

# The Funding of Local Government in Scotland, 2020-21

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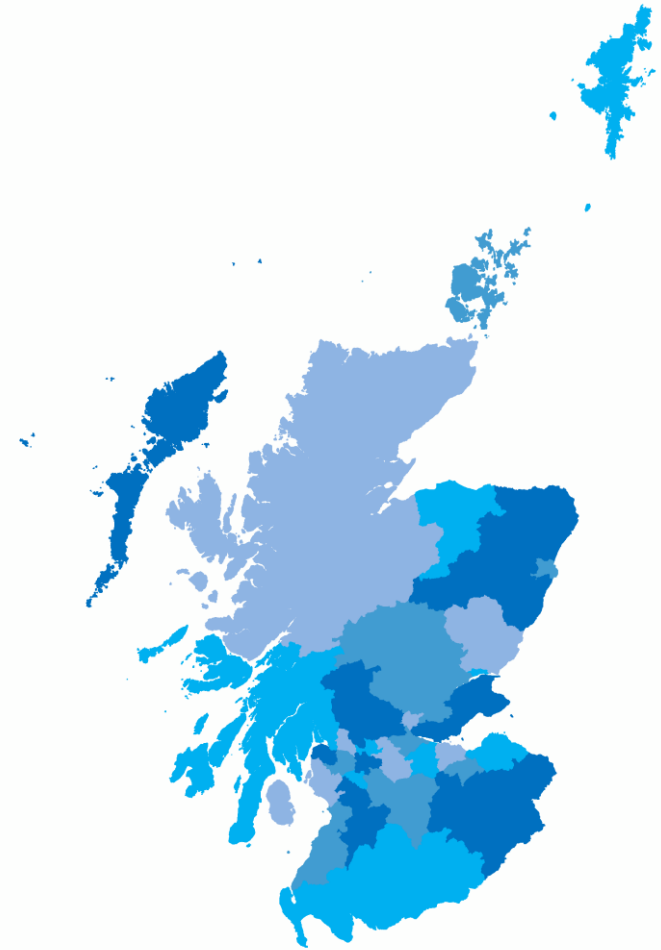
# The Funding of Local Government in Scotland 2020-21

## Introduction

There are 32 Local Authority councils in Scotland. Each council is responsible for a range of services, such as schools, housing, social work, street lighting, road maintenance, refuse collection, elections, and planning.

Councils in Scotland spent about £18 billion in 2018-19. This was mainly funded from four sources: Scottish Government grant, service income, Non-domestic Rates, and Council Tax.

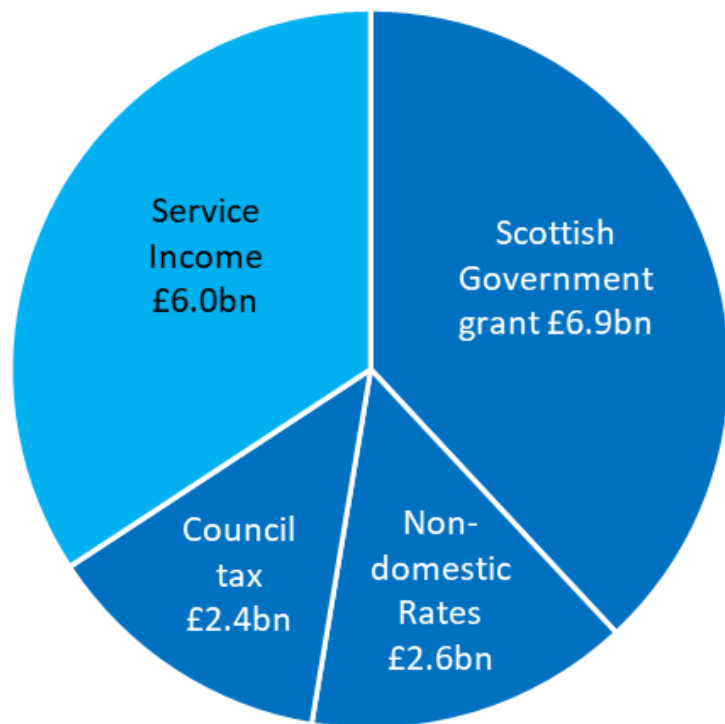
The Scottish Government seeks to distribute its funding fairly between councils. It does this by agreeing the method of distribution with the Convention of Scottish Local Authorities (COSLA) and councils. This publication describes the calculations used for 2020-21.



During 2020 a large amount of additional funding was made available to councils due to the Covid-19 pandemic; by mid-October there had been over £380 million. These funds are not included in this publication. The forecast income from Non-domestic Rates was also revised downwards.



# Where did councils get their funding from?



A complete analysis of Local Government spend is published in [Scottish Local Government Finance Statistics 2018-19](#). The figures in that publication are in more precise technical categories and so may appear to be different from those published here. However, the two sets of figures are consistent.



Total council  
spend 2018-19

**£18  
billion**

In 2018-19 councils spent about £18 billion, that's £3,300 per person in Scotland. They raised this mainly from four sources of income.

Service Income is income that councils receive directly linked to services they provide. It is treated separately and can only be used for the stated purpose, so this income is not considered in this publication.

