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**Research Report**

## Council and school funding

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**Institute for Fiscal Studies**

**IFS Report R241**

Kate Ogden,  
David Phillips  
Luke Sibieta

# **Council and school funding**

## 4. Council and school funding

Kate Ogden, David Phillips and Luke Sibieta

After health, funding for Scottish councils is the second largest item in the Scottish Government's Budget. In the original 2022–23 budget as passed by the Scottish Parliament, the Scottish Government allocated £10.6 billion to councils as part of the main local government portfolio, with further funding from other portfolios increasing the amount initially provided in the annual local government finance settlement for resource (i.e. non-capital) spending to £12.0 billion.

This funding supports a range of service areas including schools, early-years education and childcare, adults' and children's social care, environmental and regulatory services, local transport, leisure and cultural services, planning and local economic development, and housing advice and regulation. Additional funding is raised by councils themselves through council tax and sales, fees and charges, and via contributions from public sector bodies such as the National Health Service (NHS).

The 2010s saw cuts to councils' funding and spending, but more recently funding has been increasing again. This chapter of the report therefore first looks at how Scottish councils' spending on local services changed during the 2010s, splitting spending into spending on schools and spending on other services to allow for easier comparisons of trends in England (although differences in data and responsibilities mean these comparisons are somewhat rougher for the 'other services' category). It then looks forward to 2023–24 and 2024–25, looking at the outlook for overall council funding including for schools, and how this compares with England.

### Key findings

1. Changes in the responsibilities of Scottish councils over time mean that it is not possible to carry out a fully like-for-like comparison of their funding over time. However, it is possible to adjust for some of the main changes in councils' responsibilities, such as the centralisation of police and fire services. After doing this, we estimate that Scottish councils saw a real-terms reduction in funding from grants from the Scottish Government and council tax of around 9%–10% between 2009–10 and 2018–19, equivalent to a fall of around 13% per person.

2. Funding for Scottish councils has increased since 2018–19, and as of 2022–23 is around 2% lower in real terms than in 2009–10, which is equivalent to a fall of around 5% per person. However, part of the recent increases in funding relate to new responsibilities and, most notably, to the expansion of free childcare for children aged 2, 3 and 4. Stripping out ring-fenced funding for this particular ‘new burden’, council funding remains around 5% lower in aggregate and 8% lower per person than in 2009–10.
3. Scottish councils received approximately £1.8 billion in COVID-19 grants during 2020–21 and 2021–22 to address pandemic-related pressures. Net expenditure did increase for a range of services, often reflecting the fact that additional grant funding had to make up for the loss of income from sales, fees and charges (such as parking charges). But councils also increased their general fund reserves by around £1.3 billion over the same two years, which suggests that the additional funding they received exceeded the short-term financial pressures they faced, or that they struggled to spend funds well. Councils may now be drawing down these reserves, given unexpectedly high inflation, with further drawdowns likely in future in light of a challenging funding outlook.
4. Within the overall cuts to councils’ funding, some services have seen spending increase. For example, after initially falling, real-terms spending on early-years childcare and schools is likely to be around 19% above 2009–10 levels by 2021–22. This partly reflects a big boost to teachers’ pay in Scotland in 2019–20, as well as the aforementioned expansion of free early-years childcare.
5. As a result of these spending increases, school spending per pupil aged 3–18 is estimated to have been 17% higher in Scotland in 2021–22 than in 2009–10. This is in stark contrast to England where it is estimated to have been 2.5% lower than in 2009–10. Spending per pupil in 2021–22 is estimated to be 25% higher in Scotland (£8,800) than in England (£7,100), up from 4% higher in 2009–10.
6. Scottish councils’ spending on social work and social care also increased in real terms during the 2010s: by 8% on a net basis between 2009–10 and 2019–20, or 15% on a gross basis, also accounting for client charges and contributions from other organisations such as the NHS. But spending on other council services fell substantially during the 2010s: central administrative services (–55% net and –39% gross), planning and development (–52% net and –23% gross), housing (–38% net and –27% gross), roads and transport (–29% net and –9% gross), and culture (–29% net and –29% gross). This pattern is similar to England although the overall cut to non-schools spending is somewhat lower in Scotland, especially after accounting for its

slower population growth (which means spending has to provide for fewer additional people).

7. Turning to the future, it appears that after several years of real-terms increases, Scottish councils' funding may fall again in real terms. For example, after adjusting for in-year top-ups to councils funding in 2022–23 and stripping out funding for new burdens next year, grant funding for Scottish councils is set to fall by around 1% in real terms. Even 5% council tax increases would not be enough to fully offset this, and would still leave funding around 0.3% lower in real terms in 2023–24 than in 2022–23.
8. The outlook for 2024–25 is uncertain but is likely to be even tougher, given that overall funding for Scottish Government non-benefit spending is set to fall by 1.6% in real terms. If grant funding for Scottish councils were to change in line with this, 5% council tax increases would still see a further real-terms cut to overall funding of 0.5% on top of that seen in 2023–24. The cuts to councils' funding in 2024–25 would be substantially larger – potentially 4% – if the Scottish Government were to increase funding for health services and 'net zero' by the same percentage as in the Budget for 2023–24, and reduce grant funding for councils in line with the rest of the Budget.
9. The contrast with England over the next two years is therefore striking. Big increases in grant funding for councils announced in the November 2022 Autumn Statement mean that funding for English councils and schools (which is a separate budget line in England) is set to increase by 3% in real terms in 2023–24 and 2% in 2024–25, even if council tax rates are frozen in cash terms; with 5% increases in council tax rates, the real-terms increases would be 4.5% and 3.7%, respectively, for these two years. Given current plans and forecasts, the next few years are therefore likely to see something of a reversal of fortunes for Scottish and English councils and schools.

