

**MEETING: 11 MARCH 2021**

**REPORT BY: AUDIT DIRECTOR, PERFORMANCE AUDIT AND BEST VALUE**

**BRIEFING: SCOTTISH BUDGET**

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## Introduction

1. The public health crisis caused by Covid-19 has had a significant and profound effect on every aspect of Scottish society. The impact on public finances for 2020/21 is unprecedented. Councils and the Scottish and UK governments have all needed to respond quickly, providing substantial additional in-year funding for public services and support for individuals, businesses and the economy. In 2021/22, spending announcements related to the pandemic continue. These are reflected in the Scottish Government's 2021/22 budget and in the settlement for local government.
2. The continuing uncertainty, volatility and complexity that has characterised Scottish public finances directly affects local government. There have been significant in-year funding and spending implications to date arising from Covid-19, and these are ongoing. Some funding supports the additional financial pressures that local authorities have faced, such as lost income and increased demand for services, while other funding must be directed towards Scottish Government initiatives, such as business support. New spending must be managed alongside existing financial pressures which pre-date the pandemic.
3. The 2021/22 budget is still to be confirmed and may well be subject to significant further revision during the year ahead. Further change is expected to the Scottish budget prior to its final Stage 3 approval later in the month. Since the initial budget was presented on 28 January, further Barnett consequential of £1.1 billion for the 2020/21 financial year have been confirmed. The Scottish Government has agreed with HM Treasury that these will be carried into the 2021/22 budget. The UK budget, published on 3 March, awaiting passage through the UK Parliament, is also likely to change to position for Scottish public finances, both through the Scottish budget itself, and through the interplay of funding in reserved areas UK Government spending in Scotland.
4. As such, this paper is presented within an environment of continuing change to budgets and public finances. It gives our latest understanding of key areas and implications that relate to the work of the Accounts Commission. It also outlines the headline themes emerging from the 2021/22 Budget, including continuing Covid-19 related content. This is split into three sections:
  - Part 1 gives an overview of the Covid-19 implications for local government funding in 2020/21
  - Part 2 sets out key information on the Scottish budget for 2021/22
  - Part 3 sets out implications for Local Government funding
5. Audit Scotland has recently published its second [Covid-19: Tracking the implications of Covid-19 on Scotland's public finances](#) paper on behalf of the Auditor General. This provides a snapshot of the sources of funding and Scottish Government's announcements in relation to the pandemic in advance of the recent Spring Budget Revision and UK budget.

## **Covid-19 and the impact on local government public funding in 2020/21**

### ***Covid-19 has placed significant pressures and responsibilities on local government***

6. Responding to the pandemic has involved a significant shift in spending levels and initiatives at all levels of government during the past year. This has had a substantial and ongoing impact to the funding for local government, and the spending obligations placed upon it.
7. The pandemic and subsequent lockdown in Scotland began towards the end of the 2019/20 year. There were no additional Covid-19-related funding allocations from the Scottish Government in 2019/20 and councils mostly managed any additional costs from existing available budgets. 2020/21 was the first full year of the pandemic and its impact on Scotland, and the implications of this for council finances have been significant.
8. Beyond the direct effects on councils' income and demand for services, there have been a variety of other financial implications. These include delays in growth deals, additional borrowing by some councils, delays in capital programmes and increased going concern uncertainty around joint ventures and subsidiaries.
9. Councils are reacting to the financial impact of the pandemic alongside existing financial pressures. The Accounts Commission's local government overview report highlighted that 2020/21 local government budgets set before the pandemic reflected a £500 million budget gap, around 3 per cent of the total net expenditure. This budget gap is before action such as savings, council tax rate increases and use of reserves are applied. Scottish Government revenue funding increased by 1.4 per cent for 2020/21 in real terms, however this increase arose from specific grants, most notably from expansion in funded Early Learning and Childcare entitlement. General Revenue Grant and Non-Domestic Rate Income, that most likely to be used by councils to support any additional costs arising from the pandemic, fell by 0.5 per cent in real terms.
10. In July 2020, the Convention of Scottish Local Authorities (COSLA) estimated the financial cost of Covid-19 on councils in 2020/21 to be £767 million. We previously estimated, based on announcements until November 2020, that Scottish Government revenue funding announcements to councils meet 60 to 70 per cent of councils' estimated revenue costs.<sup>1</sup> Further Scottish Government announcements have taken place since then as the pandemic continues, and we provide more information about this below. But the full extent of financial pressures incurred by councils will not be known until after year end. This will form part of our ongoing audit work.

### ***Funding for Covid-19 pressures has come unevenly throughout the year, as the Scottish Government received Barnett consequentials***