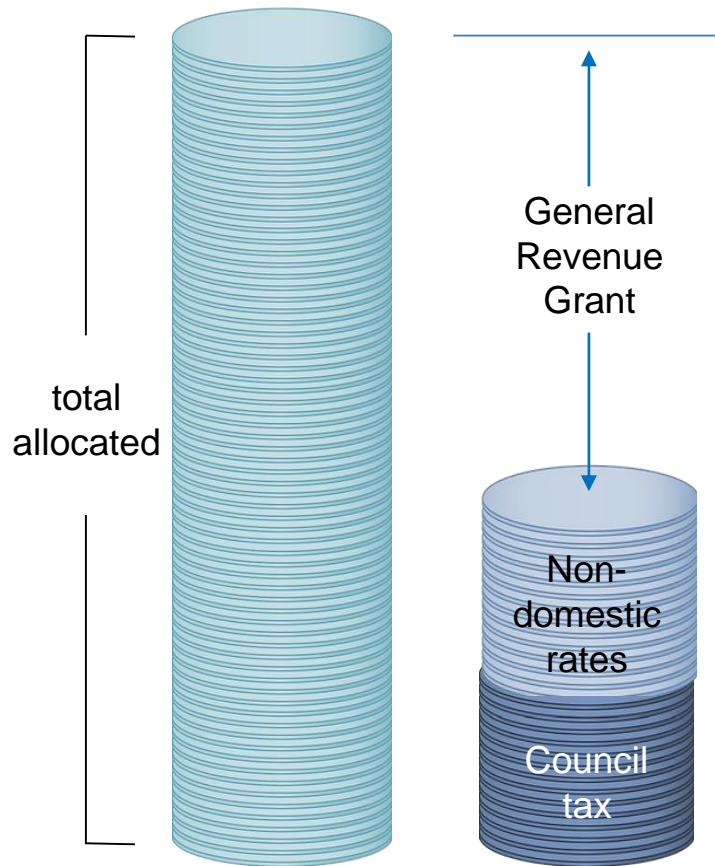
That leaves £12 billion of general funding.

The largest share of general funding was Scottish Government grant, which in 2018-19 was £6.9 billion, or 58 per cent of general funding.

Non-domestic Rates, paid mainly by businesses, raised £2.6 billion, or 22 per cent of general funding.

Council Tax raised £2.4 billion, or 20 per cent of councils' general funding.

# How did we calculate how much Scottish Government grant each council should receive?



General Funding of  
councils in  
2020-21

**£12.7  
billion**

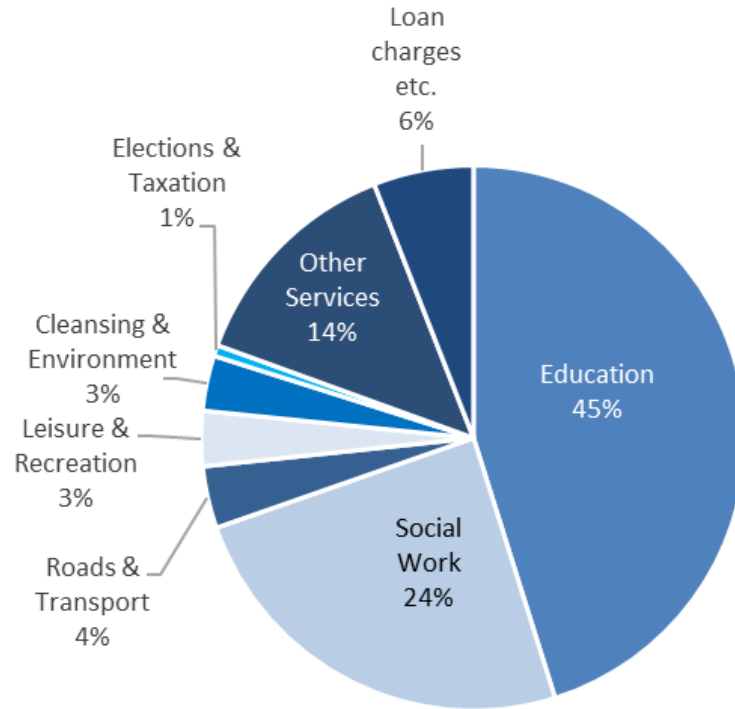
For 2020-21, councils received £12.7 billion of general funding. So, considering just this general funding:

1. We calculated each council's fair share of the £12.7 billion of available funding.
2. Then we subtracted how much income we estimate each will receive from Council Tax and Non-domestic Rates.
3. Then the remainder was given as grant, called General Revenue Grant.

So if a council's fair share was £400 million, and they would receive £70 million from Council Tax and £90 million from Non-domestic Rates, then we gave £240 million as General Revenue Grant.

$$(400 - 70 - 90 = 240)$$

# How did we calculate each council's fair share of the available funding?



It is very important to note that the amounts in each service area are not spending targets. They are simply a way of dividing up the £12.7 billion so that each service area is considered.

Councils make spending decisions based on local needs. They are generally not expected to spend the amounts distributed on each service.

The actual amounts spent by councils in each service area are therefore different from the above chart.

Number of  
different service  
areas considered

168

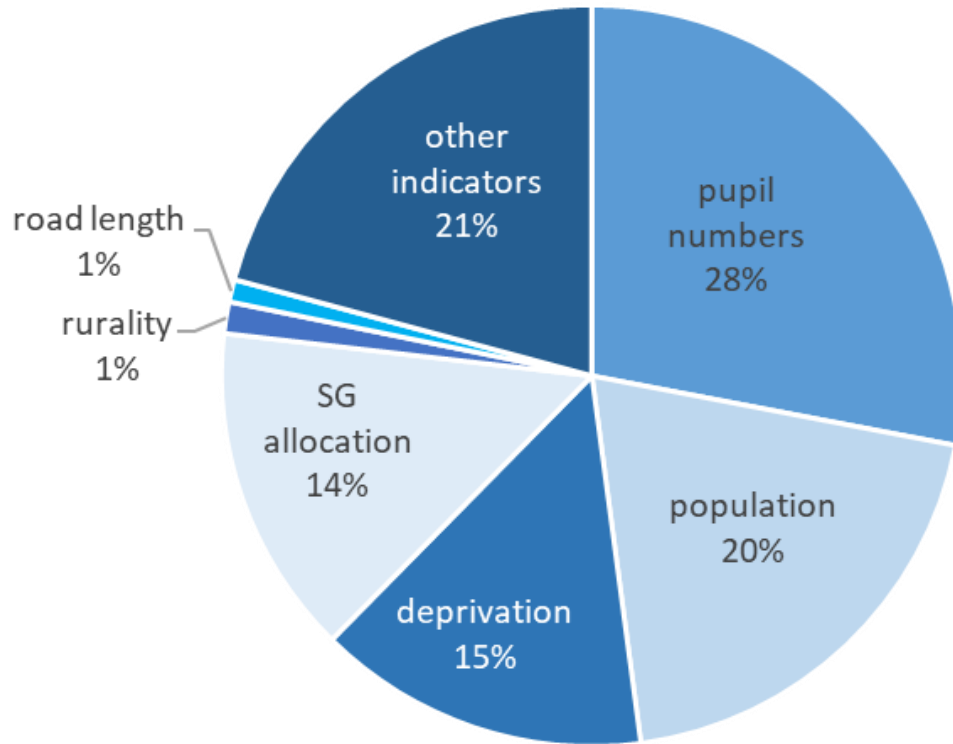
The first part of the process was to calculate each council's fair share of the £12.7 billion. To do this each service area was considered separately. In 2020-21 there were 168 such areas considered.

