



# Business Intelligence Insights

## Scotland Excel

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Local Authority Funding

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## Local Authority Funding

Local authority funding has wide ranging impacts and itself is impacted by many factors. Issues such as policy, demographics, energy, technology, income, employment, and education influence the demand for public services. The delivery of public services is influenced by budget allocation and funding.

With unprecedented socio-economic challenges, councils are faced with delivering services to their communities in the most demanding and complex financial contexts in many years. This has taken an extreme toll on councils, with Birmingham City Council issuing a [Section 114 notice](#), which prevents all new expenditure, in September 2023. A recent survey in England found that around [20% of councils may be unable to balance their budget](#) and forced to follow suit within the next year. Further, underinvestment and workforce challenges in the United Kingdom have contributed to public service areas, such as adult social care and schools, currently performing [worse than pre-pandemic levels](#).

It can be difficult to gain a clear picture of the national local government funding landscape. This was attempted by the [BBC](#) in reviewing the budget deficits of councils. Trade union [Unison](#) carried out similar work to gain an understanding of the size of the predicted funding gaps of each council by 2024/25. Both reports highlight that the outlook for local government finances is worrying, although the data sources vary, and results differ.

An understanding of local government funding can provide an impactful insight into the finances shaping the public sector. This *Business Intelligence Insight* seeks to provide the reader with an understanding of the local government funding landscape in Scotland and the opportunity to question how this impacts their work and the role of their organisation.

This insight encourages the reader to explore...

- How is local government funding allocated in Scotland?
- How do socioeconomic issues impact local government funding and spending?
- Equally, how does local government funding and spending impact socioeconomic issues?
- How can local authorities bridge the funding gap?
- How does funding impact the delivery of public services and procurement?



### 1. How is local government funded in Scotland?

[The Barnett Formula](#) is used to allocate funding from the United Kingdom (UK) Government to Scotland, Wales and Northern Ireland. In 2023/24, Scotland received funding of around [£36 billion](#) allocated by the formula. The formula seeks to provide the devolved governments with the same per person funding as the UK Government. Thus, when spending increases in England, the UK government attempts to provide equivalent increases in spending allocation to Scotland, Wales and Northern Ireland. This funding is not required to be spent in the same policy area as by the UK Government. Therefore, if the UK Government increases spending on Net-Zero objectives in England, this does not mean that the Scottish Government must increase their spend in the same area.

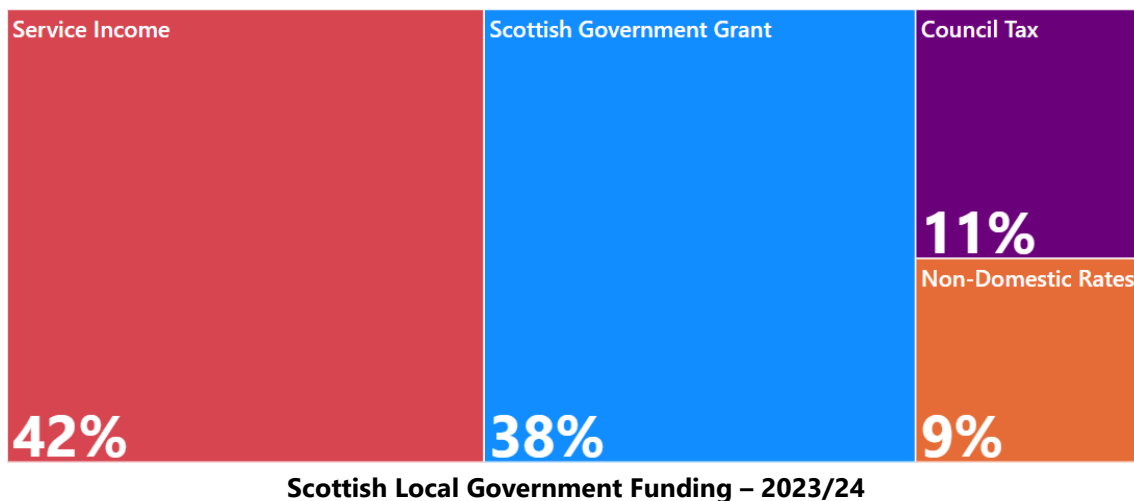


In Scotland, the level of funding allocated to the delivery of public services is largely determined by [The Scottish Budget](#). The Scottish Budget, usually announced in December, outlines the Scottish Government's planned spending for devolved matters. Devolved matters are public service areas that the Scottish Government have full responsibility for, and not the UK Government. Devolved matters include [local government, health and social care, education and training, environment, and housing](#). The budget outlined an allocation of [£14.5 billion](#) of general funding for local government in Scotland in 2023/24. General funding is funding received from council tax and non-domestic rate income, alongside each council's allocation of the Scottish Government Grant.

