

West Lothian Integration Joint Board

Date: 10 March 2020

Agenda Item: 12

SCOTTISH DRAFT BUDGET REPORT 2020

REPORT BY CHIEF FINANCE OFFICER

A PURPOSE OF REPORT

The purpose of this report is to provide the Board with an update in relation to the Scottish Draft Budget presented to the Scottish Parliament on 6 February 2020.

B RECOMMENDATION

It is recommended that the Board:

1. Notes the issue of the Scottish Draft Budget 2020, which includes departmental spending plans for 2020/21;
2. Notes the key economic and financial implications at a Scottish public sector wide level resulting from the Draft Budget
3. Notes the funding implications for Local Government and Health Boards resulting from the draft 2020/21 Scottish budget
4. Notes that the IJB Chief Officer and Chief Finance Officer have worked with NHS Lothian and West Lothian Council to assess the impact of the Scottish Budget and the funding related to the 2020/21 financial contribution to the IJB from partner bodies.
5. Notes that taking account of the draft Scottish Budget, the IJB Chief Finance Officer has provided a financial assurance report to this meeting of the Board setting out the current 2020/21 IJB budget position

C SUMMARY OF IMPLICATIONS

C1 Directions to NHS Lothian and/or West Lothian Council A direction is not required

C2 Resource/ Finance The Scottish Budget sets out the funding available for Health and Social care services.

C3 Policy/Legal None

C4	Risk	No new financial risks arise from this report although there remains a risk that funding will be inadequate to deliver the IJB's Strategic Plan.
C5	Equality/Health	The report has been assessed as having little or no relevance with regard to equality or the Public Sector Equality Duty. As a result, an equality impact assessment has not been conducted.
C6	Environment and Sustainability	None
C7	National Health and Wellbeing Outcomes	Financial resources contained within the Scottish Budget will be used to meet health and wellbeing outcomes
C8	Strategic Plan Outcomes	Financial resources contained within the Scottish Budget will be used to support the delivery of the Strategic Plan.
C9	Single Outcome Agreement	Financial resources contained within the Scottish Budget will be used to support the delivery of the Single Outcome Agreement.
C10	Impact on other Lothian IJBs	None

D TERMS OF REPORT

D1 Background

The Minister for Public Finance and Digital Economy, in a statement to the Scottish Parliament on 6 February 2020, announced the Scottish Draft Budget 2020/21. It should be noted that the Scottish Government will require support within the Scottish Parliament to pass the 2020/21 Scottish Budget. The draft Scottish Budget will be considered by the Scottish Parliament at readings of the Bill on 27 February, 4 March and 5 March 2020.

This process has, in previous years, resulted in some changes to the draft Scottish Budget announcement.

D2 Total Spending in Scotland

In overall terms Scotland's total proposed spending plans, as set out in the Draft Budget 2020/21, amount to £49,288 million, an increase of £6,655 million compared to the Scottish Budget 2019/20.

The allocations per portfolio are set out in the table below:

Table 1 – Total Scottish Budget by Portfolio

Portfolio	2019/20 Budget £'M	2020/21 Draft Budget £'M	Movement £'M
Health and Sport	14,327.1	15,343.9	1,016.8
Communities and Local Government	11,954.8	12,154.3	199.5
Finance, Economy and Fair Work	5,336.8	6,271.6	934.8
Education & Skills	3,448.0	3,570.5	122.5
Justice	2,719.2	2,831.5	112.3
Transport, Infrastructure and Connectivity	2,910.2	3,445.7	535.5
Environment, Climate Change and Land Reform	426.6	461.8	35.2
Rural Economy	351.0	789.0	438
Culture, Tourism & External Affairs	331.0	365.5	34.5
Social Security and Older People	584.9	3,788.2	3,203.3
Government Business and Constitutional Relations	12.1	16.1	4.0
Crown Office and Procurator Fiscal	120.7	133.8	13.1
Scottish Parliament and Audit Scotland	110.6	116.1	5.5
TOTAL	42,633.0	49,288.0	6,655.0

In terms of Table 1 above, funding for Health Boards is contained within the Health and Sport portfolio, while funding for local authorities is included in the Communities and Local Government line.