For example, within Education there were 37 different areas considered, ranging from childcare through to adult education. They varied in size, from the £1.1 billion pot for secondary school teaching, to the £0.5 million pot for Further Education travel responsibilities in some areas.

You can see a full list of the 168 areas, together with their allocations, in the Local Government Finance Green Book, which is an Annex to this publication. The Green Book is available online at [www.gov.scot/publications/grant-aided-expenditure/](http://www.gov.scot/publications/grant-aided-expenditure/)

# What information was used to calculate the allocations?

Summary of the 110 different indicators used in the funding formula



How much of the formula was distributed based on population or pupil numbers

48%

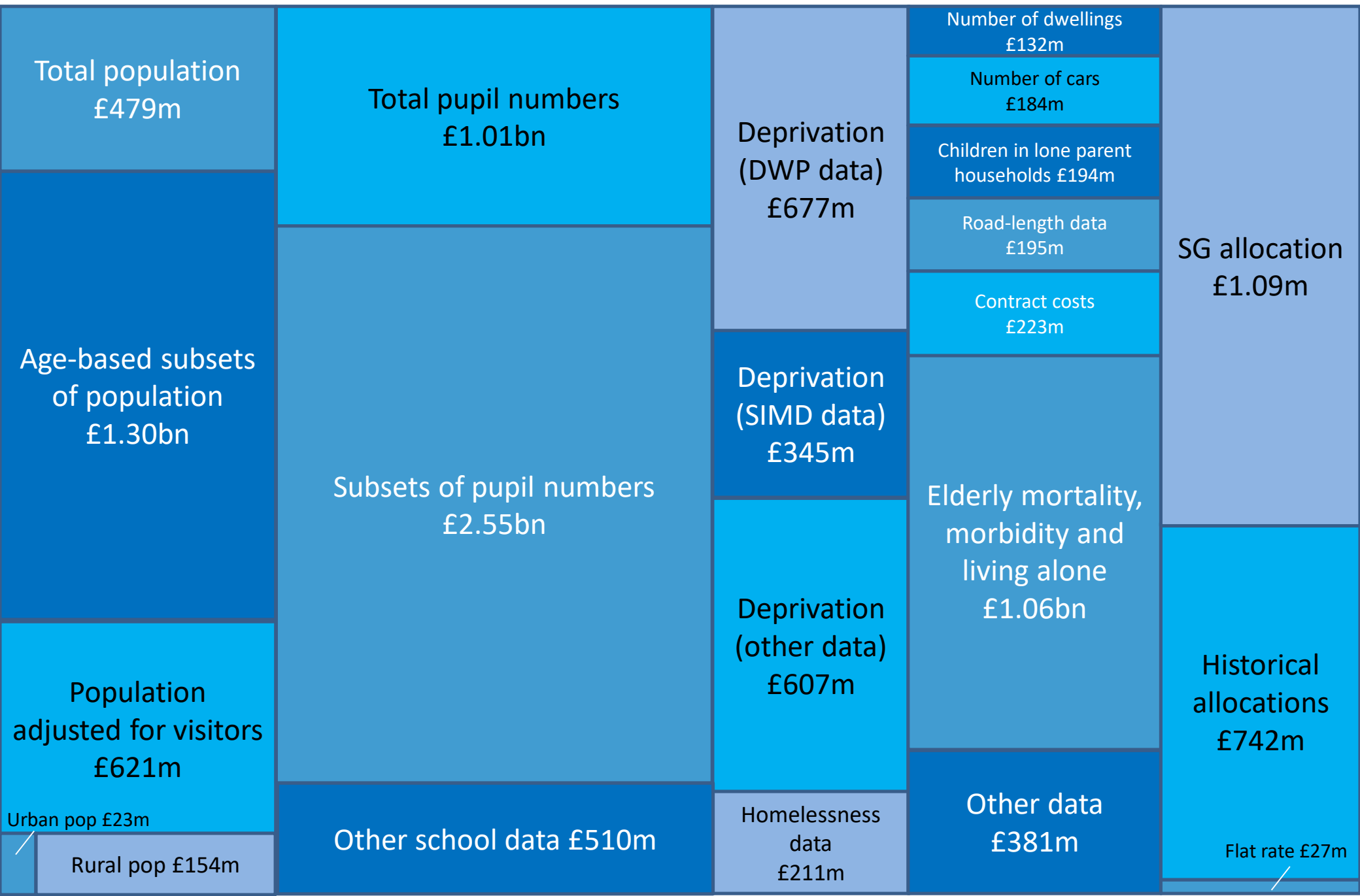
Each service area had a different funding formula. So, for example

- The formula for street lighting distributed £60 million. It was shared out in proportion to the total length of roads in urban areas within each council.
- The formula for Planning & Economic Development distributed £95 million. It was shared out partly in proportion to population, and partly in proportion to deprivation levels, with an extra allocation for island populations.