## 4.1 Recent trends in council funding and spending

Analysis of how Scottish councils' funding has changed over time is not straightforward because of changes to the way in which funding is allocated from central to local government, shifts in responsibilities between central and local government, and entirely new responsibilities. For example, 2013–14 saw the UK-wide council tax benefit replaced with local schemes to assist

low-income households to pay council tax,<sup>1</sup> and the shifting of police and fire services to new Scotland-wide bodies funded outside of the local government finance settlement in the same year. Recent years have also seen expansions of childcare, and free personal care for adults under 65, for instance, with funding for these provided as part of the local government finance settlement. Also, a growing proportion of councils' funding takes the form of 'ring-fenced' grants that must be spent on particular types of services, rather than as general funding, which councils have discretion over how to spend.

It is not possible to adjust perfectly for all of these factors – and, in particular, for all of the new responsibilities that councils have. It is therefore not possible to construct a fully consistent series of council funding for the same set of responsibilities over time. Approximate adjustments for the shift in responsibility for funding police and fire services and means-tested support for council tax are possible but the former, in particular, means that comparing periods pre- and post-April 2013 must be treated with a degree of caution.

Bearing this in mind, Figure 4.1 shows estimates of Scottish councils' resource funding for the period between 2009–10 and 2022–23 based on the updated local government finance settlements for these years (published alongside the initial settlements for the following years), and councils' reported council tax revenues.<sup>2</sup> Funding is separated into four streams: general grant funding plus business rates revenues; specific grant funding; pandemic-related grant funding; and council tax revenues, as reported in councils' revenue outturns (up to 2021–22) or budgets (2022–23). All values are in 2022–23 prices using the GDP deflator to adjust for inflation.

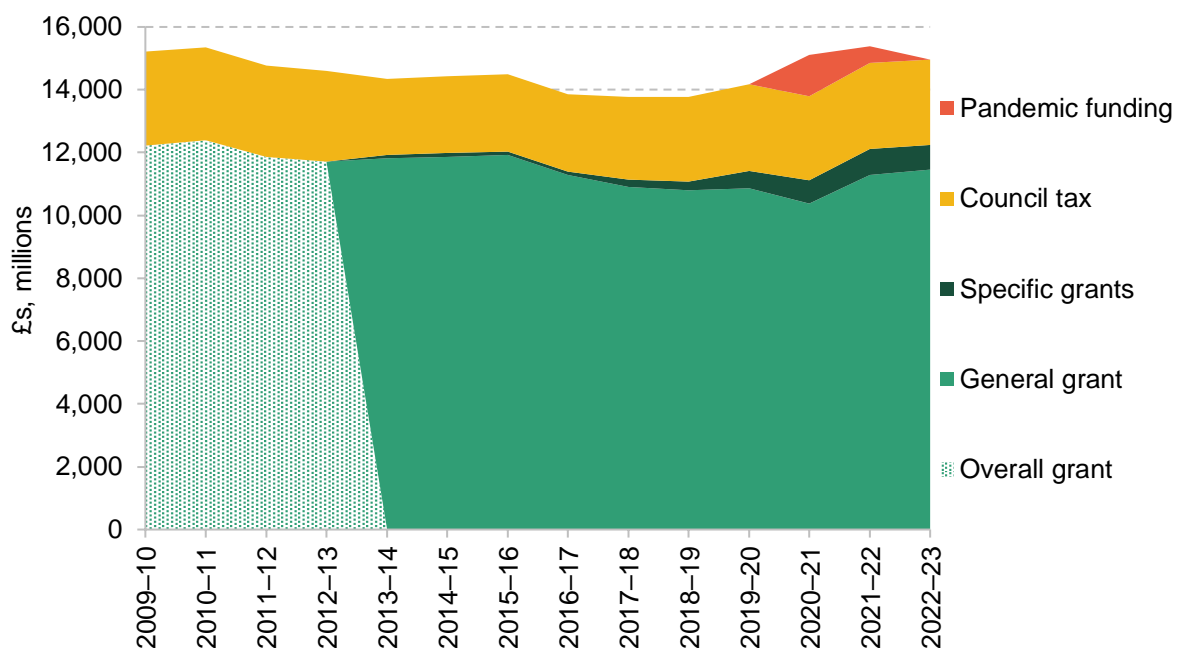
The figure shows that overall council funding from general and specific grants and council tax fell by an estimated £1.4 to £1.5 billion in real terms between 2009–10 and 2018–19, or 9.5%. After accounting for population growth, this is equivalent to a fall of just over 13% per person. Most of the fall took place in two periods: between 2010–11 and 2013–14 (and especially in 2011–12); and then in 2016–17. This trend reflects both a fall in grant funding from the Scottish Government and a real-terms reduction in council tax revenues as a result of the council tax freeze in place during most of this period and the localisation of means-tested support for paying council tax.

<sup>1</sup> Councils in Scotland apply a common set of rules specified by the Scottish Government but are responsible for delivering this support using the general grant funding provided to them.

<sup>2</sup> Estimates for years prior to 2013–14 are adjusted to remove an estimate of police and fire funding, assuming that the share of funding for police and fire was the average of the share subtracted in 2013–14 and 2014–15 (11.5%) when police and fire responsibilities were centralised, and should be treated as less precise. An alternative adjustment based on police and fire spending, and funding allocated for police and fire pensions, prior to 2013–14 produces similar results. See Fraser of Allander Institute (2017) for further discussion.

Since 2018–19, funding for Scottish councils has been increasing, mostly as a result of increases in grant funding from the Scottish Government. This includes around £1.3 billion of funding specifically to address pressures related to the COVID-19 pandemic in 2020–21, with a further £0.5 billion provided in 2021–22 (both figures are reported in 2022–23 prices). The substantial increases in councils’ reserves in both of these years suggest that this additional funding exceeded the net additional pressures on their budgets (or, if not, that councils had difficulty spending the funding well). Indeed, councils’ general fund reserves increased by around £1.3 billion over these two years, approximately doubling their value. This may be providing some support to councils’ budgets this year and over the next couple of years, to address the ongoing longer-term impacts of the pandemic and much elevated inflation.