The total proposed spending plans include both revenue resource and capital spending plans with health and sport receiving the biggest increase in funding of £1.017 billion, a 7.1 per cent increase. The Scottish Government has previously committed to allocating the full health Barnett Consequentials to health spending in Scotland; and it has allocated more than £100 million in addition to Health consequentials funding to health resources. Local government represents the second largest element of the overall Scottish Budget.

D3 Devolved Taxation

The Scottish Government spending plans are underpinned by revenue raising tax powers devolved by the Scotland Act 2016. In 2020/21, tax revenues raised in Scotland will fund around £16 billion of Scottish Government expenditure. The Scottish Fiscal Commission (SFC), which is an independent statutory body, is responsible for producing revenue forecasts for fully devolved taxes and non-savings non dividend (NSND) income tax. All forecast revenues underpinning the Scottish Budget are produced by the SFC.

Scottish Income Tax

The Scotland Act 2016 confers on the Scottish Parliament the power to set all income tax rates and the threshold of bands (above the Personal Allowance) that apply to the NSND income from Scottish taxpayers. The Scottish Government will receive all the revenue raised from NSND income tax in Scotland as a consequence of rates and bands set by the Scottish Parliament.

As part of the 2018/19 Scottish Budget significant changes to Scottish income tax were announced, along with the introduction of two new bands and a change to some rates. The thresholds of the proposed Scottish Income Tax bands for 2020/21 are as follows:

Table 2 – Scottish Income Tax Rates

Scottish Income Tax Rates	Scottish Bands
Scottish Starter Rate 19%	Over £12,500 to £14,585
Scottish Basic Rate 20%	Over £14,586 to £25,158
Scottish Intermediate Rate 21%	Over £25,159 to £43,430
Scottish Higher Rate 41%	Over £43,431 to £150,000
Scottish Additional Rate 46%	Over £150,000

The SFC forecast that the Scottish Income Tax will generate receipts of £12.365 million in 2020/21, with £51 million being generated from freezing the higher rate threshold at £43,431 as well as the additional rate threshold being frozen at over £150,000. All other thresholds have increased in line with inflation compared to the 2019/20 values.

Land and Buildings Transaction Tax (LBTT)

The Scottish Government is proposing that LBTT in 2020/21 is maintained at its current rates and that the Additional Dwelling Supplement (ADS) is also maintained at 4%. However a new 2 per cent band will be introduced, from 7 February 2020, for non-residential leases. This will apply to transactions where the net present value (NPV) of rental income over the period of the lease is above £2 million. The SFC forecast that the Scottish Government non-residential lease policy will raise an additional £10 million in 2020/21.

Scottish Landfill Tax

The Scottish Government is proposing that the standard rate of Scottish Landfill Tax (SLfT) increases to £94.15 per tonne and the lower rate to £3 per tonne in 2020/21 to ensure consistency with planned Landfill Tax charges in the rest of the UK. The SFC forecast tax revenue from SLfT in 2020/21 is £116 million.

As noted, Scottish Government spending plans are underpinned by revenue raising tax powers devolved by the Scotland Act 2016. If the Scottish forecasts for tax receipts prove to be optimistic and result in reconciliation adjustments, there would be a negative impact on the overall resources available within future Scottish Budgets due to the reconciliations between the actual revenue collected and the Block Grant Adjustment.

D4 Welfare Changes

The Scotland Act 2016 devolved various areas of social security to Scotland – mainly related to carers and disability benefits. The Social Security (Scotland) Act 2018 received Royal Assent on 1 June 2018, with Scottish social security benefits now being delivered. The Scottish Government has been implementing the devolved powers on a phased basis and has now become financially responsible for disability benefits, such as Personal Independence Payments and Disability Living Allowance, from April 2020 onwards. This is additional to two new forms of social security assistance being launched IN 2020, Disability Assistance for Children and Young People (DACYP) and the Scottish Child Payment.

The Scottish Government has announced a budget of £3.390 billion for social security assistance, which is around 10 per cent of total resource spending. The increase in devolved powers to the Scottish Government increases the importance of more accurate forecasts as the SFC currently estimate that the growth in social security payments over the period to 2024/25 to be £524 million, which could be higher than the growth across the rest of the UK, which in turn could put pressure on the funding of other budgets.

Disability Assistance for Children and Young People (DACYP)

Disability Assistance for Children and Young People, will replace the UK Government's Disability Living Allowance for Children in Scotland by summer 2020. As part of this, the Scottish Government will provide Child Winter Heating Assistance to families with severely disabled children from winter 2020.

