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publication for Scotland

The Funding of Local Government in Scotland, 2021-22

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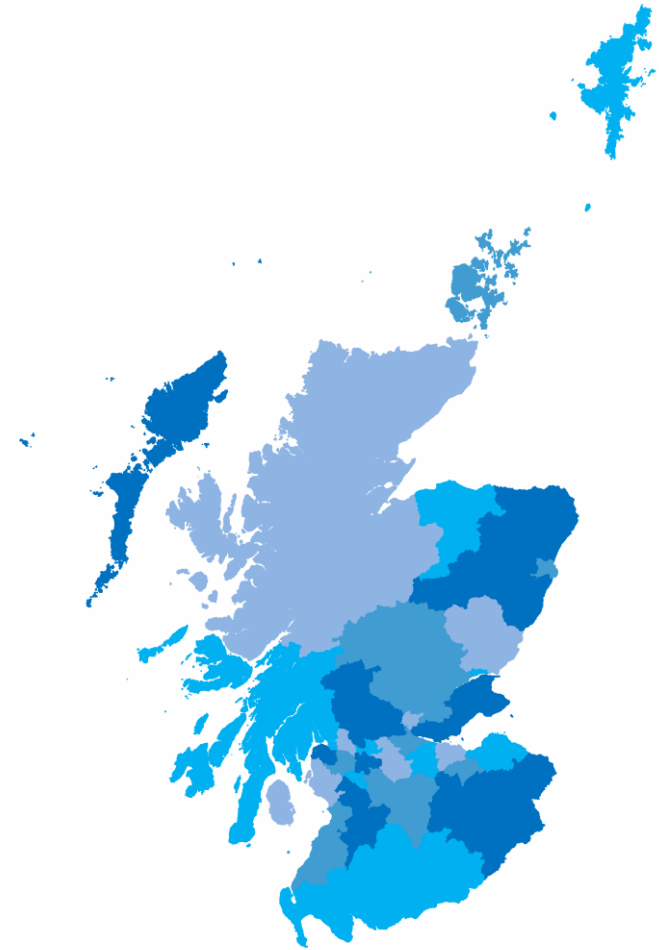
The Funding of Local Government in Scotland 2021-22

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 2021-22.



During 2020 and 2021 large amounts of additional funding were made available to councils due to the Covid-19 pandemic - over £1.25 billion so far. These funds are not included in this publication. The forecast income from Non-domestic Rates was also lower due to the pandemic.



Where do councils get their funding from?

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.

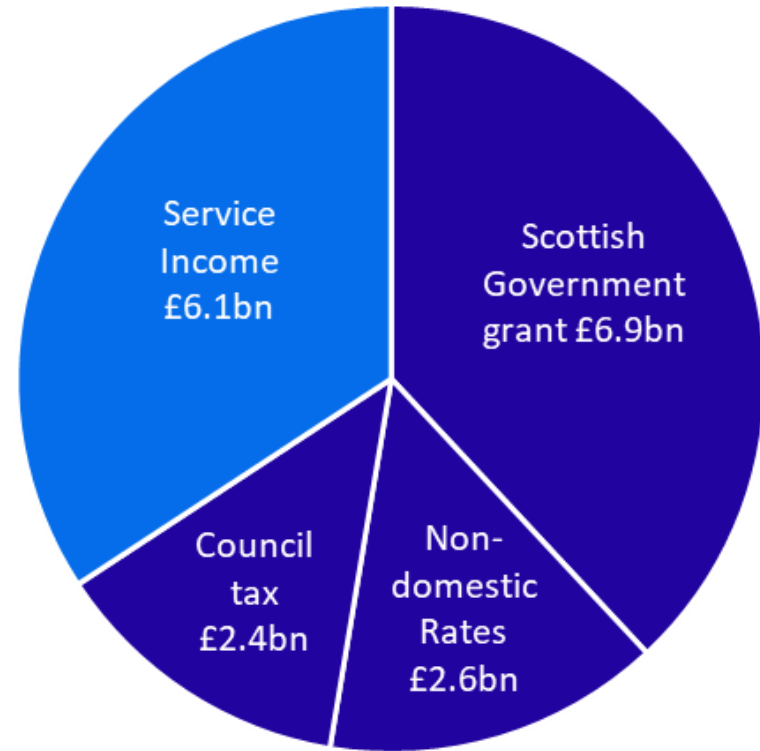
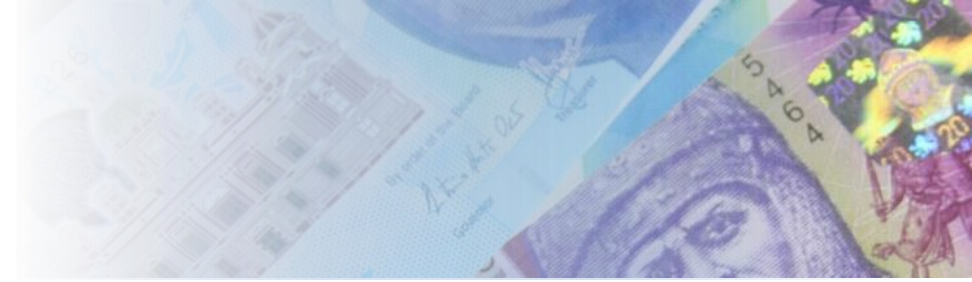
The largest share of general funding was Scottish Government grant, which in 2018-19 was £6.9 billion, or 58 per cent of general funding.