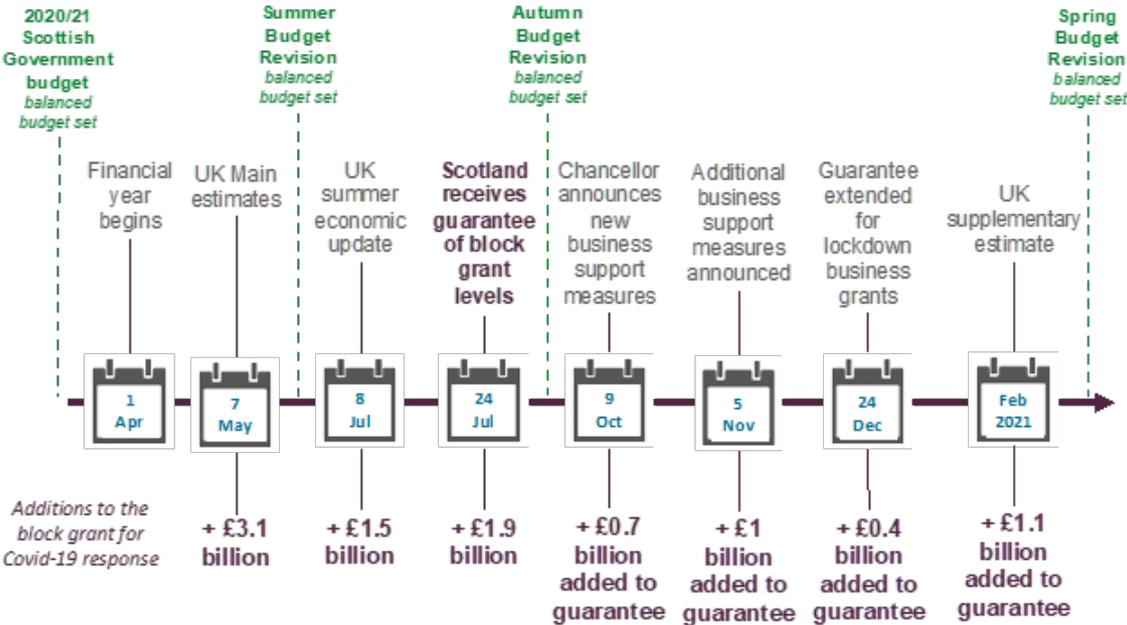
11. Most of the funding of Covid-19 spending and additional funding for local government through the Scottish budget has come from the operation of the Barnett formula affecting the block grant. The increases in block grant were spread unevenly throughout the year.
12. Barnett consequentials arise when UK Government spending decisions are made in areas that are devolved in Scotland. To date, Covid-19 related Barnett consequentials have increased the funding the Scottish Government received from the UK Government in 2020/21 by 42 per cent. The Scottish Government is now guaranteed to receive an additional £9.7 billion in resource Barnett consequentials (Exhibit 1).

<sup>1</sup> Local government in Scotland: Financial overview 2019/20, Accounts Commission, January 2021

# Exhibit 1

## Timeline for additions to the Scottish block grant in response to Covid-19

The Scottish Government resource budget for 2020/21 has increased by £9.7 billion as a result of additional Barnett consequentials



Source: Audit Scotland

13. Our analysis shows there have been over 170 Scottish Government Covid-19 spending announcements since the pandemic began. These announcements are in addition to UK Government spending commitments that apply to Scotland, such as ongoing furlough support. Ensuring the effectiveness and value for money of Covid-19 financial measures is made more difficult, not just by the speed and frequency of Scottish Government decisions, but also because of the interplay with local government interventions and UK Government decisions which apply to Scotland.

***The local government portfolio budget increased by 16 per cent during 2020/21 as the Scottish Government budget has grown***

14. The Scottish Government has had three budget revisions in year to reflect the latest balanced budget position (Exhibit 2). Overall, these have reflected an increase in funding at an overall Scottish Government level, and an increase in the local government budget.

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## Exhibit 2

### Changes in the in-year budget for 2020/21

Scottish Government budget revisions have increased the overall budget and the local government portfolio budget

	Scottish Government	Local Government
Scottish budget (approved March 2020)	49,250.7	10,025.1
Summer budget revision	52,037.9	11,482.4
Autumn budget revision	54,495.9	11,925.8
Spring budget revision	56,353.4	11,641.7
<b>Total in-year increase/(decrease)</b>	<b>7,102.7</b>	<b>1,616.6</b>
<b>Total percentage in-year increase/(decrease)</b>	<b>14%</b>	<b>16%</b>

Source: Audit Scotland

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15. The Spring Budget Revision shows a decrease of £248 million for the portfolio. This is largely the result of a technical accounting change that reduced the local government portfolio by £911 million. In March 2020, the Scottish Government announced plans for two large Business Support Schemes: The Small Business Support Grant and the Retail, Hospitality and Leisure Grant to respond quickly to the impact of Covid-19 on businesses. Although funding for these schemes was not included within the Scottish budget until 2020/21, the actions taken by the Scottish Government before the year end created a constructive obligation under accounting standards in 2019/20. This £911 million technical change is the removal from the budget of the amount already accounted for in 2019/20, albeit not paid until the 2020/21 financial year.
16. The Minister for Public Finance summarised the additional funding totalling £931 million for local government Covid-19 pressures that was incorporated in the latest budget position for 2020/21 as:
- previously announced measures totalling £456 million (including the most recent increases in support for safety mitigations in schools)
  - Lost income scheme specific funding of £200 million
  - Additional funding to support Covid-19 pressures including lost income of £275 million. Councils have flexibility to decide how to apply this amount.