Scottish Child Payment

The Scottish Child Payment is a payment of £10 per week to low income families with children under the age of six. The payment will be introduced during 2020/21 with the first payments to be made by Christmas 2020 for children under six. Scottish Government analysis suggests that up to 170,000 children could be eligible for this targeted direct financial support to low-income families.

As part of the Scottish Budget 2020/21 announcement the government confirmed that there will be a cost of living increase for payments of Carer's Allowance, Carer's Allowance Supplement, Young Carer Grant and the Funeral Support payment.

The draft Scottish Budget confirmed that funding for the Scottish Welfare Fund and funding to fully mitigate Bedroom Tax losses in 2020/21 will be provided as follows:

- Funding of £59.7 million to councils to fully mitigate the effects of bedroom tax losses in 2020/21;
- Additional funding of £12.9 million will be provided for Discretionary Housing Payments;
- Funding will be provided to councils, with the Scottish Welfare Fund funding level increasing by £2.5 million from £33 million to £35.5 million

D5 Scottish Economic Growth

The SFC contributes to the Scottish Budget process by providing estimates and forecasts on growth. As income tax has been devolved to Scotland, forecasts for economic growth have an impact on income tax estimates. The Scottish Budget is set based on forecasts and as information on actual revenues and spending becomes available the Scottish Government's funding is altered in response. For the first time, an income tax reconciliation has been applied to the Budget, this relates to income tax from 2017-18, however the impact of the tax reconciliation will not be felt until after the next Scottish Parliament election as the government has borrowed additional monies to fund the impact of the tax reconciliation which is due to be repaid in five years time.

Uncertainty about both the nature and timing of Brexit has resulted in subdued growth over the last year and increased the volatility between quarters. Concerns remain about slowing global growth, particularly in the Euro Area, and this is expected to affect Scotland's growth forecasts with a weaker economic outlook over the longer term.

If current Scottish growth forecasts prove to be optimistic and have to be revised downwards in future, this would have a negative impact on the overall resources available within the Scottish Budget due to the reconciliations between the actual revenue collected and the Block Grant Adjustment. The current forecast reconciliations for 2021/22 and 2022/23 do not look positive and are forecast to have an impact of £555 million in 2021/22 and £211 million in 2022/23. The Scottish Government has a resource reserve to mitigate reconciliation and forecast errors, however this is restricted to a drawdown of £250 million annually.

In 2020-21 the Scottish Government is planning to draw down £106 million from the resource reserve, along with borrowing £207 million, with the SFC assessing this as reasonable. However the SFC notes that due to the large reconciliations forecast for the next two financial years that the Scottish Government need to further consider how to manage the reconciliations in future years.

D6 Initial Estimate of Implications for Local Government

In 2020/21, the total managed expenditure available within the local government portfolio is £10,907 million. This figure includes general revenue and capital grant funding, specific revenue and capital grants, as well as an estimate of non-domestic rate income. There are a number of other funding allocations linked to individual policy initiatives held within other spending portfolios and, taking account of this, the total 2020/21 local government funding settlement is £11,335.9 million. The formula share of the revenue grant, non-domestic rate income and capital grant for each council is set out in Finance Circular 1/2020, published on 6 February 2020. The total funding for local government as set out in the circular based on the Scottish Draft Budget is set out below:

Table 3 – Scottish Government Funding to Local Government

	2019/20 Budget £'M	2020/21 Draft Budget £'M	Movement £'M
Revenue Funding			
General Revenue Grant	6,948.06	7,073.06	125.00
Non Domestic Rates Income (NDRI)	2,853.00	2,790.00	(63.00)
Specific Grants	507.73	709.75	202.02
Total Revenue Funding	10,308.8	10,572.8	264.02
Capital Funding	1,092.21	763.14	(329.07)
Total Government Funding to Local Government	11,401.01	11,335.94	(65.05)

The allocations to individual local authorities contained in the finance circular have been arrived at using the standard needs based distribution methodology and updated indicators.

The overall revenue funding available to local government in 2020/21 will increase in cash terms by £264.02 million, which is 1.8% real terms growth. However, there is a significant decrease to capital funding available to local government in 2020/21 resulting in an overall funding reduction of £65 million. The real terms increase in revenue funding is attributed to additional ring fenced funding which is earmarked for the delivery of additional Scottish Government investment priorities.