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.

Total council
spend 2018-19

£18
billion



A complete analysis of Local Government spend is published in [Scottish Local Government Finance Statistics](#). 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.

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

For 2021-22, councils will receive £13.1 billion of general funding. So, considering just this general funding:

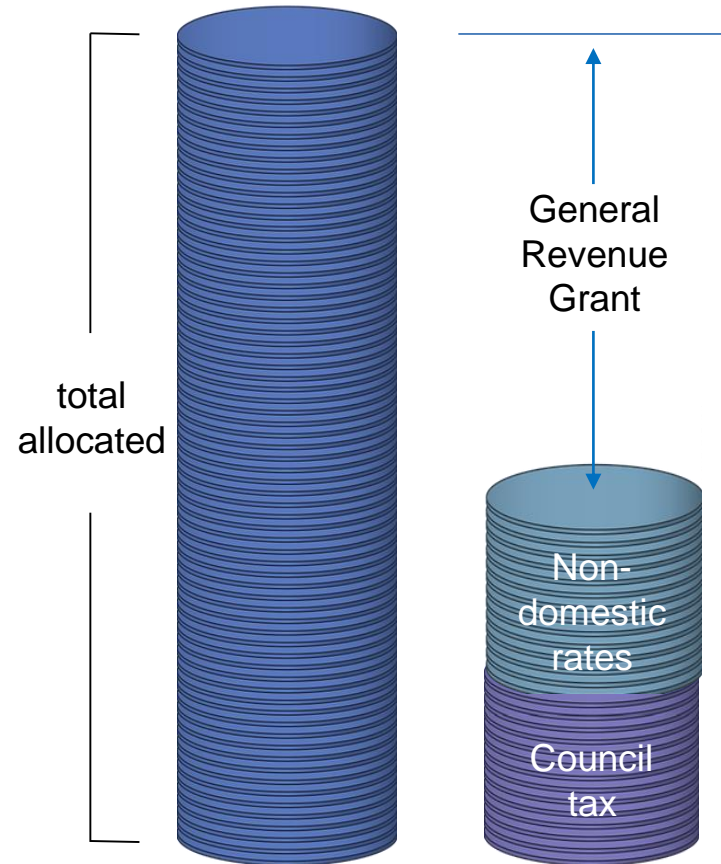
1. We calculated each council's fair share of the £13.1 billion of available funding.
2. Then we subtracted how much income we estimate each will receive from Council Tax and Non-domestic Rates.
3. Then the remainder was given as grant, called General Revenue Grant.

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.

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

General Funding of
councils in
2021-22

**£13.1
billion**



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

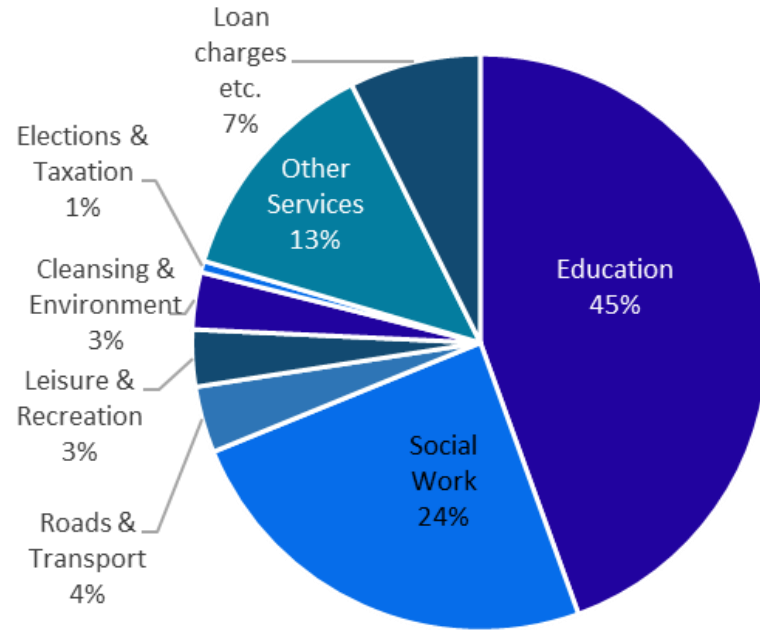
The first part of the process was to calculate each council's fair share of the £13.1 billion. To do this each service area was considered separately. For 2021-22 there were 151 such areas considered.

For example, within Education there were 36 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. In most cases, those totals are just kept constant each year.

You can see a full list of the 151 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/

Number of
different service
areas considered

151



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 £13.1 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.

What information was used to calculate the allocations?