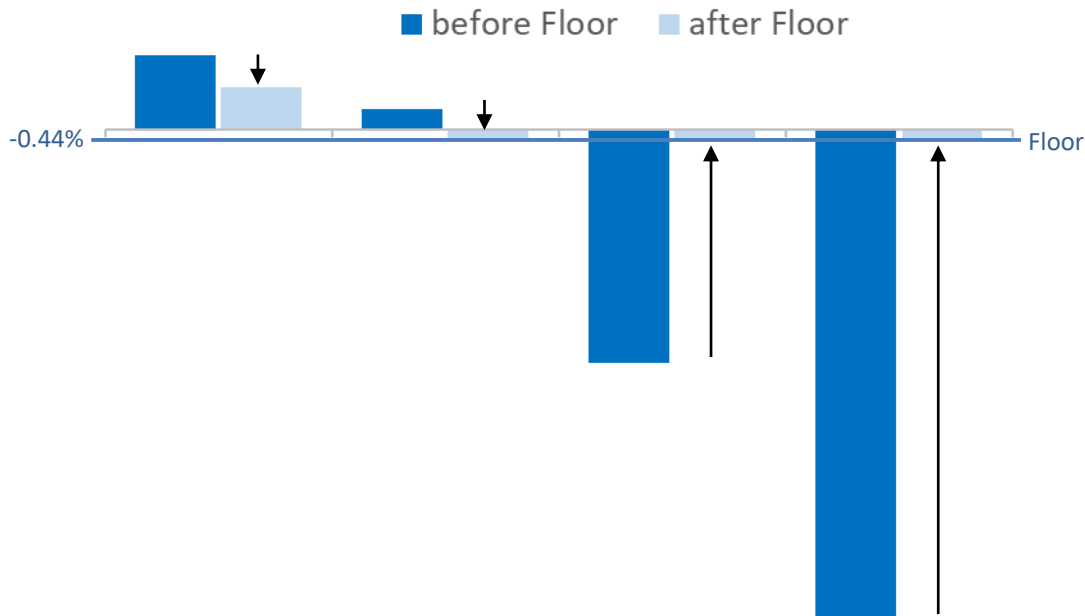
The formulae used the latest data and often took account of deprivation or rurality. Island populations were usually given a 10 per cent uplift because of their additional costs.

Sometimes councils were given a fixed amount each as part of the formula. In a few cases funding was decided on the basis of bids for funding.

# Summary of the data used to distribute the 2020-21 settlement



# How were councils protected against large changes in their allocation?



Those councils who received larger allocations paid into the pool, so their allocation was reduced; but they will never go below the Floor

Some councils started below the Floor. They received additional allocation from the pool to bring them up to the Floor

Number of councils who received additional funding from 'the Floor'

10

After we had calculated each council's share, we compared them with the previous year and gave some councils extra support. This was done by setting a limit to the percentage reduction that they were allowed. The limit is called 'the Floor'.

We worked out the average percentage change, comparing all bar a few areas of the formula. We then set the Floor slightly below that average. It meant that in 2020-21 councils were allowed, at worst, a 0.44% reduction.

Any council above the Floor paid into a pool. This pool was then distributed to the other councils to bring them up to the Floor.

In 2020-21 about £62 million was reallocated in this way.



# Who received extra support from the Floor in 2020-21?



22 councils paid into the pool, so they received less grant than they would have otherwise

10 councils gained from the pool, so they received more grant than they would have otherwise

