016-17 of over £130 million (there is also around £25 million difference in the general capital grant). The reason for this difference is the in-year transfer of a number of areas of spending, particularly associated with the Scottish Government's welfare policies - see [here](#). If this was to occur again, then the Draft Budget 2017-18 number may be increased.

This above discussion on Draft vs. Final Budget comparisons is really just to highlight the point that alternative numbers can be compared, thus adding to the deluge of information that is available. Overall, it doesn't really change the core differences of interpretation between the Scottish Government and local government with regard to local services vis-a-vis local government budgets.

Conclusions

So what does all this tell us?

Firstly, it is the case that both sides in the argument are right in the sense that they are referring to different things.

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Secondly, the argument gets to the heart of the debate about the future of local government and the balance between local accountability and central government control. Local government budgets are being cut and increasingly constrained with central government being much more directive about local service priorities. This means that existing local services are feeling the squeeze that much more.

Thirdly, what has been completely ignored thus far is the time profile of the outlook for local government. As we set out [here](#), this year was always going to be an easier settlement for the Scottish Government to deal with as their overall budget was rising slightly in real terms. But we know that further real terms cuts are coming toward the end of the Parliament - of around 3% by 2020-21. With major commitments in health and other areas to deliver, the outlook for local government remains extremely challenging.