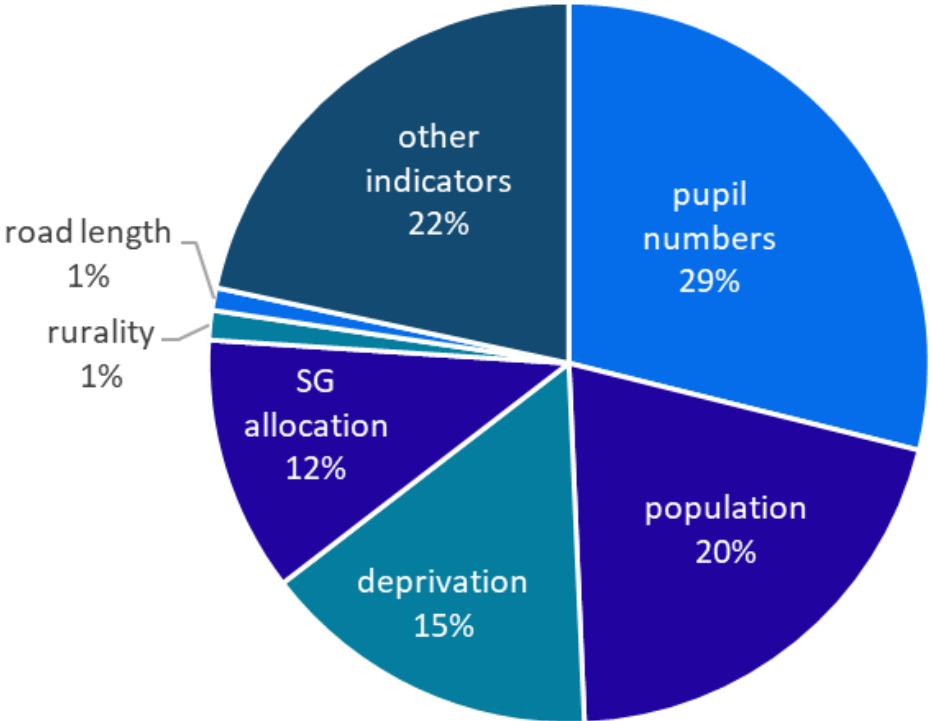
Each service area had a different funding formula. So, for example

- 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 £98 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 also 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.

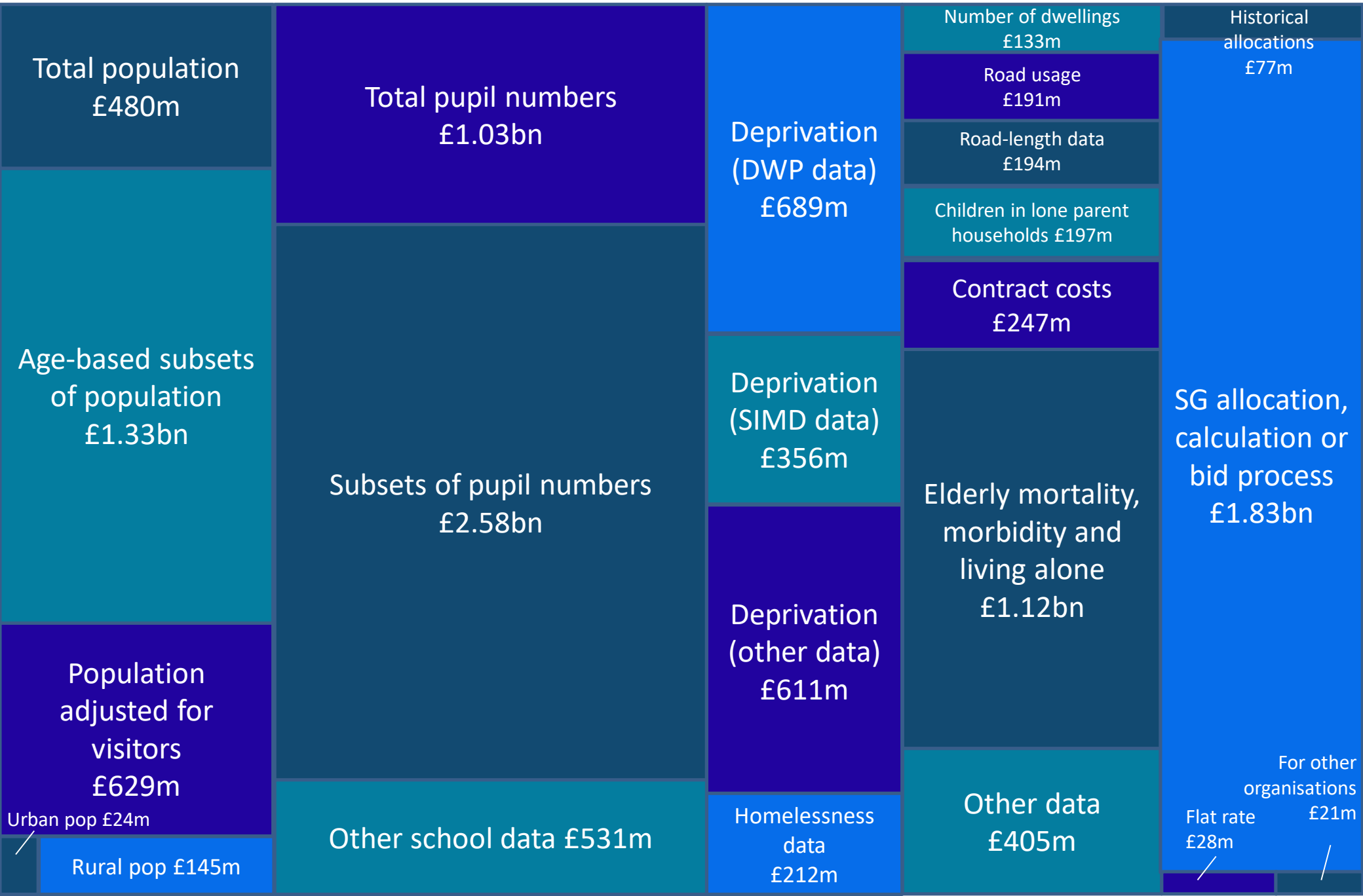
Summary of the 123 different indicators used in the funding formula