**Figure 4.1. Scottish council resource funding, 2009–10 to 2022–23 (2022–23 prices)**



Source: Authors’ calculations using Scottish Government (2022a, b) and earlier versions, and Scottish Government (2022c).

Total grant funding this financial year, 2022–23, is estimated to be £1.2 billion higher in real terms than in 2018–19. This increase is split roughly 50/50 between general and specific grant funding. Council tax revenues have been broadly flat in real terms as increases in bills have broadly matched inflation (as measured by the GDP deflator). On this basis, council funding in 2022–23 is estimated to have almost returned to its 2009–10 levels in aggregate (just under 2% lower), although it remains notably lower after adjusting for population growth (just over 5% lower per person).

However, two factors are worth noting. First, as discussed in Chapter 2, the GDP deflator is likely to be underestimating inflation this year in particular, as it excludes the significantly increased costs of imported energy and food. Second, as discussed earlier in this chapter, part of the additional funding that councils have received is associated with new responsibilities. This includes the expansion of free early-years childcare, for which £522 million of ring-fenced funding has been provided in 2022–23. Stripping out this element of funding, real-terms funding is around 4% to 5% lower in aggregate and almost 8% lower per person this year than in 2009–10.<sup>3</sup>

How much of the overall funding provided by the Scottish Government to councils is for such ‘new burdens’ and how much is earmarked for particular services, as opposed to being subject to councils’ discretion, are both highly contentious issues though.

For example, the Convention of Scottish Local Authorities (COSLA) produces what it calls a ‘Budget Reality’ document that adjusts the headline cash change in Scottish Government funding for councils to strip out funding it estimates are required to meet Scottish Government policy commitments. For example, its iteration for 2022–23 (COSLA, 2021) argued that Scottish Government commitments and other policy pressures would cost councils almost £0.9 billion, which at that stage exceeded the additional funding being provided to councils by £0.1 billion. Some of the items represent genuine ‘new burdens’ (such as for bridging payments for low-income families, prior to the expansion of the Scottish Child Payment) but others represent additional funding for existing responsibilities (such as the Pupil Equity Fund, designed to boost attainment of children from deprived backgrounds). It therefore seems likely that the Scottish Government’s figures overstate the increase in funding for existing service responsibilities in recent years, but that COSLA’s figures understate the increase.

Turning to the issue of councils’ spending discretion, in both 2021–22 and 2022–23, £0.8 billion is ring-fenced (including the aforementioned funding for expansion of free childcare). However, the Accounts Commission (2023) calculates that, in 2021–22, an additional £2 billion in real terms was ‘directed funding’: not officially ring-fenced but provided with the expectation that it would be spent on specific services (equivalent figures are not yet available for 2022–23). Together with formally ring-fenced funding, this means ‘earmarked’ funding was equivalent to 23% of funding in 2021–22. Statutory duties and other agreed service standards may further reduce the discretion councils have to allocate funding between services. COSLA (2019), for instance, argues that over 60% of councils’ budgets are subject to Scottish Government earmarking and commitments.

<sup>3</sup> There was an earlier, smaller, expansion of free early-years childcare provision in 2014–15 but it is not possible to similarly strip out the funding for this expansion.



Partly as a result of this, the funding cuts that councils faced during the 2010s did not fall evenly across service areas. In the next two subsections, we therefore look separately at spending on schools and on councils' non-education services. This also allows for easier comparisons with England, where funding for schools is increasingly separated from other council funding.

## Spending on Scotland's schools

The largest single element of council spending in Scotland is spending on schools. Including spending allocated to schools and pre-school providers, as well as council spending on support services,<sup>4</sup> this amounted to £5.9 billion in today's prices in 2009–10, accounting for all grant funding and contributions from other public sector bodies. This measure of spending had increased to £6.5 billion in today's prices by 2020–21, an increase of around 10% in real terms. Figures for the current financial year, 2022–23, are not yet available but we estimate total spending increased further to about £7.0 billion in 2021–22, around 19% higher than in 2009–10.

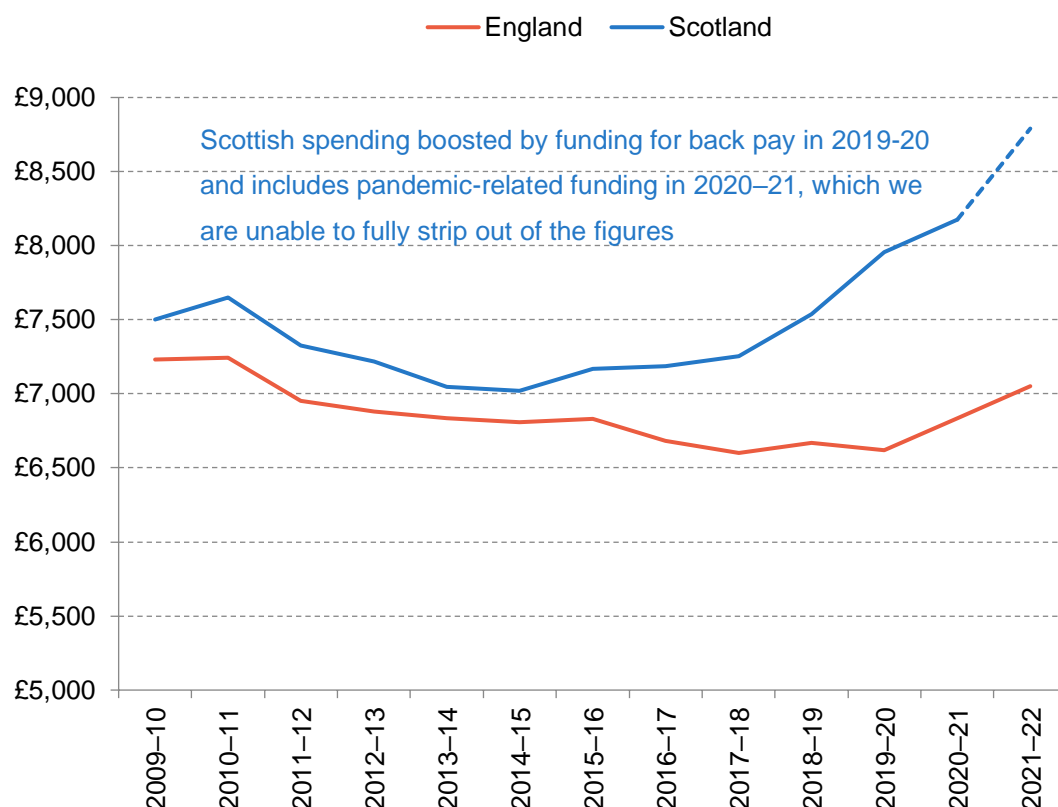
Figure 4.2 compares the level and trends in this measure of school spending *per pupil* across Scotland and England over time between 2009–10 and 2021–22. It includes all day-to-day spending on schools in both nations, including spending by individual schools and councils, as well as funding for school-based post-16 education, and funding for pre-school education.