Therefore, although total revenue funding to Local Authorities is increasing by £264 million, if ringfenced funding for new spend commitments required is deducted, the actual movement in core baseline funding is a cash reduction of £95.4 million. This is shown in the table below.

Table 4 – Decrease in Core LG Revenue Funding After Deduction of Ringfenced Funding

	£'000
Cash Increase in Total Revenue Funding for Local Government	264,018
<u>Less: Funding Earmarked for National Priorities</u>	
Early Learning and Childcare	(201,000)
Health and Social Care and Free Personal Care	(83,900)
Mental Health Counsellors in Schools	(4,000)
Carers Act	(12,100)
Discretionary Housing Payment	(7,456)
Teachers Pay and Pensions	(51,000)
Total	(359,456)
Cash Decrease in Total Revenue Funding for Local Government in 2020/21	(95,438)

In terms of additional funding for Social Care, an additional £100 million will be transferred from the Health portfolio to Local Authorities in year for investment in health and social care and mental health services that are delegated to Integration Authorities. The additional £100 million includes funding for the real Living Wage, uprating of free personal and nursing care payments, implementation of the Carers Act and further support for school mental health counselling services.

This funding is to be additional to each council's 2019/20 recurring budgets for social care and not substitutional. This means that the full benefit of this additional funding of £100 million is to be allocated to Integration Authority delegated functions or to non delegated care functions as relevant (e.g. where this relates to Children's services).

D7 West Lothian Council Funding Implications

The provisional distributable revenue grant allocation for West Lothian Council contained in the circular is £341.265 million. This does not include a number of funding streams, whose distribution is still to be agreed and will increase the council's grant allocation contained in the circular. Assuming the 2020/21 unallocated funding is provided to local authorities on the basis of 2019/20 allocations, the council would receive an additional £1.007 million in funding, although this is still subject to confirmation. This would potentially bring the funding received by West Lothian Council to £342.272 million, which is £6.429 million greater than the equivalent figure in 2019/20.

However, it is important to note that within the provisional West Lothian allocation there is £9.923 million of funding which relates to new additional expenditure commitments for 2019/20. This includes £2.77 million of confirmed funding relating to the council's share of an additional £100 million Scotland wide relating to IJB social care functions. This has been provided to meet the additional costs associated with:

- Delivery of Carers Act requirements
- Additional Investment in Social Care / Integration including payment of Living Wage
- Uplift to Free Personal and Nursing Care Allowances

Taking account of additional expenditure commitments required for 2020/21, there is a net cash decrease in core baseline grant funding for West Lothian Council of £3.519 million as shown in the table below.

Table 5 – Movement in Core Baseline Funding for West Lothian Council (Cash)

WEST LOTHIAN COUNCIL	£'000
2019/20 Scottish Government Grant Funding	335,868
2020/21 Scottish Government Grant Funding	342,272
Gross Increase in Grant Funding	6,404
Less: Specific/Ringfenced Grants for Scottish Government Commitments	(9,923)
Net Decrease in 2020/21 Core Baseline Funding	(3,519)

It should be stressed that this may be subject to further update if there are any further changes confirmed as part of the Scottish Parliament approval process or resulting from the announcement of the UK Budget.

D8 Initial Implications for NHS Boards

Along with the 2020/21 Draft Scottish Budget announcement on 6 February 2020, a letter was issued from the Interim Director of Health Finance and Governance at the Scottish Government setting out further information on indicative 2020/21 budget allocations to NHS Boards.

Overall Baseline Funding

Based on this letter, Territorial Boards will receive a minimum cash terms uplift of 3% on core baseline funding. In addition to this, those Boards furthest away from NRAC parity will receive a share of £17 million, which will continue to maintain all Boards within 0.8% of NRAC parity.

This will result in a cash terms uplift of £320 million in 2020/21 in baseline funding for NHS Territorial Boards, equivalent to an overall 3.2% uplift.

Investment in Improving Patient Outcomes

In addition to the baseline funding increase noted above, funding for investment in reforming service delivery will be increased by £121 million as set out below. This funding relates to new spend commitments that will be required to deliver the changes to service delivery.