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

49%

Summary of the data used to distribute the 2021-22 settlement

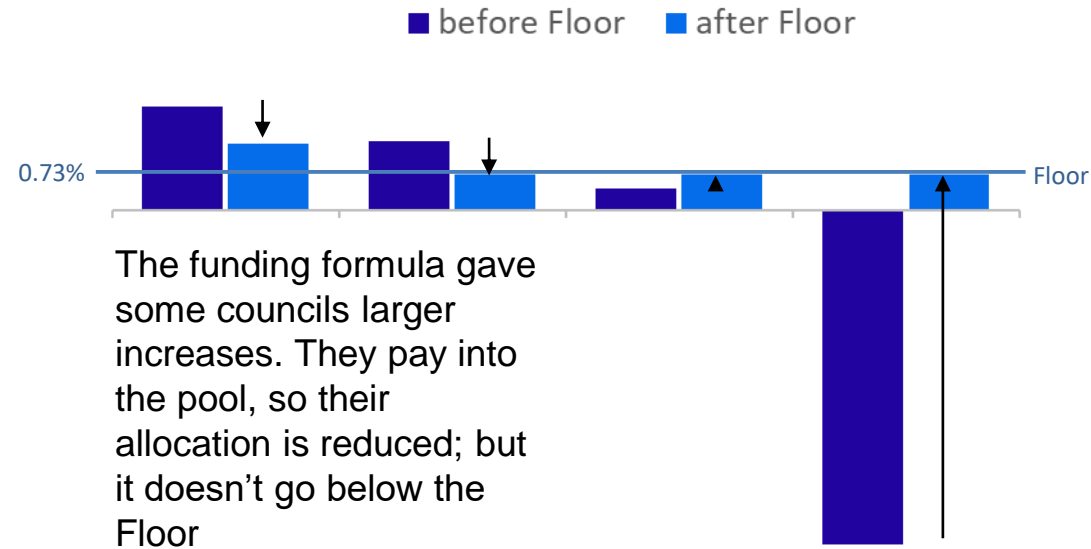
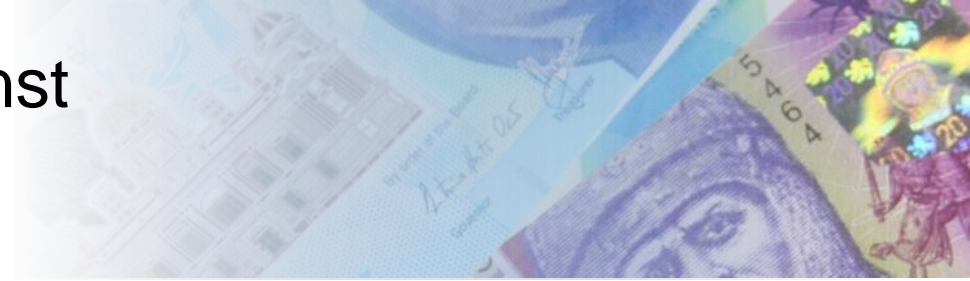


How were councils protected against large changes in their allocation?

After we had used the funding formula to calculate each council's share, we compared the allocations with the previous year. Naturally some councils received a larger percentage increase than others. We then set a lower limit on the change, called 'the Floor', so that each council would receive at least that increase.

To do this, first we worked out the average percentage change, comparing all but a few areas of the formula. We then set the Floor slightly below that average. It meant that in 2021-22 councils are given at least a 1.73% increase in their regular funding.

Where the funding formula had given councils an increase greater than the Floor, they pay into a pool. This pool is then distributed to the other councils to bring them up to the Floor.



The funding formula gave some councils less than the Floor. So they receive additional allocation from the pool to bring them up to the Floor