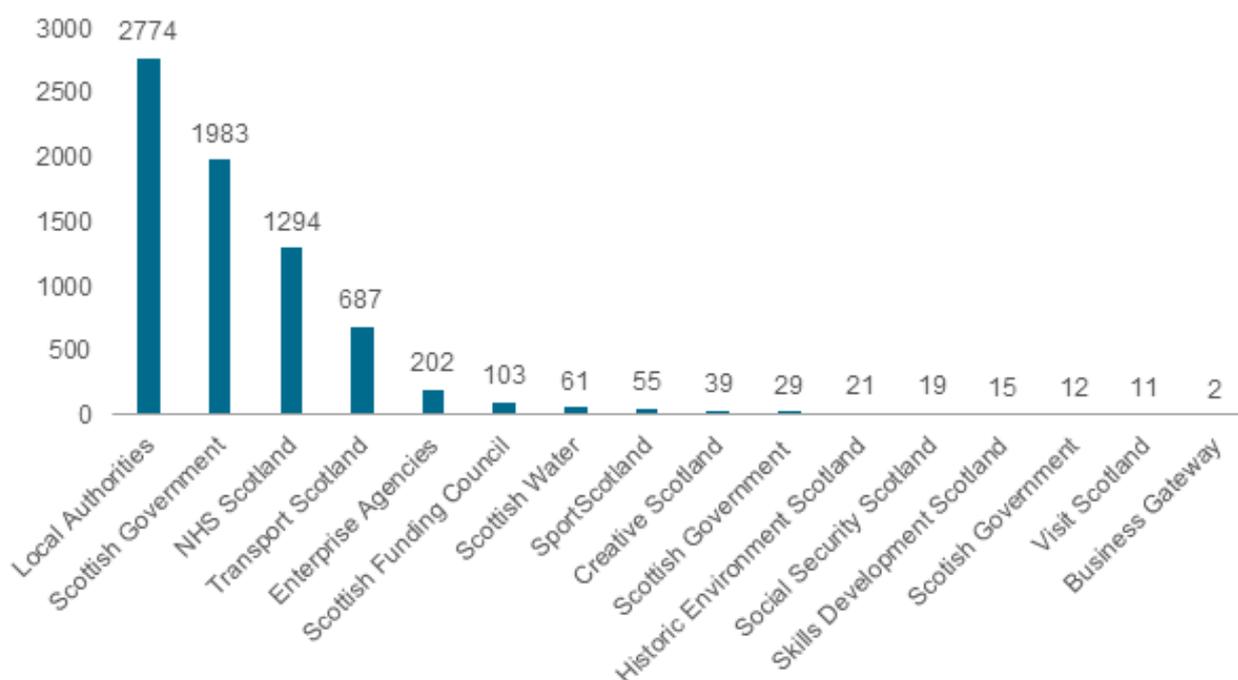
#### ***Local authorities are playing a leading role in the distribution of Covid-19 spending measures***

17. Our analysis of spending announcements identifies that councils and public bodies across Scotland are acting as the lead organisations for administering Covid-19 spending. The majority of this spending has been through Scotland's 32 local authorities and 22 NHS Boards, with a number of other public bodies involved, such as enterprise agencies and the Scottish Funding Council (Exhibit 3).
18. The expected in-year spending incorporated in the approved Scottish budget is different to the total cost of the individual measures announced because:

- Spending against some announcements depends on demand; any underspends can be used for other purposes. For example, lower than expected take-up for some business grants has meant that funding can be reallocated to other support funds.
- Some demand-led announcements do not include assessments of what the announcement will cost. For example, in October, the Strategic Business Fund was announced, but no cost was given at the time. The Scottish Government has confirmed that between November and the end of January, this scheme cost £104 million, which is not reflected in our analysis of announcements.
- Some announcements will be spent over more than one year.
- Some smaller elements of spending may not be announced but will be picked up in spending revisions.

### Exhibit 3

#### Lead organisations for Covid-19 spending in 2020, from announcements



Source Audit Scotland analysis, based on Scottish Government announcements up to the end of December 2020

- Public bodies are using Covid-19 funding differently. Some is being applied to meet extra costs caused by the pandemic (such as NHS capacity and equipment costs). Some bodies are also disbursing financial support on behalf of the Scottish Government (for example, as Local Government has done with business grants).

