

Local Government Budget

February 2017

In our last Budget [ebrief](#) we outlined the implications of the Scottish Government's draft budget for local government. In a more detailed [blog post](#) we explained what this means in practice for council budgets. In parliament yesterday the Scottish Government announced that they will be amending the draft budget so that "Scotland's local authorities would benefit from an additional £160 million investment - including £30 million capital - to support local services."

As we previously explained, there is a big difference between the parliamentary debate on the Scottish government's draft budget and the reality for individual councils when setting budgets. There is also a health warning in that so far we just have an announcement and not detailed new budget allocations. However, an interim look and the new allocations certainly mean an improvement in council budgets, but not the elimination of cuts.

The original budget cut local government allocations by £327m (in real terms). We are told that £160m will now come off that figure, so the cut is reduced to £167m. However, this conflates revenue and capital funding and it is revenue funding that pays for day to day services, most jobs and pay. The original budget cut revenue funding by £355m and only £130m of the new funding is for revenue – so the revenue cut is reduced to £225m. There is an additional complication in that the business rates yield is estimated to fall by £200m.

So what does this mean on the ground for councils. They will start with the £225m revenue cut. This is mitigated by £100m additional revenue from the changes in the council tax bands. They also have the option of mitigating further by increasing the basic rate of council tax by up to the 3% cap, generating up to £70m across Scotland. This leaves a total revenue shortfall of at least £55m.

A number of councils have already indicated that they won't increase the council tax, either at all, or by less than the cap. They argue the Scottish government isn't increasing its basic rate of tax (income tax), so why should they increase their basic rate of tax (council tax). This emphasises the point that the allocation formula coupled with local tax decisions will mean variations across the country.

Then the council will point to what are often called 'unavoidable commitments' – additional spending that the council has no discretion over. The biggest of these this year is the Apprenticeships Levy, which could cost councils a total of around £25m. There will be others, although some of these are covered by ring-fenced grants, such as the living wage in social care. Other ring-fenced grants are for new spending that doesn't help the base line budget. Councils can mitigate further by using reserves, commonly done in an election year.

In summary, the additional money looks very welcome and certainly reduces the scale of the cuts facing local government in a year when the Scottish government's budget is actually increasing. However, local government remains by far the biggest loser from the draft budget and on the ground most branches will still be told that cuts have to be made.

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