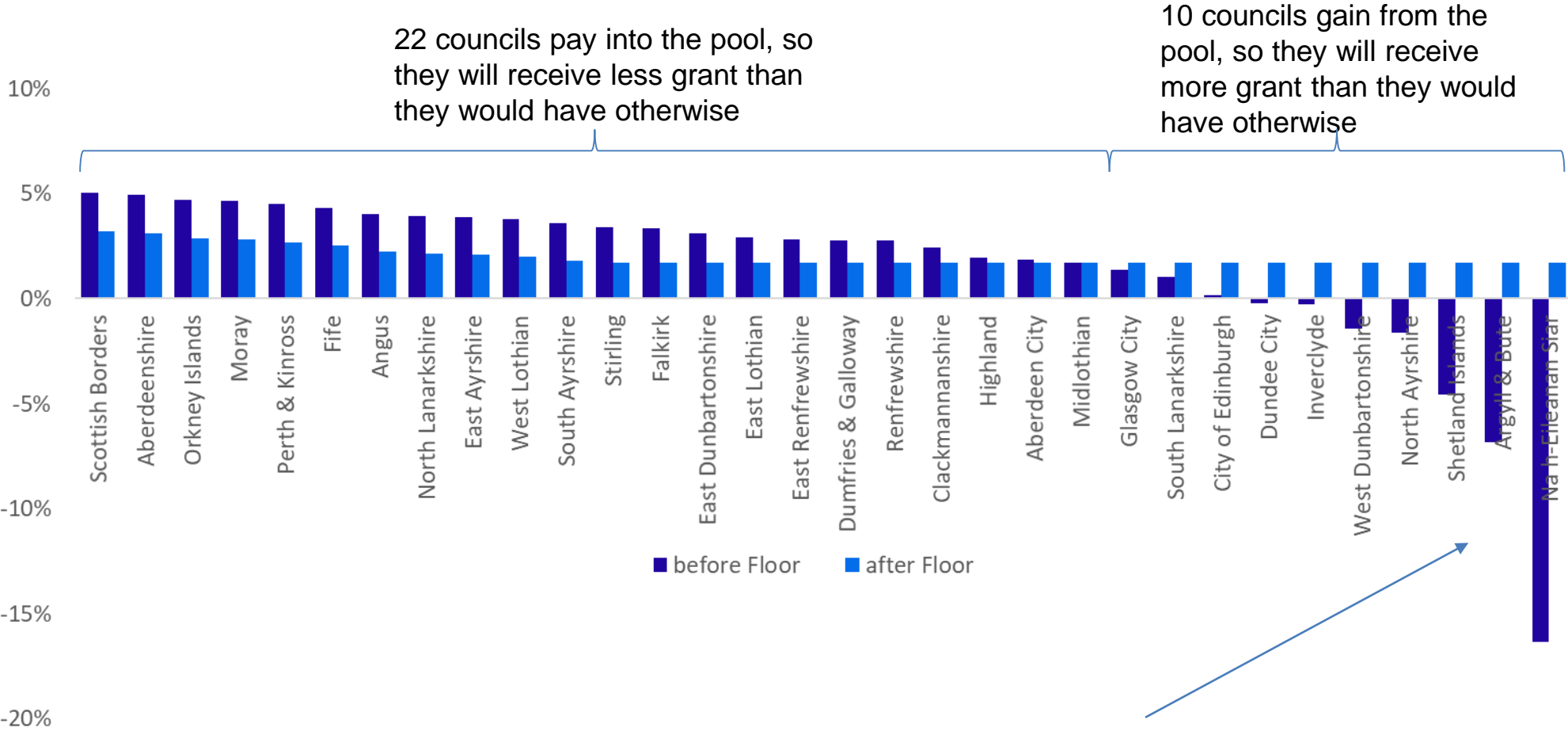
Number of councils who will receive additional funding from 'the Floor'

10

For 2021-22 the funding formula gave an additional £87 million to certain councils, compared to if everyone had just received the same percentage increase. We then reallocated eighty-two per cent of this back to the other councils by the Floor process.

Who will receive extra support from the Floor in 2021-22?

This chart shows what each council's allocation would have been, and what it is after we had set the Floor



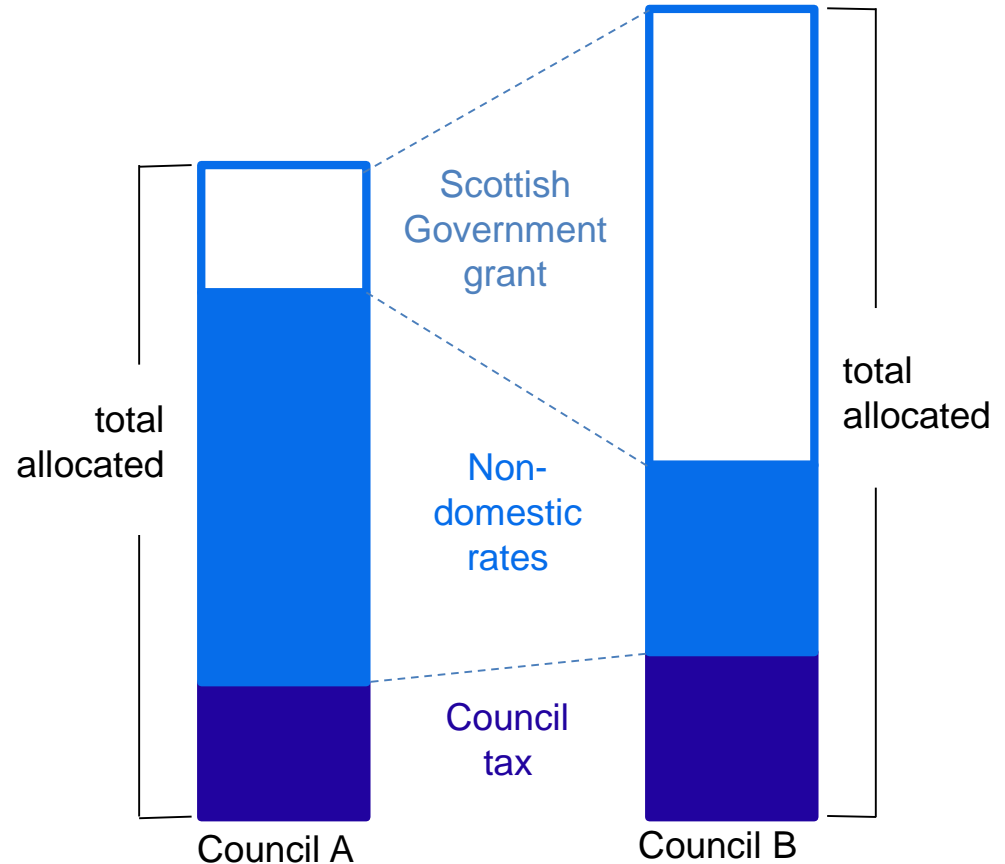
Changes due to the funding formula actually only vary between 4% and -1%. The changes are only this large because last year the councils also received funding from the Floor

So why will some councils get more Scottish Government Grant than others?