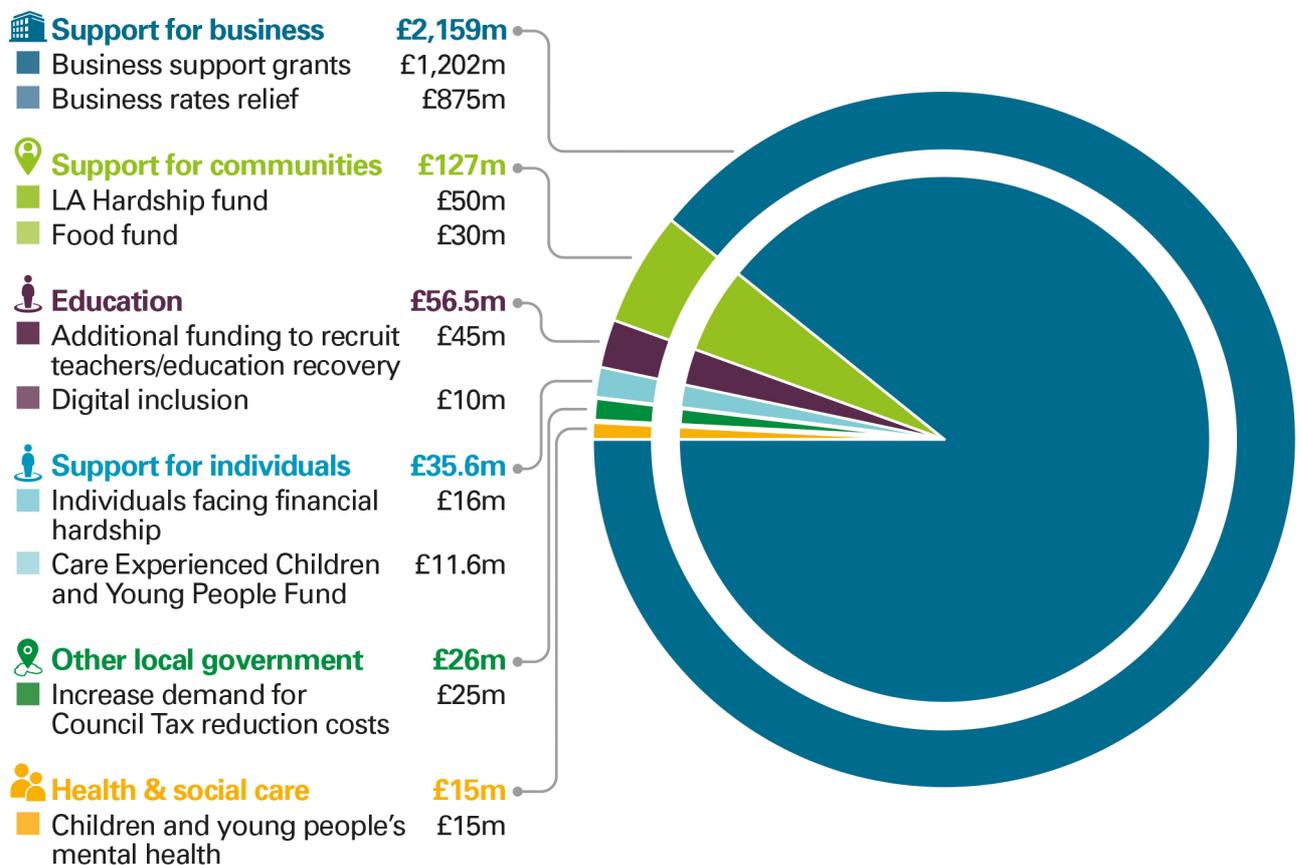
***Spending announcements reflect the variety of ways local communities are affected by the pandemic***

- Covid-19 has affected businesses, households and individuals across local communities in Scotland. While responding to these different needs, councils themselves have faced significant reductions in regular sources of income, such as fees and charges and council tax, and have needed to reorganise services to meet the demands of lockdown.

Many of the Scottish Government announcements which affect local government funding reflect these pressures and demands.

21. A breakdown of spending programmes where local authorities are the lead organisation is shown at Exhibit 4. A full breakdown is included as an appendix to this paper. Critically, not all programmes represent additions to council budgets.
22. The type of announcements has also changed over the period, as the public response to the pandemic develops. In the first half of the pandemic, the big area of commitments was business and economic support. From then until the end of December, the focus of spending was on the public sector, particularly within health and social care, local government and transport.

## Exhibit 4 Breakdown of Scottish Government spending announcements relating to local government, including examples of large areas of spend



Note: Announcements made before the end of December 2020.

Source: Audit Scotland

23. Exhibit 4 shows the latest position on announcements made by the Scottish Government up until the end of December 2020. Further Covid-19 announcements have taken place since and are likely to continue to the end of the financial year. Since December 2020 further spending announcements have been made. These include the following by areas of spend:

- Business support for taxi and private hire drivers, £57m.

- Three new funds to support travel agents, brewers and indoor football centres £7.3m.
- Additional education home learning support £10m.
- January free school meal provision £7m.
- Other announcements relate to smaller areas of spend, such as environmental health, rapid rehousing and business support grant administration.

*The majority of spending measures relate to support for businesses through grants and business rates relief*

24. Throughout the pandemic, many Scottish businesses have been severely affected in their ability to trade. Support for businesses and individuals affected is being delivered by the UK Government, Scottish Government and local authorities.
25. At a UK Government level, 282,800 Scottish residents being supported by the Coronavirus Job Retention Scheme (JRS) in Scotland as at the 31 December 2020. In addition, 411,000 claims were made for Self-Employment Income Support Scheme (SEISS) totalling £1,133 million. The UK Government has also provided loans over this period, including a Coronavirus Business Interruption Loan Scheme (CBILS), the Bounce Back Loan Scheme for small businesses (BBLs) and the Future Fund, which is a loan scheme aimed at high-growth companies.
26. Scotland's local economies are diverse, and to date the Scottish Government has made announcements totalling over £3.5 billion in support. These announcements are varied, including support for fisheries, hospitality, taxi drivers, culture and the performing arts.
27. The largest announcements to support businesses are being administered through, or affect, local councils. Most notably, these are the Small Business Grant Scheme and the Retail, Hospitality and Leisure Business Grant Scheme. These demand-led announcements make up £1,202 million of the total support for business which flows through councils. Business rates relief accounts for a further £875 million of business support.
28. There are now 31 different schemes delivered via local authorities to support businesses and public services. Undoubtedly this will place an additional administrative burden on councils, especially given the urgency and priority with which funding is expected to be delivered to the businesses and individuals who need support during the pandemic.

*Key services provided by local councils have been severely affected*

29. Councils are spending Covid-19 funds in response to the major disruption the pandemic and lockdowns have caused to people's lives as well as their livelihoods. Alongside financial uncertainty for many, mental health as well as physical health concerns becoming more prevalent. Children's education has been severely impacted over the past year, and there are notable concerns over the increased hardship being faced by the poorest in our society.
30. Several spending announcements administered by local authorities relate to these areas. For financial hardship, this includes the Scottish Welfare Fund, supporting low-income families and people with self-isolation costs, caring costs and financial emergencies caused by the pandemic for example.
31. Children in Scotland have been home-schooled for large parts of the school year. Alongside the additional difficulties this has provided for parents, often juggling work

commitments with childcare responsibilities, it has also disproportionately affected those children without access to computers and internet connection. There may also be additional costs for food and utilities that families may experience. Funding to promote digital inclusion, additional support staff and staffing for the recovery period have all formed part of this.