In 2009–10, spending per pupil in Scotland was about £7,500 in 2022–23 prices, about £270 or 4% higher than the figure of £7,230 per pupil in England in 2009–10. By 2021–22, we estimate that school spending per pupil in Scotland grew to about £8,800 per pupil, approximately £1,700 or 25% higher than in England. This increasing divergence has been shaped by differing policy choices and trends over time.

Starting with England as a benchmark, spending per pupil fell by 9% between 2009–10 and 2019–20. Following extra funding allocated at recent spending reviews, it has since begun to grow again. As a result, we estimate that spending per pupil in England will return to at least 2010 levels by 2024–25 (Drayton et al., 2022).

<sup>4</sup> In Scotland, councils play a considerable role in shaping school spending levels, budgets and expenditure decisions: they are directly responsible for about one-third of school spending, with about two-thirds devolved to individual schools, albeit subject to oversight from their council (Jerrim and Sibieta, 2021). Scottish councils also have considerable freedom to determine how much funding is allocated to individual schools. This contrasts with England, where over 90% of school spending is devolved to individual schools. The ability of councils in England to determine the distribution of funding to schools in their area is also gradually being reduced, and will be removed altogether when a 'hard' National Funding Formula is introduced.

Figure 4.2. School spending per pupil in Scotland and England, 2022–23 prices



Note: Planned/provisional spending levels are indicated by the dashed line.

Source: Figures for England are taken from figure 5.1 in Drayton et al. (2022). Total school spending for Scotland is based on net revenue spending on schools plus all education-related specific grants from central government (specific grant figures relate to schools in 2009–10 and 2010–11, but also include the relatively small number of non-schools education-specific grants from 2011–12 onwards). These figures were kindly supplied by the Scottish Government on a consistent basis from the underlying data for the Scottish Local Government Financial Statistics, 2009–10 to 2019–20

(<https://www.gov.scot/collections/local-government-finance-statistics/>). Figures for revenue education spending and specific grants for 2020–21 were taken from Scottish Local Government Financial Statistics, 2020–21 (<https://www.gov.scot/collections/local-government-finance-statistics/>). Figure for 2021–22 was taken from 'Local government provisional outturn and budget estimates' (<https://www2.gov.scot/Topics/Statistics/Browse/Local-Government-Finance/POBESats>). Specific grants for 2021–22 are based on 'Local government finance circular 5/2021: settlement for 2021–2022', (<https://www.gov.scot/publications/local-government-finance-circular-5-2021-settlement-for-2021-2022/>) together with a assumed cash-terms freeze in other central government grants. Full-time-equivalent pupil numbers are calculated as the sum of pupils in state-funded schools and early education centres (<https://www.gov.scot/collections/school-education-statistics/>). HM Treasury GDP deflators, January 2023 (<https://www.gov.uk/government/collections/gdp-deflators-at-market-prices-and-money-gdp>).

In Scotland, spending per pupil fell by 6% in real terms between 2009–10 and 2014–15. This is mostly in line with cuts seen in England. These cuts then began to be unwound in Scotland, with spending per pupil growing by 7% in real terms between 2014–15 and 2018–19. As such, the second half of the 2010s shows the start of a divergence in spending between Scotland and England, where spending per pupil continued to decline.

In 2019–20, there was a large increase of 6% in real terms or an extra £400 per pupil in Scotland. This increase largely reflects the Scottish Government's decision to increase teacher pay scales by 7% from April 2019 (with a further increase of 3% backdated to April 2018). This led to an unusually high level of spending per pupil in 2019–20. The increases in more recent years also reflect the initial ramping up of funding for the expansion of free childcare for children aged 3 and 4 and for disadvantaged children aged 2, who are now entitled to 30 hours free childcare per week during term time (up from 16 hours previously).

This expansion of free childcare was funded by a ring-fenced grant. The latter half of the 2010s also saw a more general expansion of ring-fenced grants for schools, including the Pupil Equity Fund, which, like the Pupil Premium in England, provides extra funding to schools with greater numbers of disadvantaged pupils. The total amount of specific grants provided for schools and pre-schools grew from just under £50 million in 2014–15 (less than 1% of total school spending) to reach over £500 million in 2019–20 (nearly 10% of total school spending).

This further increased to £800 million in 2020–21 with the ramping up of funding for the childcare expansion and, at least, £80m in ring-fenced pandemic-related grants. We estimate that total specific grant then remained at around £800 million for 2021–22.

This increase in ring-fenced funding contributed to a further increase in spending per pupil in 2020–21 and 2021–22, when it amounted to £8,200 and £8,800, respectively, in today's prices. This means that, by 2021–22, spending per pupil in Scotland was about 17% higher in real terms than in 2009–10. This contrasts with England, where – remarkably – spending per pupil was still lower than 2010 levels in real terms. As a result, school spending per pupil aged 3–18 in Scotland was an estimated £1,700 or 25% higher than in England in 2021–22, a much more significant gap than in 2009–10.