We have seen that the distribution of the £13.1 billion was based on an agreed funding formula, and then adjusted by the Floor.

The next step is to subtract the funding that we forecast 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 the 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.



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

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

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

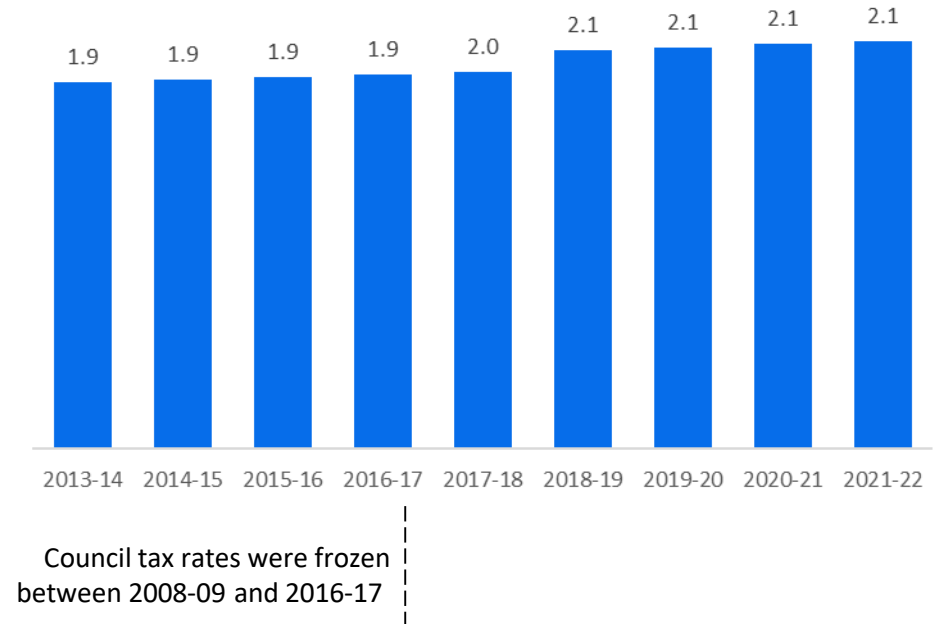
Councils collect Council Tax based on an historical valuation of houses, with houses placed into one of eight bands, A to H. The number of houses in each band determines how much each council can raise.

In 2020-21, Council Tax for a Band D property in different councils varied between £1,193 and £1,409. But, to calculate how much we assume they will raise, we assume that they all charge the same amount. We also assumed that there would be an increase in the total number of houses. We did not assume any Council Tax rise in 2021-22.

Revenue raised from Council Tax in 2019-20

£2.4 billion

Assumed income from Council Tax, £ billions



A council could also increase its Council Tax rates for 2021-22, which would then give it more income to spend on services. However, for 2021-22 the government has provided £90 million of additional funding, equivalent to each council increasing its Council Tax by 3 per cent. Councils would have lost this additional funding if they had increased their Council Tax rates for 2021-22.

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

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 2021-22, and also took into account rates-relief due to the Covid-19 pandemic.

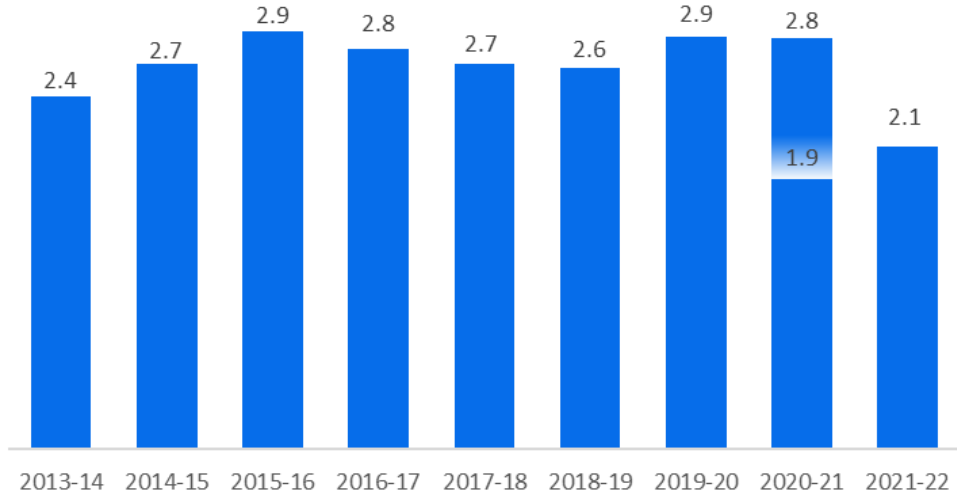
Unlike Council Tax, the level of Non-domestic Rates is set nationally by the Scottish Government.