*Councils' income has been significantly reduced, and some additional funding is being provided to mitigate this*

32. While the amount of responsibility placed on councils to provide Covid-19 support alongside its existing commitments and priorities has increased, council's own income sources are less certain. Loss of income accounts for over half of the additional costs forecast by councils.<sup>2</sup> These included losses from:
  - fees and charges, projected to result in a loss of £161 million. The most significant proportion of these losses related to the anticipated reduction in parking fee income
  - sports and leisure facilities at July 2020, totalling £75 million
  - mobilisation costs and the costs arising from reconfiguring services (recovery costs).
33. Several larger urban councils have ALEOs that manage commercial activities and provide income back to councils. This includes conference facilities and transportation services. The projected loss of income for councils from these was £39 million. This included Lothian Buses, Edinburgh Trams, Scottish Exhibition and Conference Centre and the Aberdeen Exhibition and Conference Centre.
34. The Scottish Government has announced a number of measures to mitigate lost income, including £25 million to meet increased demand for council tax reduction costs and £155 million non-ringfenced additional funding. In December, £200 million of funding was announced through a Lost Income Scheme and a further £275 million (able to be used flexibly) was announced in February. All these amounts are incorporated in the overall position summarised at paragraph 16.
35. The extent to which Covid-19 funding announcements mitigates the income lost to individual councils over 2020/21 will only become clearer after year end, with further information available through councils' annual audited accounts.

***Local authorities have also agreed some financial flexibilities with the Scottish Government***

36. In October 2020, the [Scottish Government announced](#) a package of additional financial flexibilities for councils. This loosened some financial rules placed on local authorities, which the Scottish Government estimated could be worth up to £600 million. The measures included:
  - Use of capital receipts to meet one-off revenue costs, including those caused by Covid-19.
  - Extension of debt repayment periods to the life of the asset rather than the contract period.

<sup>2</sup> Local government in Scotland: Financial overview 2019/20, Audit Scotland, January 2021

- Repayment holiday allowed in either in 20/21 or 21/22 to defer loan fund repayments.
37. Further clarification has been given on the deferral of loan fund repayments. Repayments are to be made within the next 20 years or spread over the life of the loan.<sup>3</sup>
  38. This is not additional funds flowing from the Scottish Government to councils. Councils will be able to use capital receipts that they already hold to fund one-off revenue costs, as well as being able to defer loan fund repayments. These flexibilities are not available to English authorities.
  39. Councils can also make use of a change in accounting treatment, which allows councils to charge the debt element of service concession arrangements on assets over the life of the asset, rather than the length of the contract. This will spread the charge out over a longer period.
  40. If councils make use of these levers, any additional revenue funding generated could be used to meet Covid-19 or other one-off costs. It would mean that the councils would have less available in capital receipts for future capital spending, and debt repayments would still need to be repaid, albeit over a longer period.
  41. We do not yet know what the take-up of these flexibilities will be across Scotland. The extent to which individual councils are able to utilise them will depend on their own financial circumstances. COLSA has highlighted that this is likely to mean that in practice the overall effect will be less than estimated by the Scottish Government.
  42. Pressures on Scotland's public finances caused by the pandemic will continue into future years and are reflected in the 2021/22 budget and medium-term planning. A programme of vaccination is now ongoing throughout Scotland, giving hope that this will allow future relaxation of measures and allow economic and social recovery to take place. For now, spending to support people, the economy and public services through the pandemic continues.

## **The 2021/22 Scottish budget proposals**

### ***The bespoke budget process in 2021/22***

43. In our budget briefing for 2020/21, we described the budget process as characterised by ongoing uncertainty and unexpected events. For the 2021/22 budget, many of these uncertainties continue, now exacerbated by the ongoing pandemic. The budget approved by the Scottish Parliament in March is likely to be significantly different in terms of funding to that originally published on 28 January this year. This is likely to affect local government funding, requiring in-year adjustments where council budgets have been approved before the full extent of Scottish government funding is known.
44. On 16 February, between the publication of the Scottish budget and stage one approval by the Scottish Parliament, an additional £1.1 billion of Barnett consequential for 2020/21 was confirmed by HM Treasury. The Scottish Government intends to apply this to its 2021/22 budget with the funding held within UK reserves and re-allocated to the Scottish Government in 2021/22.
45. Similar to last year, the Scottish Budget is being published later than the Scottish Government's preferred December schedule and in advance of the UK Government's Budget, which is scheduled for 3 March. The proposed Scottish budget has been established before 2021/22 UK budget decisions on devolved taxes and social security

<sup>3</sup> Local Government and Communities committee meeting on 17 February. Agenda item 2, Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2021. [Draft official record](#).

measures. The relative position of the rest of the UK to Scotland matters to the size of the Scottish budget.