It is difficult to project spending per pupil in Scotland for 2022–23. Councils are likely to have budgeted for at least £6.6 billion in total spending in 2022–23. Given high levels of inflation, this would equate to a real-terms cut to spending per pupil. However, the final level of spending on schools in Scotland is likely to be higher once teachers and employers reach an agreement on salary increases for the current financial year. Once this is agreed, extra funding is likely to be provided to pay for this increase and back pay, either within 2022–23 or the next financial year.

## Spending on Scotland's other council services

Spending on the other services that councils provide fell in real terms during the 2010s, with most of the fall in the early part of the decade and then in 2016–17. This is illustrated in Figure 4.3, which shows the trends in non-education service spending between 2009–10 and 2020–21. The green line shows an adjusted version of net expenditure, which is the amount that councils pay for from their general purpose and ring-fenced grant funding, provided as part of the local government finance settlement, and their own council tax revenues.<sup>5</sup> The blue line shows an adjusted version of gross expenditure, which also includes spending funded by other grants and contributions to council services by the government and other public sector bodies (adjusted to strip out transfers to and from Social Care Integration Boards in 2019–20 and 2020–21, and grants from the UK government to pay for housing benefit), as well as income from sales, fees and charges (including rents).<sup>6</sup> The latter shows the extent to which income from clients and from other public sector bodies has offset reductions in councils' core grant funding and council tax revenues.

The figure shows that adjusted net expenditure on non-education services was approximately £1.2 billion lower in real terms in 2019–20 than in 2009–10: a fall of approximately 15%. After adjusting for population growth, this is equivalent to a reduction in spending of 18% per person. The reduction in adjusted gross expenditure during the 2010s was rather smaller: 8% in aggregate or 10% per person. This reflects an increased contribution to the cost of delivering council services by grants and other contributions from public sector bodies (such as the NHS) outside of the local government finance settlement; income from clients via sales, fees and charges has also declined in real terms.

This is a somewhat smaller cut than faced by English councils' non-education services, for which net service spending fell by 17% in real terms on an aggregate basis, and by 23% per person, between 2009–10 and 2019–20, after accounting for shifts in responsibility and funding from the NHS to councils. The smaller overall cut to non-education services may reflect the smaller overall cuts faced by the Scottish Government (Phillips, 2014, 2021), and the fact that spending on the NHS was prioritised somewhat less than in England (Farquharson, Phillips and Zaranko, 2021). Offsetting this is the fact that most of the additional funding this has enabled the

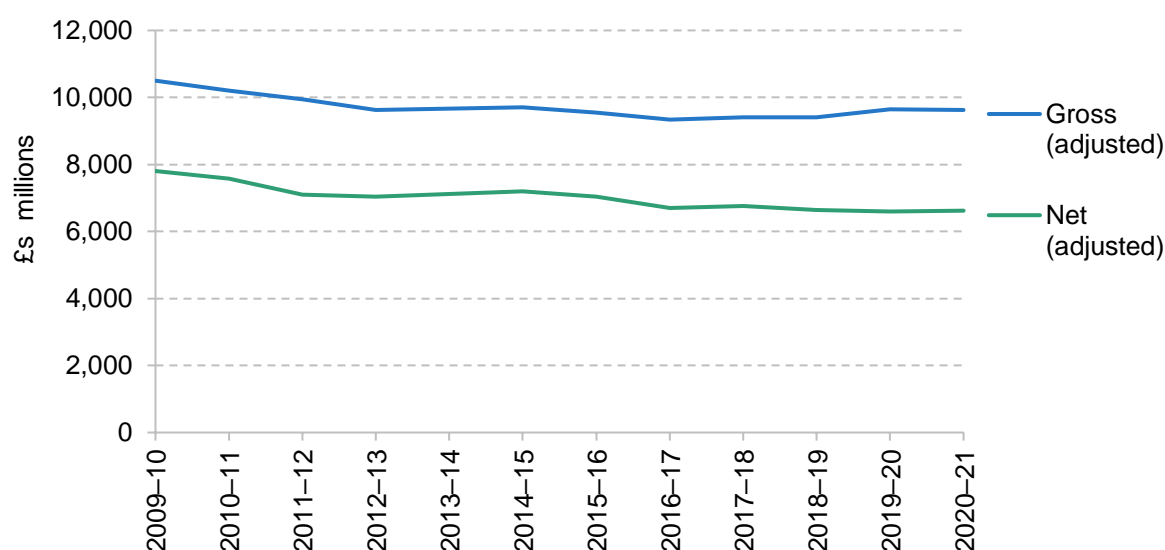
<sup>5</sup> Since 2011–12, ring-fenced grants provided via the local government finance settlement have been netted off Scottish councils' spending in official estimates of net service expenditure. We add this grant funding back in to make figures from before and after 2011–12 consistent and to make Scottish figures more comparable to spending figures in England, where they are not netted off when calculating net service expenditure.

<sup>6</sup> As part of plans to better integrate health and social care services, starting in 2019–20, Integration Boards have routed large sums of funding via Scottish councils. This has led to a big increase in offsetting transfers to and from the Integration Boards, which substantially increase both gross expenditure and other income. We strip both of these out to make figures from 2019–20 onwards consistent with earlier years. We strip out grants to cover spending in housing benefit as this is a demand-led payment to households that for most working-age claimants is being replaced by universal credit (which is paid directly by the UK government's Department for Work and Pensions), making figures incomparable over time.

Scottish Government to provide to councils during the 2010s was targeted at schools and the initial phase of the expansion of free childcare. Slower population growth in Scotland has also meant that their funding has had to be spread over fewer additional people than is the case in England.

The figure also shows remarkably little change in the real-terms value of councils' gross or net spending in 2020–21, despite the COVID-19 pandemic. As highlighted above, while councils were provided with £1.3 billion additional pandemic-related funding in that year, a significant proportion of this was put into reserves rather than spent in-year. This may reflect, in part, the fact that a significant part of this funding was only paid over to councils in March 2021, just prior to the end of the financial year. Councils in England and Wales also saw a smaller-than-expected increase in their spending in 2020–21, and also paid significant sums into reserves in that year (Ogden and Phillips, 2022).