Guaranteed revenue from Non-domestic Rates in 2021-22

£2.6 billion

Guaranteed income from Non-domestic Rates, £ billions

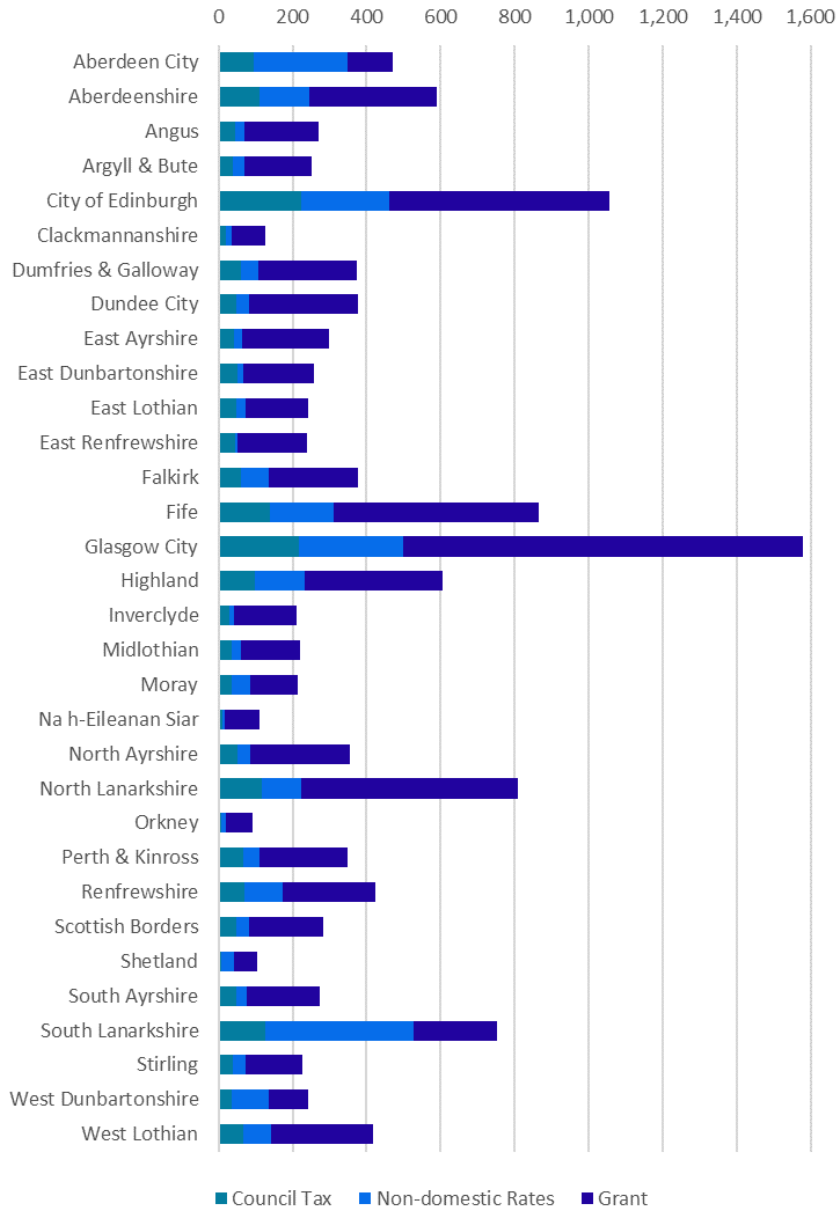
The 2020-21 figure was revised due to the pandemic