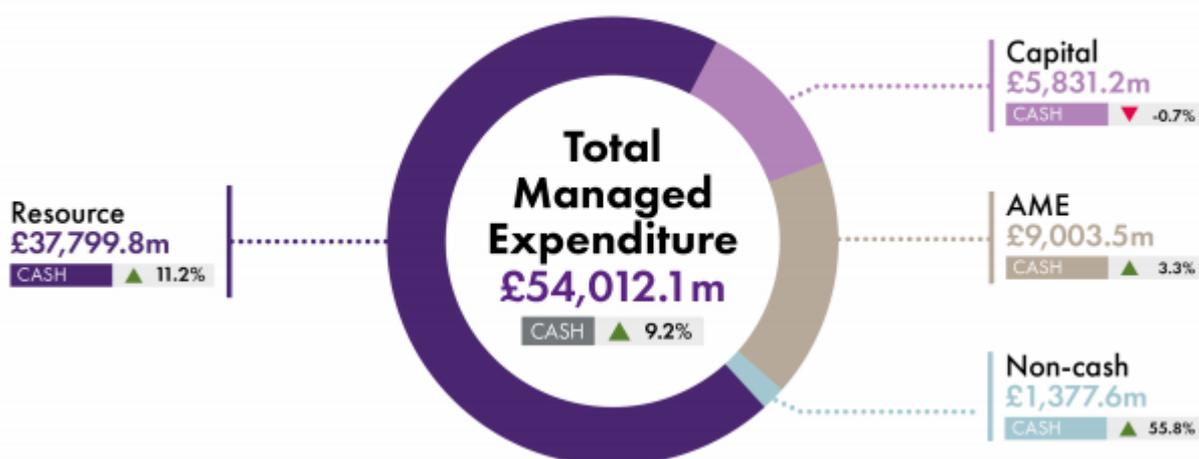
46. UK budget spending decisions made in March could change the funding available to the Scottish Government, as UK spending decisions in devolved areas result in consequential through the Barnett formula. This may require further changes to the Scottish budget in stages 2 and 3 of its parliamentary approval. Similar to 2020/21, further in-year UK Government announcements may have implications for the Scottish budget and potentially local government funding. These would be reflected through in-year budget revisions in 2021/22 in a similar vein to the process in 2020/21.

### Spending

47. The Scottish public spending budget for 2021/22 as proposed on 28 January is £54,012 million. The budget is made up of:
- Fiscal resource budget (spending on the operating costs for public services).
  - Capital budget (investing in capital projects, such as new hospitals or schools. This also includes financial transaction funding, which can be used to make investments in organisations outside the public sector).
  - Non-cash budget (used to cover technical accounting and other non-cash items).
  - Annual Managed Expenditure (AME; ringfenced funding from the UK Government to cover items such as NHS and Teacher pensions and student loans).

Together, these add to Total Managed Expenditure, TME (Exhibit 6).

## Exhibit 6 Total Managed Expenditure 2020/21



Source: [Scottish Budget 2021-22](#), SPICe, 1<sup>st</sup> February 2020, page 14

48. The resource budget has increased by £3,817 million compared to the 2020/21 budget, with a relatively small decrease in the capital budget of 42 million. This increase in resource spending is spread across the portfolios of government (Exhibit 7). This analysis is the position as per the original budget as presented on 28 January. It does

not include the additional £1.1 billion of further Barnett consequentials announced on 16 February, or any additional consequentials that flow from the delayed UK budget.

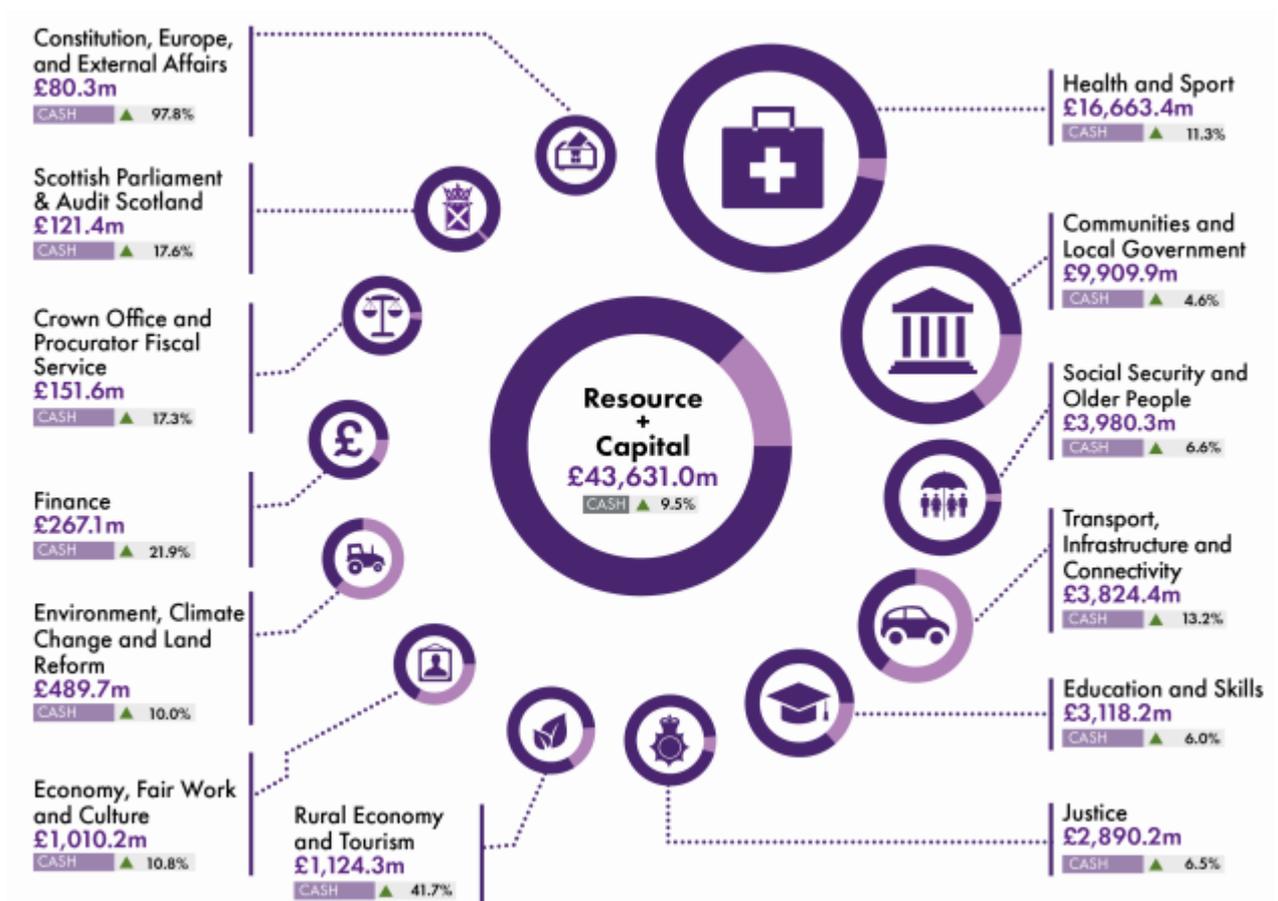
49. Increases to portfolio budgets include additional Covid-19 funding. At the point of the Scottish budget being published, this consisted of:

- an additional £1.3 billion for Scotland in 2021-22 in relation to Covid-19 spending confirmed in the UK Spending Review in November 2020
- an additional £500 million estimated as further Barnett consequentials expected to be received in the 2021/22 budget year related to Covid-19 spending.

50. The UK budget included further consequentials of £1.2 billion for 2021/22, £700 million more than had been assumed by the Scottish Government when it constructed its budget proposals. Discussion of the application of this additional amount and is continuing.

## Exhibit 7

### Fiscal Resource and Capital, including financial transactions, combined by portfolio, 2021-22



Source: [Scottish Budget 2021-22](#), SPICe, 1<sup>st</sup> February 2020, page 16

## Taxes

51. The funding for the 2021/22 Budget includes revenue from Income Tax, Land and Buildings Transaction Tax and Scottish Landfill Tax. The revenues raised from these

taxes is forecast to be £12.9 billion. Income Tax revenue is forecast to be £12.3 billion, around 95 per cent of this.

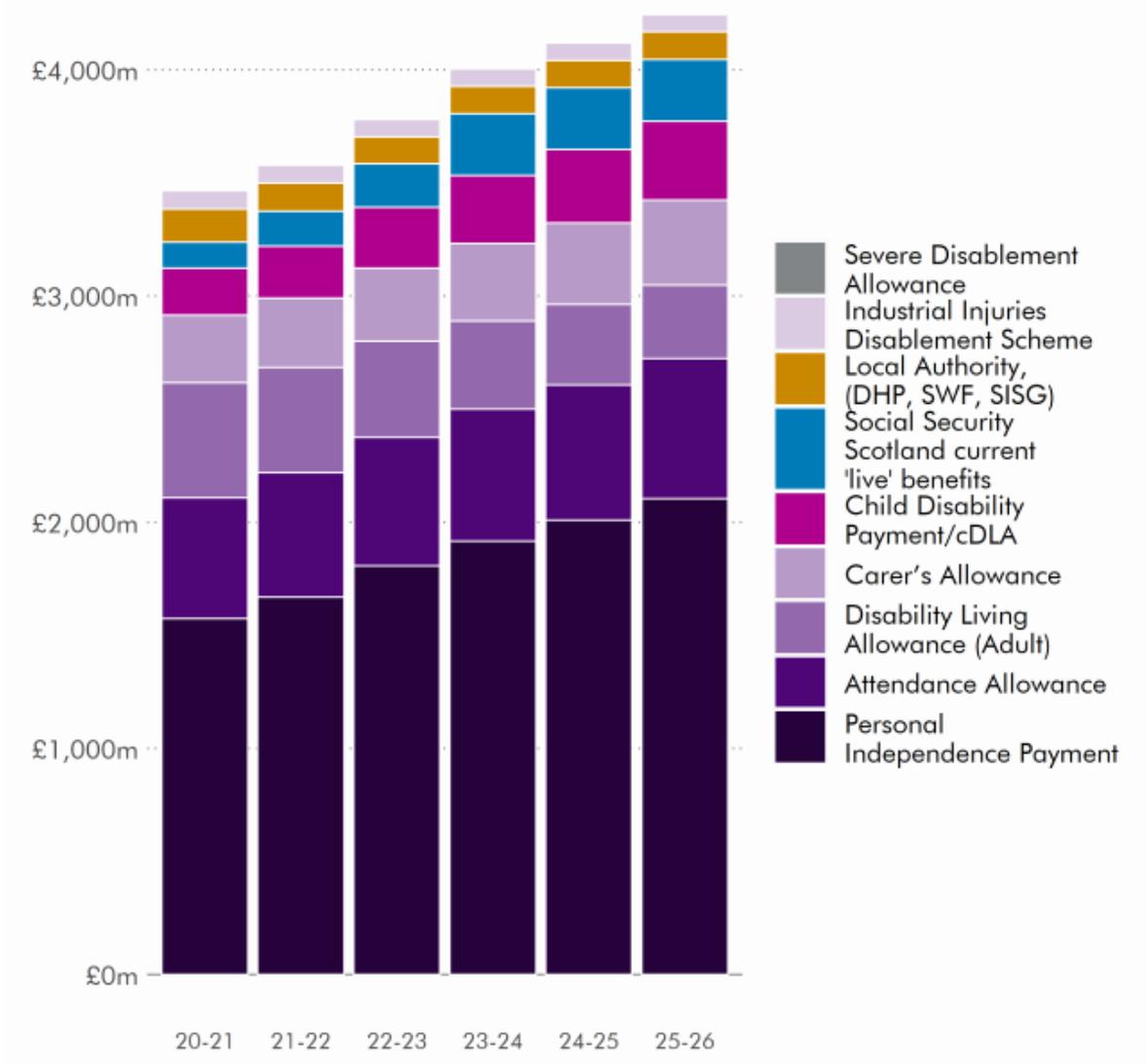
52. Forecasts of 2021/22 tax revenues have understandably fallen since the Scottish Fiscal Commission made its pre-pandemic January 2020 forecasts. However, the impact on the budget relies on the relative position of UK forecasts made by the OBR compared to Scotland. OBR forecasts have also reduced expected tax revenues. For the largest devolved tax, Scottish Income Tax, the Scottish Government budget is set to grow by £475m because of this relative difference in forecasts.
53. This difference is likely to change in March. The OBR will produce updated forecasts alongside the UK Government budget. The last OBR forecasts were published in November, before the latest lockdown, whereas the SFC forecasts were produced in February. The SFC has stated that it does not expect Scottish tax revenues actually to perform significantly differently to UK wide tax revenues in 2021-22. There is little change in tax policy for 2021/22, with Scottish income tax thresholds rising in line with inflation, and no changes to the 5-band tax system.
54. For fully devolved taxes:
  - Non-Domestic Rates (NDR)– there will be a reduction in the non-domestic rates poundage charge by 0.8p.
  - Land and Buildings Transaction Tax – the temporary change to the residential LBTT nil rate band introduced in July 2020 will return to £145,000. Existing non-residential LBTT rates and bands for conveyances and leases will remain unchanged.
  - Scottish Landfill Tax – no changes apart from inflation-based increases in rates to ensure consistency with planned Landfill Tax charges in the rest of the UK.
55. The proposed budget initially included proposals to extend NDR relief measures for retail, hospitality, leisure and airline sectors for the first quarter of 2021/22 and a commitment to extend this to the whole year if resources allowed. The Cabinet Secretary for Finance has since confirmed that these measures will be extended for all of 2021/22, drawing on the £1.1 billion of Barnett consequentials confirmed in February 2021 and carried forward.