**Figure 4.3. Scottish council resource spending on non-education services, 2009–10 to 2020–21 (2022–23 prices)**



Note: Gross and net expenditure are adjusted to account for the removal of the district courts and the police and fire services from local government in 2010–11 and 2013–14, respectively. In the latter case, this includes adjusting central services spending for estimates of how much central services spending related to police and fire activities between 2009–10 and 2012–13. In addition, the 2014–15 Scottish Local Government Finance Statistics publication revised net spending on other services down in each of the preceding four years (2010–11 to 2013–14). We apply these revisions to each of these years and revise down reported figures for 2009–10 by the same amount as the Scottish Government revised down 2010–11 figures (£45 million in cash terms). We also apply the same revision to gross as to net spending. The figures have also been adjusted to remove spending by Glasgow city council on settling a large equal-pay claim in 2019–20 to ensure greater consistency over time. Full details for the revisions we apply, including breakdowns by service area, are available on request.

Source: Authors' calculations using Scottish Government (2022b) and earlier versions.

It is also worth noting that councils' net and gross spending did increase in cash terms in 2020–21, by around 7% and 6%, respectively. The increase in gross spending was smaller than for net spending because while transfers from other public sector bodies (such as the NHS) to help cover the costs of council services increased, this was offset by a decline in income from sales, fees and charges from service users – especially for parking, leisure and cultural facilities, and planning and economic development services. The fact that these cash-terms increases did not translate into real-terms increases reflects the high measured inflation according to the GDP deflator in 2020–21. This reflects an estimated increase in the cost of delivering many public services, where expenditure increased but measured output sometimes fell, such as when schools and other facilities were closed.

Figures on net and gross spending are not available for other council services in 2021–22 and 2022–23. However, provisional outturns data for 2021–22 suggest that net spending on non-education services increased by around 3% in real terms compared with 2020–21.

## Trends by service

Trends in spending have varied across the different non-education services that councils provide, as shown in Table 4.1: the top panel shows (adjusted) net expenditure and the bottom panel (adjusted) gross expenditure. In particular, in contrast to councils' overall non-education spending, spending on social care services increased during the 2010s (+4% net and +11% gross), with most of this increase taking place in the second half of the decade. The larger increase in adjusted gross spending mostly reflects an increase in contributions to the cost of social care services by the Scottish NHS.

However, spending on central administrative services (–55% net and –39% gross), planning and development (–52% net and –23% gross), housing (–38% net and –27% gross), roads and transport (–29% net and –9% gross), and culture (–29% net and –29% gross) all fell by significantly more than the average cut to councils' spending (–15% net and –8% gross) between 2009–10 and 2019–20. The generally smaller falls in adjusted gross spending than adjusted net spending reflect an increase in contributions to the cost of some of these services from government grants provided outside of the local government finance settlement and from other public and private sector organisations.

The pattern of changes in spending across services reflects councils prioritising those services with particularly significant growth in demand, and where statutory duties limit the ability to cut back service provision, forcing them instead to make cuts to more discretionary areas of expenditure. This is similar to the pattern in England where, after accounting for shifts in responsibility between councils and the NHS, net spending on social care services increased by 7% in real terms between 2009–10 and 2019–20, but net spending on roads and transport,

Table 4.1 Council resource spending by service area, £s millions, 2022–23 prices

Service area	2009–10	2014–15	2019–20	2020–21
<b>(Adjusted) net spending</b>				
Culture and related	865	777	612	606
Social work and social care	3,782	3,830	3,940	3,796
Roads and transport	615	507	435	489
Environmental	855	804	757	756
Planning and development	429	336	208	259
Central services	789	530	354	418
Housing	469	404	289	299
<b>(Adjusted) gross spending</b>				
Culture and related	1,005	891	717	662
Social work and social care	4,745	4,838	5,247	5,387
Roads and transport	895	794	816	702
Environmental	1,029	954	902	884
Planning and development	668	558	513	526
Central services	1,124	794	688	683
Housing	1,034	870	754	782

Note: See notes to Figure 4.3. In addition, reported housing and social care spending figures have been adjusted downwards by £60 million and upwards by £60 million in cash terms, respectively, in 2009–10 and 2014–15 to reflect classification changes that took effect in 2019–20. The 2019–20 Local Government Finance Statistics Publication revised net spending on these services for years back to 2015–16 and we apply the same changes to earlier years' net and gross spending for these services.

Source: Authors' calculations using Scottish Government (2022b) and earlier versions.

housing services, culture and leisure service, and planning and development fell by around 50% in real terms over the same period.

As already mentioned, figures for 2020–21 are affected not only by additional costs associated with the COVID-19 pandemic but also by changes in income from sales, fees and charges, and contributions from the wider Scottish public sector. Increases in contributions from the NHS, for example, may explain the fall in net spending but increase in gross spending on social care services. Falls in parking income may explain the increase in net spending but the fall in gross spending on transport.

Final outturn data are not yet available for 2021–22 but provisional estimates suggest that changes in net spending differed significantly between services. For example, net spending on



social work and social care is estimated to have increased by 8%, which may in part reflect a reduction in transfers from the NHS from their elevated levels in 2020–21. In contrast, net spending on roads and transport is estimated to have fallen by 7%, while net spending on central services is estimated to have fallen by 19%. The former may reflect a rebound in income from parking charges, while the latter may reflect the end of some pandemic-related costs that had been charged to councils' central services budgets in 2020–21.

## 4.2 Future outlook for council funding

The story so far then is that Scottish councils, and the services they fund, generally saw cuts during the 2010s, albeit ones that were smaller than those in England, especially on a per person basis. This is particularly true for schools, where, after initially falling, funding per pupil aged 3–18 had increased by the end of the decade in Scotland, but had fallen in England. Among the other services they are responsible for, councils in Scotland and England made similar prioritisation decisions, with spending on social care services increasing, and spending on other services decreasing substantially.