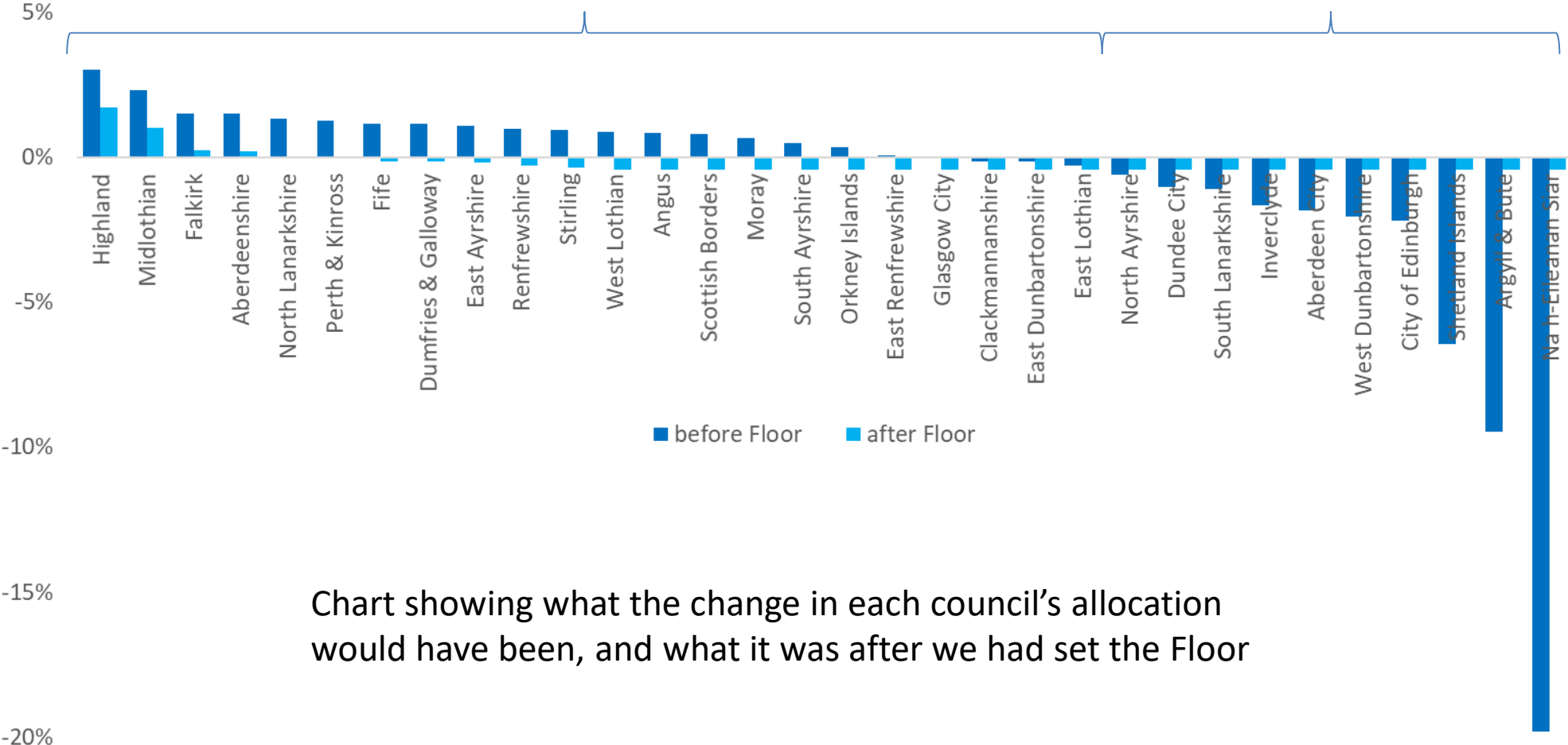
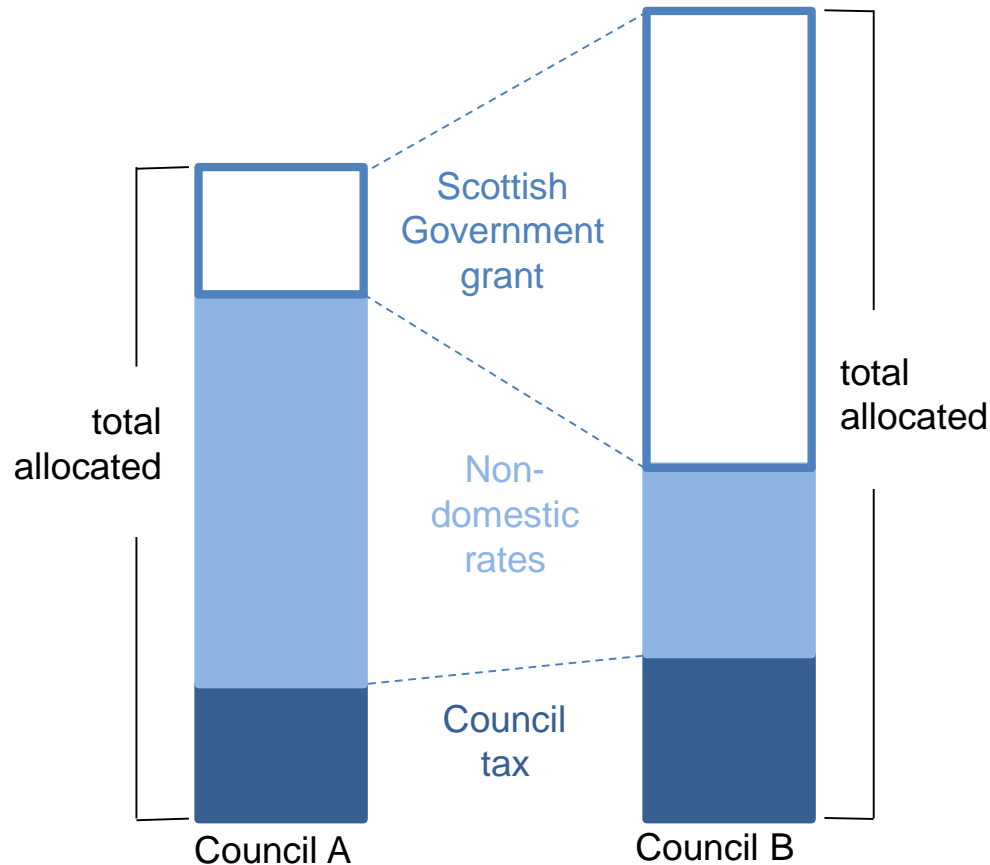


Chart showing what the change in each council's allocation would have been, and what it was after we had set the Floor

# Why did some councils then get more Scottish Government Grant than others?



In the above example, Council A's share of the available funding was less than Council B's. It also received much more from Non-domestic Rates raised in its area. So Council A needs to receive a lot less Scottish Government grant.

We have seen that the distribution of the £12.7 billion was based on a funding formula. This formula was agreed in a series of discussions with councils, through their representative group COSLA.