**Council tax** and **Non-Domestic Rate** income is raised by councils and is taxable income related to the historical value of properties in their council area, paid by occupying individuals and businesses. Non-domestic rate levels are [set nationally by the Scottish Government](#), whilst councils are responsible for collecting and setting council tax levels. However, in October 2023, Scottish First Minister Humza Yousaf announced a Scottish Government funded [council tax freeze](#) for 2024/25. The impacts of this announcement on local government funding will be considered later in this Insight.

**The Scottish Government Grant** allocation outlines how much financial support local government will receive from the Scottish Government each year. This allocation is calculated based on the expected non-domestic rate and council tax income of each council. Where councils have a higher proportion of income generated by non-domestic rates and council tax, generally their proportion of grant funding decreases.

The remaining income is raised by **Service Income**. This is income raised by councils through the services they provide to their community. Service income is not included in the calculation of the general funding allocation for each council, as its expenditure is restricted to its stated purpose, and cannot be used for general spending. The dispersion of local government funding sources is outlined below:



In total, councils in Scotland spent around [£23 billion in 2021/22 – around £4,300 per person](#). This funding was spent on the delivery of key services such as schools, housing, bin collection, road maintenance and social work. On average, the Scottish Government Grant is budgeted to cover expenses of around £1,935 per person in Scotland in 2023-24, whilst the remaining income must be raised by councils. The level of support given to local authorities ranges from £788 to £3,752 per person based on factors including the level of income received through council tax and non-domestic rates, rurality, deprivation, and population. Therefore, the funding structure of each council is unique, and is characterised by the socioeconomic landscape of each council area.

**What factors impact a council's ability to generate income?**



## 2. How is each local authority's allocation of grant funding determined?

Scottish Government Grant funding is allocated to each council based on calculations that factor in 125 different indicators including [population, road usage, homelessness data, rurality, and school pupil numbers](#). For 2023-24, 20% of the Scottish Government Grant was distributed based on population data, and 29% based on school pupil numbers. In 2023-24 £1.84 billion of the budget was based on age-based sub-sets of the Scottish population. Therefore, demographics play a big role in the allocation of funding to local government.

As explored in the first *Business Intelligence Insight*, the demographics of the Scottish Population are expected to shift. Scotland's Census 2022 findings have highlighted that there are over [250,000 more people aged 65 years](#) and over than children under 15 years old. As the demographic makeup of the population of a local authority area influences the demand for its services, this information is crucial for planning council services and spending going forward. Consider the following projected demographic changes:

<b><u>Population Aged 65+</u></b>	<b><u>Population Aged 0-15</u></b>
Projected increase by 10% from 2023-2028.	Projected decrease by in population of 4.6% from 2023-2028.
Context: Number of care homes decreased by <a href="#">29% from 2011-2022</a> , spending <a href="#">increase by 25%</a> over same period.	Context: Current council spend of <a href="#">£6,331 per primary school pupil</a> and <a href="#">£7,896 per secondary school pupil</a> .

With a smaller population of children, it follows that the population of school pupils will decrease too. With 29% of the Scottish Government Grant being determined by school pupil numbers, how will this impact funding allocation? The costs of running and maintaining schools must continue to be covered, despite a smaller population of school pupils. This may result in the spend per pupil increasing, as the same processes must be carried out for a smaller group.

### **How will this impact the demand for education materials? Will online education be a factor?**

With a growing population of elderly people, it is likely that the demand for adult social care will transform too. Despite the growing expenditure in this area, [adult social care has faced backlogs, low satisfaction rates and unclear levels of demand](#). Local authorities and health boards must be equipped to support an increased population of elderly people. This may include increasing the capacity of current care homes, and the provision of more care homes. How will this impact skills development and the demand for social care workers?

### **Could Artificial Intelligence play a role in the transforming needs of care and education?**

**How will this impact the role of and funding for the [54,000 teachers in Scotland](#)?**



### 3. What control do councils have over their spending?

The unique characteristics of local authority areas determine the demand for public services for each council. In 2023, the Scottish Government and COSLA announced [The Verity House Agreement](#), an agreement that outlines how local and the Scottish Government will collaborate to achieve objectives going forward.