The pandemic years saw councils in Scotland and England receive substantial additional funding, a significant part of which they have paid into reserves. School spending per pupil started to increase again in England, but not as much as in Scotland, further widening the gap in spending per pupil.

Looking ahead, the picture is different: Scottish councils and schools look set to see smaller increases in funding between 2022–23 and 2024–25 than their English counterparts. This reflects the substantial increase in funding for English councils announced in the Autumn Statement in November 2022, but a much tighter settlement for Scottish councils in the Scottish Budget for 2023–24 and a projected fall in the overall amount of funding available for Scottish Government non-benefit spending in 2024–25 (see Chapter 2).

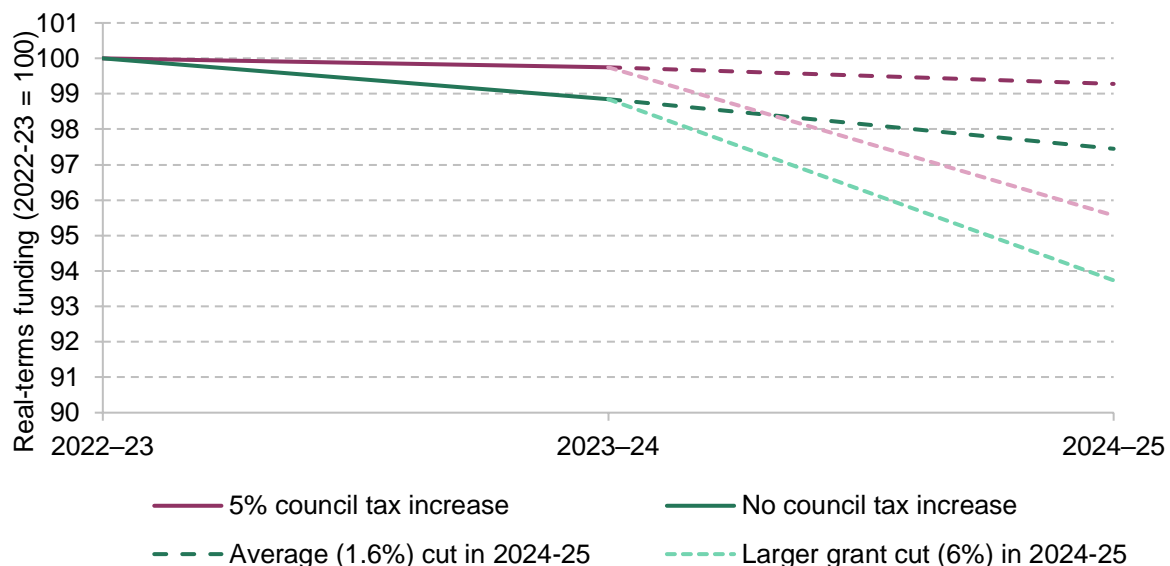
The Scottish Budget for 2023–24 shows grant funding for councils' resource spending increasing by 0.9% in real terms in the coming financial year compared to this. As highlighted in Chapter 2, Scottish Budget figures ignore a number of in-year top-ups to funding in 2022–23, and do not adjust for changes in responsibilities and 'new burdens'. Using estimates by COSLA and our own judgement about what is and what isn't a genuine new burden (as opposed to changes in funding linked to existing responsibilities), we estimate that after accounting for



these issues, grant funding for Scottish councils is set to *fall* by around 0.8% in real terms based on known allocations for 2022–23 and current plans for 2023–24.<sup>7</sup>

Councils' overall funding will also depend on what happens to their other income sources, the most significant of which is council tax. The Scottish Budget confirmed that no limits would be placed on how much councils can increase their council tax rates. If they implemented a cash-terms freeze, we estimate that combined revenues from grant funding (adjusted for our estimates of in-year funding changes and new burdens) would fall by around 1.1% in real terms in 2023–24.<sup>8</sup> This is illustrated in the dark green line in Figure 4.4. With a 5% cash-terms increase in council tax rates, the cut to overall funding would be 0.3% in real terms, as shown by the dark purple line.

**Figure 4.4. Scenarios for Scottish councils' funding from grants and council tax, 2022–23 prices**



Source: Authors' calculations using Scottish Government (2022a, d), Scottish Fiscal Commission (2022) and COSLA (2022).

<sup>7</sup> We adjust the 2022–23 funding baselines to account for in-year top-ups to part-fund higher-than-expected pay settlements (+£140 million) and to account for one-off expenditures such as Bridging Payments for families with children (–£188 million). We adjust 2023–24 funding to account for new burdens related to Whole Family Wellbeing Support (–£32 million), Free School Meal expansion (–£17.5 million), the expansion of Free Personal and Nursing Care (–£15 million) and the cost of covering business rates' empty property relief (–£90 million) (the £105 million provided for this is expected to slightly exceed the cost of matching the existing relief). It is not clear from the documentation published alongside the Spring Budget Revision (Scottish Government, 2022e) whether an additional £33 million provided for 2022–23 to cover the cost of the teachers' 2021–22 delayed pay deal was for one-off back-pay costs (which is what we have assumed), or ongoing costs. If this was to cover ongoing costs, the adjusted real-terms cut to grants to Scottish councils would be 1% not 0.8% as reported in the main text.

<sup>8</sup> This assumes that the Scottish council tax base (i.e. the number of properties subject to tax, weighted by the amount of tax they are liable for) will grow by 0.6% a year.

Unlike in a number of previous years when the Scottish Government announced a top-up to its initial plans for council funding at the time of the Stage 1 debate on the Scottish Budget, no such top-ups were announced for 2023–24 in this year’s Stage 1 debate (on 2 February). The Scottish Government may announce changes to its plans for local government funding and funding for other services at the time of the Stage 2 debate (on 7 February), although its room for manoeuvre may be limited as it has previously said it planned to draw down its reserves in full in 2022–23, preventing any carry-forwards.