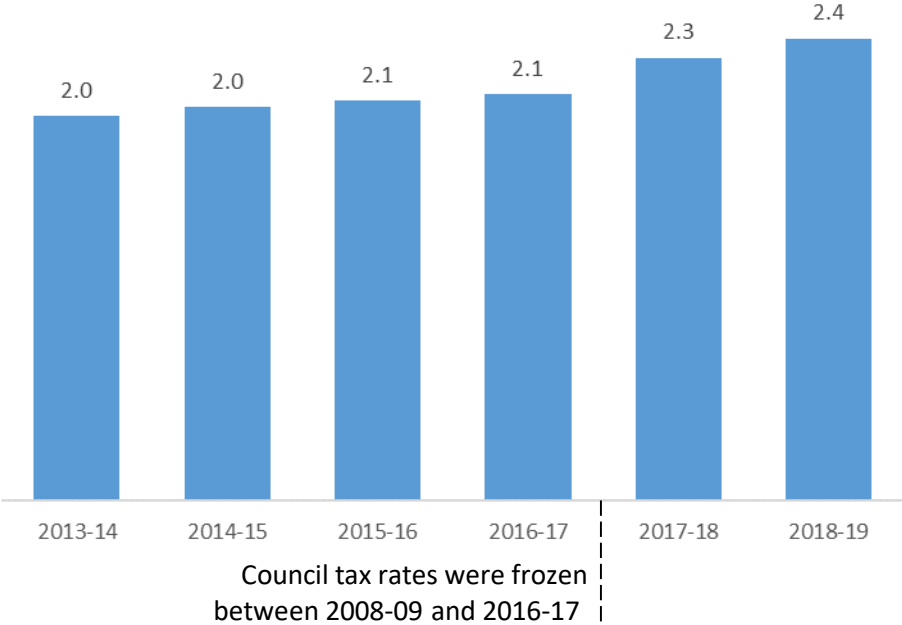
The next step is to subtract forecast funding that they will receive from Council Tax and Non-domestic Rates. The amount each council can raise from these mainly depends on the size of their population and number of businesses. So really it is only the Scottish Government grant that can be adjusted to ensure that each council receives its calculated fair share of the total funding.

The Scottish Government grant therefore works as a balancing item, providing the remainder of the needed funding. This may mean one council receives a lot more actual grant than another.

# How did we estimate how much Council Tax each council would receive?



Income from Council Tax, £ billions



Revenue raised from Council Tax in 2018-19

**£2.4 billion**

The Scottish Government then estimated how much each council would raise from Council Tax.

Councils collect Council Tax based on an historical valuation of houses, with houses placed into one of eight bands, A to H. The number of houses in each band determines how much each council can raise.

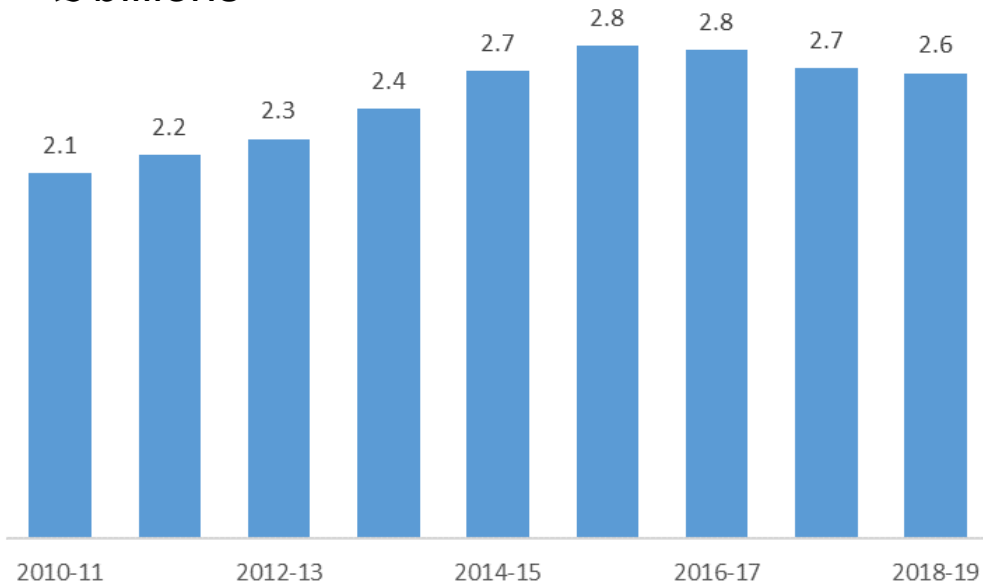
Councils can also vary the level of Council Tax, which can raise additional income. In 2019-20 Council Tax for a Band D property varied between £1,138 and £1,344.

In estimating how much Council Tax each council would receive, we assumed that there would be an increase in the total number of houses, but didn't assume that Council Tax rates would rise.

If a council increased its Council Tax rates, it then had more income to spend on services in 2020-21.

# How did we estimate the amount of Non-domestic Rates each council would receive?

## Guaranteed income from Non-domestic Rates, £ billions



The amount actually collected differs from the forecast, sometimes it's more, sometimes it's less. To protect councils from these differences the Scottish Government guarantees the amount they will receive. The Scottish Government pays any shortfall, and keeps any extra collected, and then adjusts next year's guaranteed amounts accordingly.

Forecast revenue raised from Non-domestic Rates in 2020-21

**£2.8 billion**

The Scottish Fiscal Commission then forecast how much each council would collect from Non-domestic Rates.