Table 6 – NHS Improving Patient Outcomes Funding

NHS Investment in Improving Patient Outcomes			
	2019/20 (£M)	2020/21 (£M)	2020/21 Increase (£M)
Primary Care	155	205	50
Waiting Times Improvements	106	136	30
Mental Health and CAMHS	61	89	28
Trauma Networks	18	31	13
Total	340	461	121

In terms of the above funding streams, full details on the method of allocation and evidence of delivering against agreed outcomes will be set out by individual policy areas in advance of the new financial year. Further information on the additional funding areas is set out below.

Primary Care

Investment in the Primary Care Fund will increase to 205m in 2020/21. This will support the implementation of the GP contract and development of new models of primary care – where multidisciplinary teams of nurses, doctors, pharmacists, AHPs and other clinicians work together to meet the needs of their communities. This includes £10 million to be invested in GP practices.

Waiting Times Improvement Plan

Investment of £136 million will be provided to support waiting times improvement and reform. Work will continue to develop Annual Operational Plan submissions, with specific focus on inpatient and day cases, as well as wider plans to deliver sustainable solutions, including progress against the development of elective centres. Included in this funding is £10 million for winter 2020/21.

Mental Health and CAMHS

Funding of £89 million will be directed to a range of partners for investment to support mental health, and children and young people's mental health. There is a commitment to build on previous support to Territorial and National Boards through ongoing delivery of the Mental Health Outcomes Framework. The Mental Health Services budget also includes funding to be directed to Integration Authorities for the recruitment of 800 additional Mental Health workers as outlined in Action 15 of the Mental Health Strategy

Trauma Networks

This funding will increase by £18 million to £31 million, taking forward the implementation of trauma networks.

When combining the £121 million increase in investment in reform with an increase of £333 million in baseline funding for NHS Boards, the total additional funding for NHS Frontline Boards will amount to £454 million (4.2%) in 2020/21. In terms of Integration Authorities, the 2020/21 NHS payments for delegated functions must deliver an uplift of at least 3% over 2019/20 agreed recurring budgets.

It should also be noted that the overall portfolio budget includes an additional £12.7 million to tackle the harm associated with the use of illicit drugs and alcohol. It is expected that investment by Board and Integration Authorities will increase by 3% over and above 2019/20 recurring budgets for Alcohol and Drugs to help address these issues. Officials will discuss investment plans for this funding with NHS Boards and Integration Authorities in the coming months.

D9 NHS Lothian Funding Implications

In terms of NHS Lothian, the funding letter from the Director of Health Finance and Governance sets out a cash increase of £57.4 million (3.9%) in 2020/21 baseline funding. This increases total baseline funding for NHS Lothian to £1,540.1 million in 2020/21. As noted, Lothian's share of further additional national investment in improving patient outcomes of £121 million is subject to further confirmation.

Further work has been progressed to assess the implications for the 2020/21 NHS Lothian budget and for those functions delegated to the IJB. This is reflected in the separate 2020/21 Financial Assurance report to this Board meeting.

D10 High Level Considerations and Implications for West Lothian IJB

Based on the 2020/21 Draft Scottish Budget, Partner bodies are now in a more informed position to consider their 2020/21 financial plan. The implications of the budget announcement on previous 2020/21 budget and funding assumptions have been assessed by both partner bodies. However, there remain a number of uncertainties around various funding streams and it is important clarification is obtained as soon as possible. In addition, at the time of this report being finalised, the Scottish Budget is still subject to confirmation and approval by the Scottish Parliament. Any changes that may result from the Scottish Budget being approved could potentially impact on Partner body funding and as result, IJB funding.

Further, the UK Budget is due to be announced on 11 March 2020 and could also have further implications for currently assumed Scottish Budget funding. The position will continue to be kept under review with any necessary updates on funding implications to West Lothian IJB being reported to the Board.

An important element of partner body 2020/21 budget planning will be the delegated budget contributions made to the IJB for 2020/21. With regard to this, the IJB Chief Officer and Chief Finance Officer have liaised closely with both partner bodies as part of the due diligence and financial assurance assessment undertaken on the annual contribution to the IJB. The current 2020/21 Partner budget assumptions and resulting contributions to the IJB are set out in a separate report to this Board meeting along with proposed Directions to partners on the utilisation of the resources.

E CONSULTATION

Relevant officers in NHS Lothian and West Lothian Council.

F REFERENCES/BACKGROUND

Scottish Budget 2020/21 published by the Scottish Government on 6 February 2020

G APPENDICES

None

H CONTACT

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