The agreement sets out that ***'From this point onwards, the default position will be no ring-fencing or direction of funding.'*** This agreement also commits to the development of a Fiscal Framework that simplifies local government settlement and seeks to provide certainty beyond one year where possible. This position proposes that councils will have more control over their spending.



**How will reduced ring-fenced funding impact council expenditure?**

**How will reduced directed funding impact the alignment of local and national policy?**

Local government should be able to prioritise spending in areas specific to them. For example, in their approach to [Local Heat and Energy Efficiency Strategies \(LHEES\)](#). As identified in the *Energy Business Intelligence Insight*, properties in rural areas are often larger, harder to heat, and less energy efficient than those in cities. Further, there are [293,800 households in Glasgow, compared to 12,700 in the Western Isles](#). With more autonomy over their spending, councils can take a more tailored approach to reducing the financial and environmental costs of running properties down to an affordable level, based on the requirements of their authority area.

The impacts of local policy on funding and expenditure must be considered too. For example, with factors such as road usage used to calculate each council's allocation of Scottish Government funding, how will the introduction of [Low Emission Zones](#) in Glasgow impact the council's allocation of funding? This policy seeks to lower emissions by prohibiting high-emission vehicles from entering the city, which is likely to impact road usage.

**How will local environmental and social policy impact each council's funding allocation?**

### 4. How can councils generate income?

Councils are expected to keep up with the demands of the public, however councils are also being asked to deliver more with less money. In Scotland, local government is faced with a funding gap of at least [£1 billion](#) in 2023/24. This gap is the equivalent of the entire budget to deliver Early Learning and Childcare, or the funding required to pay for [30%](#) of teachers in Scotland. As mentioned previously, the Scottish Government Grant is budgeted to cover expenses of around £1,935 per person in Scotland in 2023-24, on average. Any further expenditure must come from funding raised by the councils.

In 2023/24, councils in Scotland raised their council tax income by percentage increases ranging from [3.9% to 10%](#). With the recently announced freeze on council tax rates in 2024/25, this avenue for income generation is blocked for councils in the short-term. This freeze will prevent Scottish councils from



raising [£148 million next year](#), assuming an increase in council tax rates of 5% next year. In response to the announcement, the Convention of Scottish Local Authorities (COSLA) have reaffirmed their position that council tax should be [set and managed by councils alone](#), whilst also raising concerns that the freeze reduces the autonomy of councils to manage their own funding.

Council tax is taxable income received by councils that is calculated based on the estimated value of properties in 1991, paid by the occupants of the property. However, the value of properties has transformed since 1991 and the value of properties in council areas have transformed at different rates and by different amounts. For example, the values of properties in East Lothian have increased at a faster rate than in [Glasgow or Aberdeen](#). There is currently a consultation ongoing surrounding Council Tax charges for properties in bands E to H. [Reform Scotland](#) have called for councils to have complete control over their council tax rates, bands and calculations to allow the distinct needs and priorities of councils to be considered in the rate calculation.

### **Should the council tax base be updated as the value of properties have transformed?**

### **Could council tax rates be used to incentivise improved energy efficiency?**

Non-domestic rate income is reliant on the sustainability of local businesses. As businesses navigate challenging economic circumstances, such as record levels of inflation and 14 consecutive interest rate increases, the cost of doing business is high. It is expected that there may be [7,000 insolvencies per quarter](#) in the UK in 2024. From 2021 to 2022, the number of businesses in Scotland decreased by [1940](#), [impacting 140,000 jobs](#). Whilst the announced council tax freeze can provide some relief to personal budgets, businesses have not received such assurance regarding non-domestic rates.

### **How will persistent high costs of business impact the quantity and quality of services?**

Like councils, individuals face challenging budget pressures. Real disposable income per person is expected to fall by [4% by the end of 2023/24](#), meaning that individuals will have less money to save and spend, which will impact standards of living and the sustainability of local businesses. Although the inflation rate and energy costs are decreasing, it is expected that living standards will not recover to [2021/22 levels until 2026/27](#). Will more people turn to the councils for support as they have relatively less money?

### **How will this impact the demand for services such as housing?**

As councils continue to recover from reduced demand during the Covid-19 pandemic, the demand for public services is likely to be impacted by the public having less money too. Although income derived from the demand for services cannot be used for general expenditure, this highlights that councils face constraints in all areas of funding. For example, the cost to councils per attendance at sports facilities has increased by [122.5% since the Covid-19 pandemic](#) despite attendances at sports leisure facilities increasing by almost 5 times in 2021/22 from 2020/21.