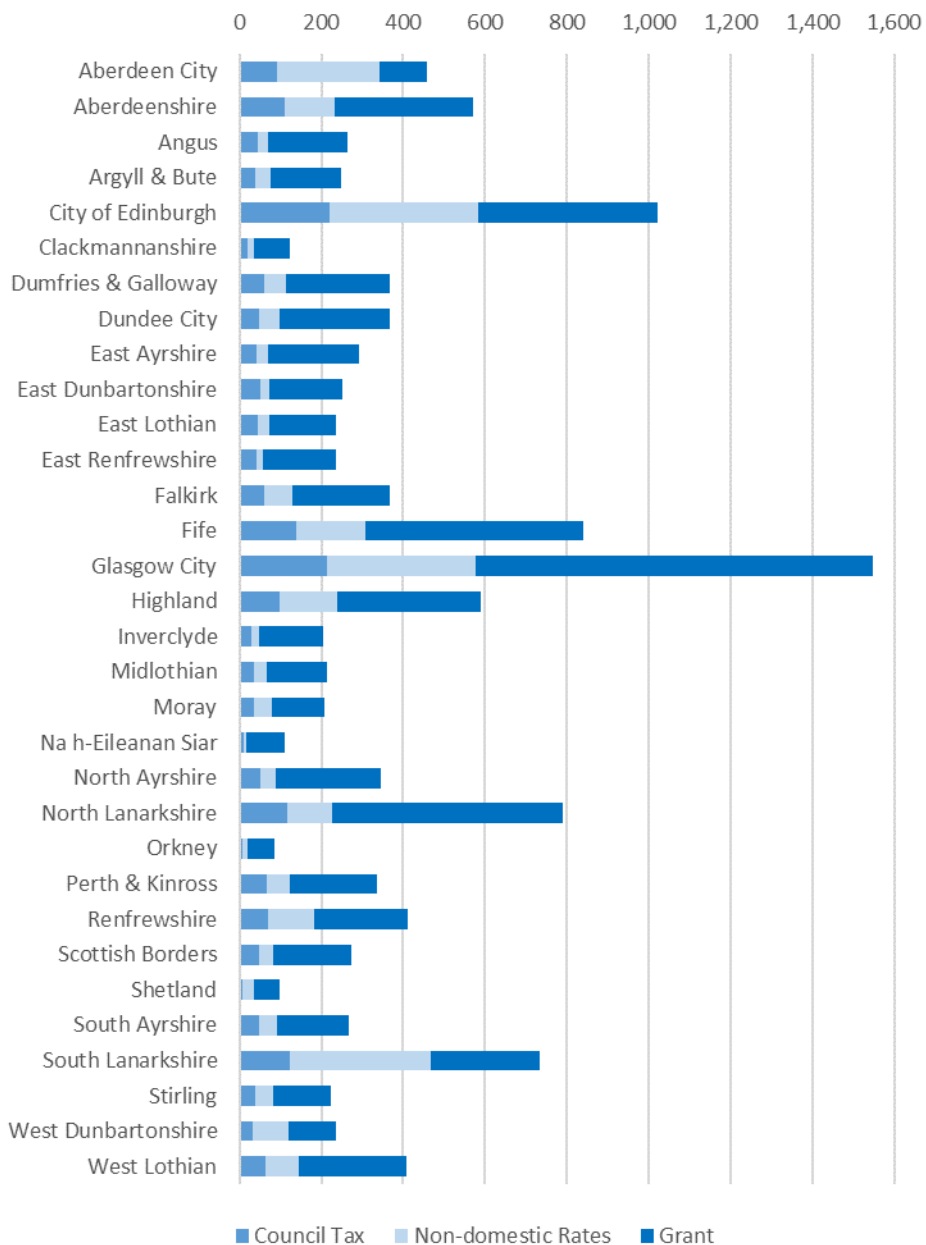
Non-domestic Rates are charged on all businesses and other organisations that use properties. Their properties are valued and Rates are collected in proportion to their value. Some properties are exempt from Non-domestic Rates, or pay reduced amounts.

The Commission made assumptions, based on the latest data, about how many more or fewer properties there would be in 2020-21. (The forecasts were later revised down because of rates-relief due to the Covid-19 pandemic.)

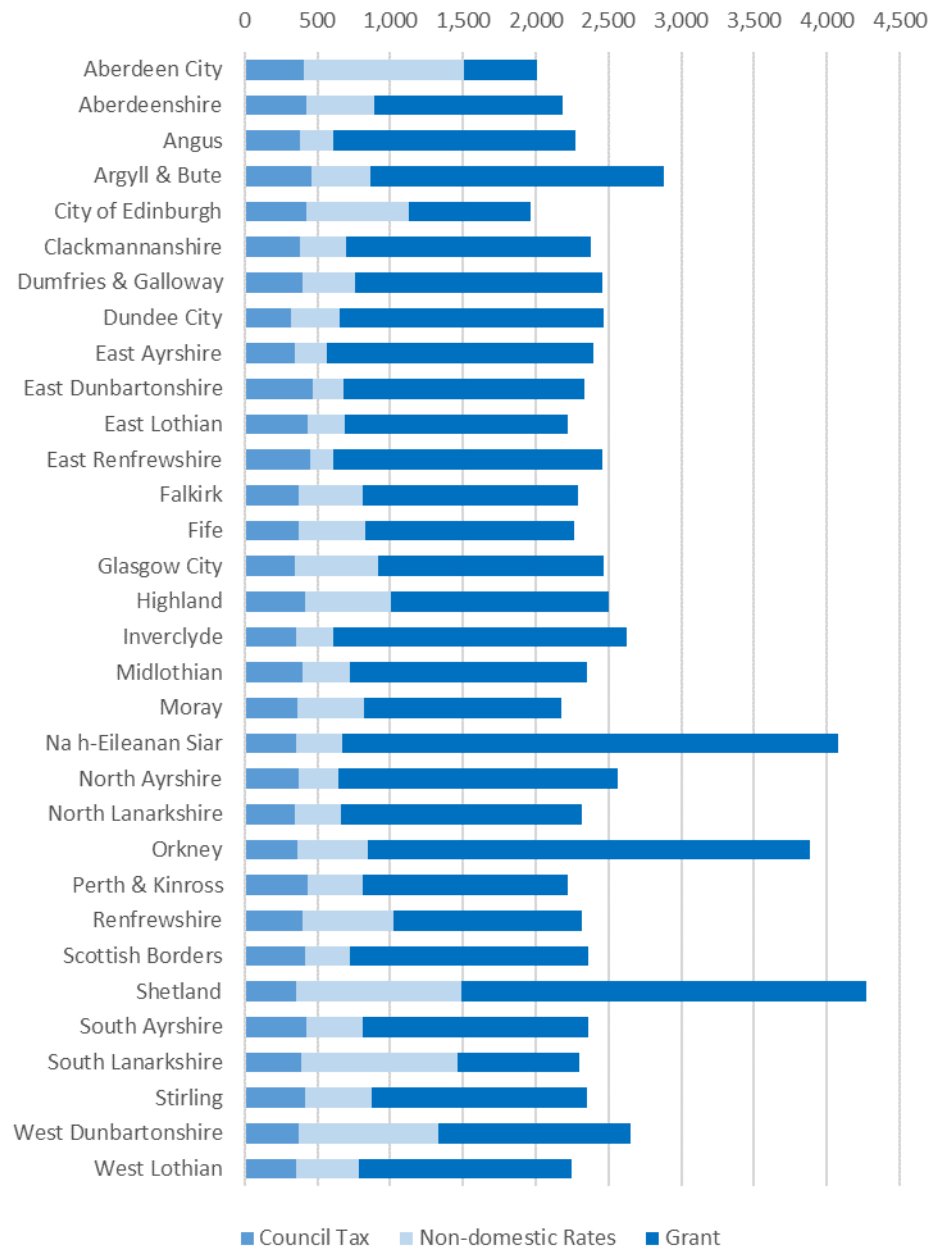
Unlike Council Tax, the level of Non-domestic Rates is set nationally by the Scottish Government.