The picture for 2024–25 is less clear, as the Scottish Government has yet to set its Budget for that year and the plans set out in the Resource Spending Review last May are now somewhat out of date, given changes to the outlook for overall Scottish Government funding seen since then. However, as shown in Chapter 2, official projections by the Scottish Government and the Scottish Fiscal Commission (SFC) imply that overall funding for non-benefits spending will fall by 1.6% in real terms in 2024–25. If we assume that grants to Scottish councils are cut in line with this, and councils themselves increase council tax by 5% in that year, then their overall funding would fall by a further 0.5% in real terms, as illustrated in the dashed dark purple line. But it is unlikely that the Scottish Government would cut all spending by the same percentage in 2024–25. If we instead assume that the Scottish Government increases spending on its health and ‘net zero’ portfolios by the same amount as in the 2023–24 Budget, then grants funding for councils could fall by 6% in real terms. Under this scenario, even with 5% increases in council tax rates, overall funding for Scottish councils would fall by around 4% in real terms in 2024–25. This is illustrated by the dashed light purple line. And without council tax increases, the cuts in 2024–25 would be even starker, as illustrated by the dashed dark and light green lines.

Even the small cut to overall funding that Scottish councils would face in 2024–25 if their grant funding is cut in line with the overall Budget rather than ‘unprotected’ services and if they were to increase council tax rates by 5% a year would require difficult choices. Costs associated with social care reform and rising demand for social care services, and a planned moratorium on reducing the number of teachers and school hours, mean that the pressure would likely be particularly keenly felt in the one-third of councils’ budgets that is allocated to other services. This is in the context of councils’ culture, environmental, housing, planning and economic development, and transport services being cut back the most during the 2010s.

In contrast, large increases in grant funding for English councils were announced in the Autumn Statement for both 2023–24 and 2024–25, targeted at social care services. On their own, these would be sufficient to increase English councils’ funding for non-education services by around 3% a year in real terms in both of these years, even if council tax rates were frozen in cash terms. If all English councils were to increase their council tax rates by the maximum amount they can, without having to call and win a referendum (generally 5% per year), the real-terms increases would be closer to 6% per year. English schools also saw a top-up to their funding in the

Autumn Statement but one that was less generous than for councils. Combined funding for English councils and schools is therefore set to increase by 4.5% in real terms in 2023–24 and by 3.7% in 2024–25, if all councils make full use of their powers to raise council tax. Even if they were to freeze council tax rates, funding for schools and councils’ non-education services would increase by 3% and 2.2% in these two years, respectively.

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#### **Box 4.1 Scotland’s National Care Service and council funding**

One of the ways the UK government has freed up funding for English councils’ existing responsibilities has been to postpone planned reforms to adult social care (including a less stringent financial means test and a lifetime cap on personal care costs). This has provided over £3 billion of funding over the next two years to meet rising costs and improve services within the existing means-test and charging rules. However, this means English care recipients will continue to face stringent means-tests for at least two further years, and potentially longer: the funding environment for English councils currently looks likely to be much tougher from 2025–26 (Ogden, 2022).

The Scottish adult social care system is significantly more generous to recipients than the English system – personal care is provided free to all who are assessed to need it (although these assessments are still stringent). The main reform planned in Scotland is for the establishment of a National Care Service covering adults’ and children’s social care services, with care boards directly accountable to Ministers taking over responsibility for commissioning services from councils. The Scottish Government (2022f) has estimated that set-up costs will amount to between £63 million and £95 million in 2023–24 and between £84 million and £126 million in 2024–25, although the Scottish Parliament Finance and Public Accounts Committee (2022) has expressed concern that the assumptions underlying these figures are opaque and costs could be higher. Once the system is up and running, the Scottish Government estimates that costs will amount to up to £500 million per year – although over half of this reflects planned improvements to pay and conditions, and enhanced training and professional development. Again, the Finance and Public Accounts Committee has expressed concerns that costs could be higher, not least because, unlike councils, Scottish Government bodies cannot generally reclaim VAT paid on their purchases.

The aim of the planned National Care Service is to improve the quality and consistency of social care services across Scotland. However, centralised, directly funded provision may not necessarily lead to more consistent standards of care across the country if the formulas used to allocate funding do not properly reflect differences in needs across the country (Phillips, 2022). Whereas councils can offset these errors by shifting funding between services or varying their council tax, this option will not be available to the new care boards. More generally, the transfer of social care services from councils to the new care boards will require careful consideration of how to unwind the local discretion councils have had to allocate funding between services and raise more or less via council tax.

These issues are potentially addressable, and if they are, a National Care Service could provide more consistent services across Scotland, and potentially allow for further integration with health services. But if these issues are not well addressed, the centralisation of care services could in fact lead to less consistent provision across Scotland, and unfairness between council taxpayers in different council areas. Careful consideration of whether the set-up and operational costs of the new National Care Service represents good-value-for-money is therefore important. If plans were shelved and funding redeployed to local government, it would be sufficient to boost funding by around 0.6%–1% in 2024–25: the equivalent of what could be raised from council tax increases of 3%–5%.

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Some caution is needed in comparing English figures directly to those for Scottish councils due to differences in responsibilities and funding arrangements. However, the differences are stark enough that we can be confident that the funding outlook over the next two years is likely to be much tougher for Scottish councils than for English councils. In particular, it looks likely that even with significant increases in council tax, funding for Scottish councils is at best likely to be little changed in real terms over the next two years, given the 2023–24 Budget and current official projections for Scottish Government funding in 2024–25. If the Scottish Government felt the need to continue to boost funding for the health service and its ‘net zero’ priorities in 2024–25, then councils could be facing substantial cuts that year. In contrast, even without increases in council tax, funding for English councils (including schools) is set to increase in real terms at a reasonable rate over the next two years.

The next two years are therefore set to see a bit of a reversal in fortunes for Scottish and English councils. The reserves that Scottish councils built up during the COVID-19 pandemic may therefore need to be put to use quickly – although once used, they cannot be used again.

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