## 5. What can councils do to bridge the funding gap?

Both councils and individuals face challenging budget pressures, which impacts the ability of councils to generate income from services and taxes. When councils increase rates, businesses and individuals have less income to spend. This can heighten the demand for council support and services, putting increasing pressure on councils to deliver more with less money.

Alongside generating income to fund expenditure, councils can take other measures to balance their budget. Councils have reduced services and offered voluntary redundancy to their workforce in the face of these testing financial challenges. However, these measures are generally short-term and are likely to impact the sustainability of the council going forward.



To achieve long-term cost savings, councils face cost barriers. For example, to improve the energy efficiency of fleet and buildings, it is likely that an initial high-cost investment would be required, that could then improve efficiencies going forward. As councils do not have sight of their funding going forward, it is hard to plan for long-term savings which puts pressure on short-term gains.

### Without knowledge of the financial landscape, how can councils forecast for the long-term?

One method of maintaining flexibility for future expenditure is by holding reserves. **Reserves** are funding held to support councils in planning for the future. Maintaining reserves is important to the long-term sustainability and flexibility of councils. In 2022/23, [66%](#) of councils in Scotland planned to use reserves to maintain services and bridge their budget gap. On average, councils increased their levels of usable reserves held by [7.10% from 2020/21 to 2021/22](#). However, reserve funding is not simply a pot of money that councils can use as and when they require more funding.

Useable reserves are funds that come from surplus income, that can be spent on future projects and services. Useable reserves can be broken down into general reserves, earmarked reserves and ring-fenced reserves. **General reserves** are the accumulation of a local authority's surplus income that can be used to bridge funding gaps and fund future service and capital expenditure. **Earmarked reserves** are funding that is set aside from general reserves and committed to a specific project or service. For example, surplus income from housing projects is held in a council's Housing Revenue Account. On average, councils had earmarked around 83% of their general reserves in March 2022.

As with local government funding, reserves can be **ring-fenced** for specific issues. Where councils have surplus income relating to a specific Scottish Government policy or objective, this funding is returned to the Scottish Government unless given approval for the council to carry it forward as reserves. Therefore, having high levels of reserves does not necessarily mean that councils have high levels of funding that they can rely on to cover costs.

### Will the Verity House Agreement impact how councils can use their own reserves?



## 6. What role can procurement play?

Procurement has been impacted by cost-saving measures, with the procurement teams of many councils reducing to fewer employees, who must spread the workload.

Procurement is one of the most powerful players in local government spending and in the delivery of key public services. Therefore, procurement can play an important role in helping local governments to balance their budgets. Although, this also means that procurement teams are under extreme pressure to maximise the value of expenditure to their customers.



### How can procurement provide savings?

Just as the demands of local authority areas are unique, approaches to balancing budgets and finding savings must also be distinct to each council. What is applicable in large council, may not be appropriate in councils with a smaller population, and vice versa. Approaches taken in urban areas may not be applicable in rural areas. Therefore, approaches to balancing budgets must be tailored to each council.

Some examples of methods of managing, planning, and preparing procurement for budget challenges include:

- Benchmarking prices to ensure that customers are benefitting from best value.
- Rationalising product ranges to reduce transaction costs.
- Considering alternative products that perform similar functions at a lower price.
- Streamlining processes such as deliveries and logistics.
- Identifying opportunities for national and regional collaboration to reduce costs.
- Considering the impact of demographic changes on our customer needs.
- Negotiation and renegotiation of agreements to maintain low costs.

To get started, some questions to consider include:

- Are products and services being procured at the best value?
- What are the social and environmental costs of this procurement?
- How can Artificial Intelligence reduce costs in this procurement?
- What are the costs of changing product or supplier?
- What collaborative opportunities can support cost reduction?
- What are other public sector bodies doing?

## 7. Find out more about local authority funding and spending...

- [The Funding of Local Government in Scotland 2023-2024 \(gov.scot\)](https://www.gov.scot)
- [Scottish Budget Guide | FAI \(fraserofallander.org\)](https://www.fraserofallander.org)
- [Explore the data | Benchmarking \(improvementservice.org.uk\)](https://www.improvementservice.org.uk)
- [Public Sector Performance Tracker \(cipfa.org\)](https://www.cipfa.org)





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