# How much did each council receive?

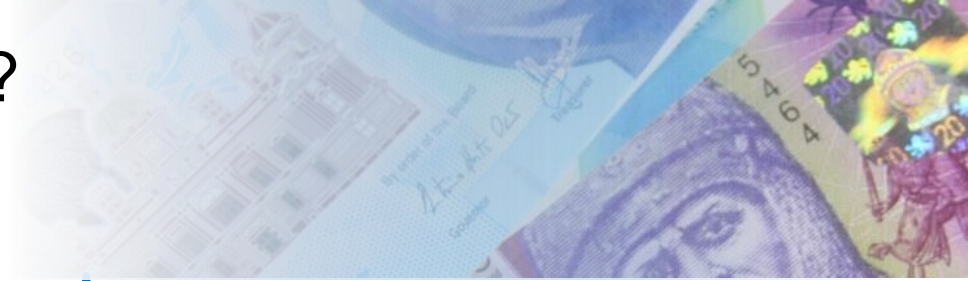
## Allocations, £ millions



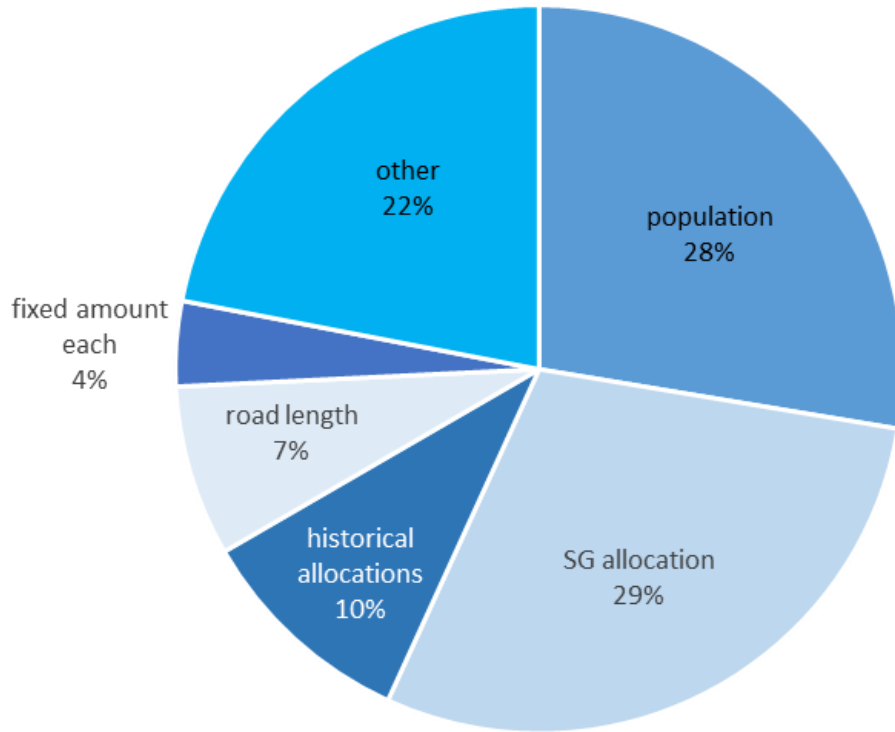
## Allocations, £ per person



# How were Capital Projects funded?



Summary of the 11 different indicators used in the formulae



Total Capital Grant provided in 2020-21

**£778 million**

All of the funding referred to so far has been for day-to-day running costs, called 'revenue spend'. In addition to that, councils also spend on longer-term capital projects, such as flood defences, town centre renewal and road building.

In the past this was funded by borrowing, with the Scottish Government providing a grant to fund repayments. But now the Scottish Government provides a Capital Grant to fund capital projects.

The Capital Grant was also distributed by means of a funding formula, based largely on population and road-length. Some funding was ring-fenced for specific projects such as flood defence.

Capital funding cannot be used on day-to-day running costs, but councils can use some of their revenue funding to pay for capital projects.

# The Funding of Local Government in Scotland 2020-21

## Data sources and more information

Annex providing a breakdown of the allocation funding formula ('the Green Book')

[www.gov.scot/publications/grant-aided-expenditure/](http://www.gov.scot/publications/grant-aided-expenditure/)

### **Other Publications**

The Scottish Government produces a series of publications relating to Local Government spend and income sources.

[www.gov.scot/collections/local-government-finance-statistics/](http://www.gov.scot/collections/local-government-finance-statistics/)

Finance Circulars

[www.gov.scot/collections/local-government-finance-circulars/](http://www.gov.scot/collections/local-government-finance-circulars/)

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### **Data tables**

The data used to create the charts in this publication are available online in the accompanying spreadsheet.

<https://www.gov.scot/ISBN/978-1-80004-267-4>

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