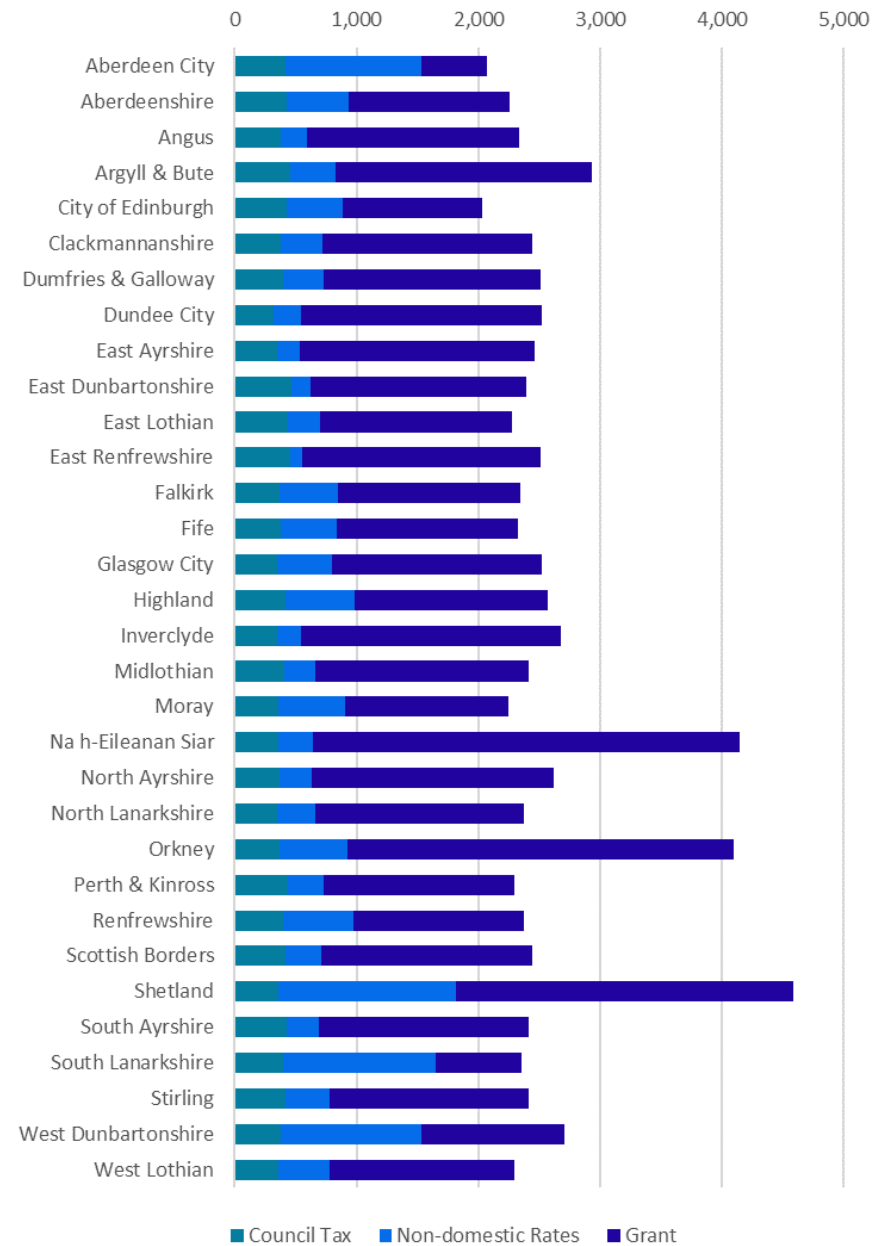
The amount actually collected differs from the forecast, sometimes it's more, sometimes it's less. To protect councils from these differences the Scottish Government guarantees the amount they will receive. The Scottish Government pays any shortfall, and keeps any extra collected, and then adjusts next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

How much will each council receive?

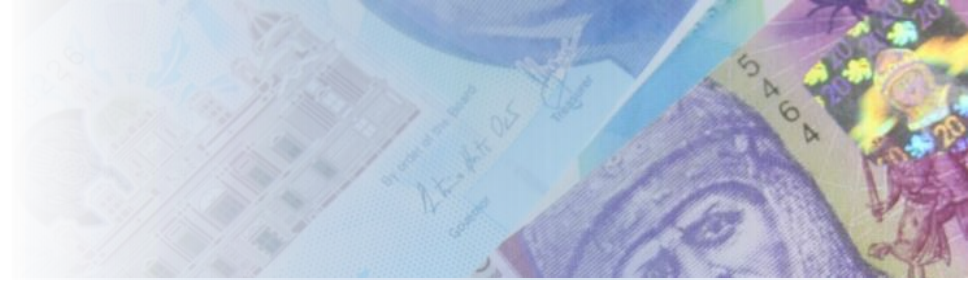
Allocations, £ millions



Allocations, £ per person



How are Capital Projects funded?



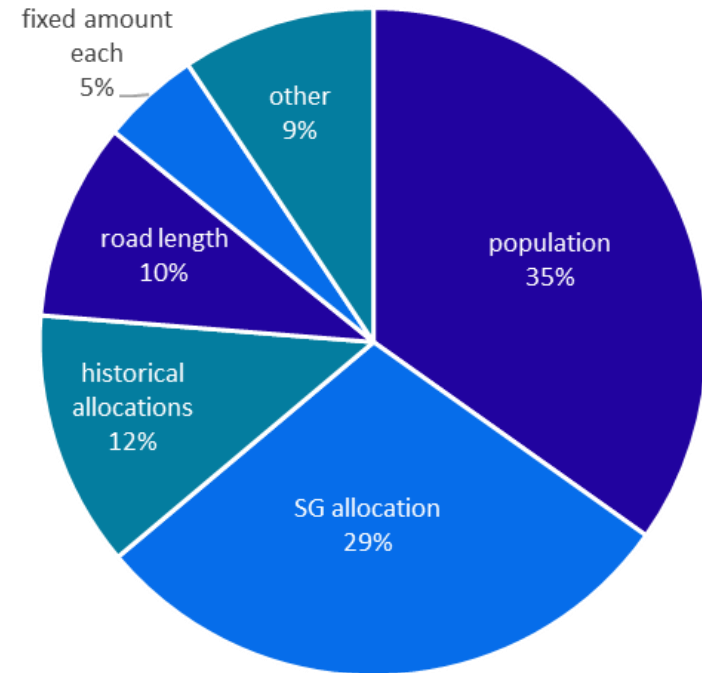
All of the funding referred to so far has been for day-to-day running costs, called 'revenue spend'. In addition to that, councils also spend on longer-term capital projects, such as flood defences, town centre renewal and road building.

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 is also distributed by means of a funding formula, based largely on population and road-length. Some funding is 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.

Summary of the 11 different indicators used in the formulae



Total Capital Grant
provided in 2021-22

£629
million

The Funding of Local Government in Scotland 2021-22

Data sources and more information

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

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/

Finance Circulars

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/978-1-80004-904-8>

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