56. The Scotland Act 2016 states that half of Value Added Tax raised in Scotland will be assigned to the Scottish Government. In October 2020, the UK and Scottish Governments agreed to postpone the implementation of VAT assignment because of the impact of Covid-19. How and when it will be implemented will now be considered through the Fiscal Framework review in 2022.

### ***Social Security spending 2021/22***

57. Social Security is the third largest area of the Scottish budget after health and local government. Social Security expenditure for 2021/22 is expected to be around £3.6 billion.
58. In April 2020, the Scottish Government became financially responsible for disability benefits, such as Personal Independence Payment (PIP) and Disability Living Allowance (DLA). From Autumn 2021, it plans to replace these benefits with new Scottish disability benefits. The Scottish replacement for the child element of DLA, Child Disability Payment (CDP) is planned to be introduced in November 2021. This is unlikely to have a significant impact on the budget this year as it replaces an existing benefit, as opposed to being a new area of spend and is due to start later in the year.

- 59. The Scottish Fiscal Commission estimates that spending on Scottish social security benefits will continue to increase over the next five years, reaching over £4.2 billion by 2025/26.<sup>4</sup> Forecasts from 2022/23 onwards, however, do not account for changes in spending arising from Scottish replacement payments launched beyond the next financial year, such as the introduction of Adult Disability Payment (ADP).
- 60. There may be differences in future policy decisions between the UK and Scottish Governments, for example in response to the Covid-19 pandemic, which could result in funding and spending divergence. Based on the SFC's assumption that benefit payments made by Social Security Scotland will be on average higher than benefits administered by the DWP, future spend on Scottish social security benefits is expected to be higher than currently forecast (Exhibit 5).

**Exhibit 5**  
**Forecast growth in devolved social security expenditure**



Note: Current 'live' benefits include all Scottish specific benefits currently being administered by Social Security Scotland, such as the Scottish Child Payment.

<sup>4</sup> Scotland's Economic and Fiscal Forecasts, Scottish Fiscal Commission, January 2021

61. In addition to uncertainties around policies, social security spending is variable and harder to control than other areas of spending, because it is demand-led. The Scottish Government will have to meet this expenditure as it arises. Funding for the Social Security benefits that are being devolved is transferred from the UK Government, through positive Block Grant Adjustments. For the 2021/22 budget, these are provisional BGAs based on OBR forecasts from November 2020. These are likely to change following the OBR's updated forecasts in March. The Scottish Government will need to manage any in-year cash shortfall should social security spending increase in Scotland increases above spending in England and Wales.

#### *Scottish Child Payment*

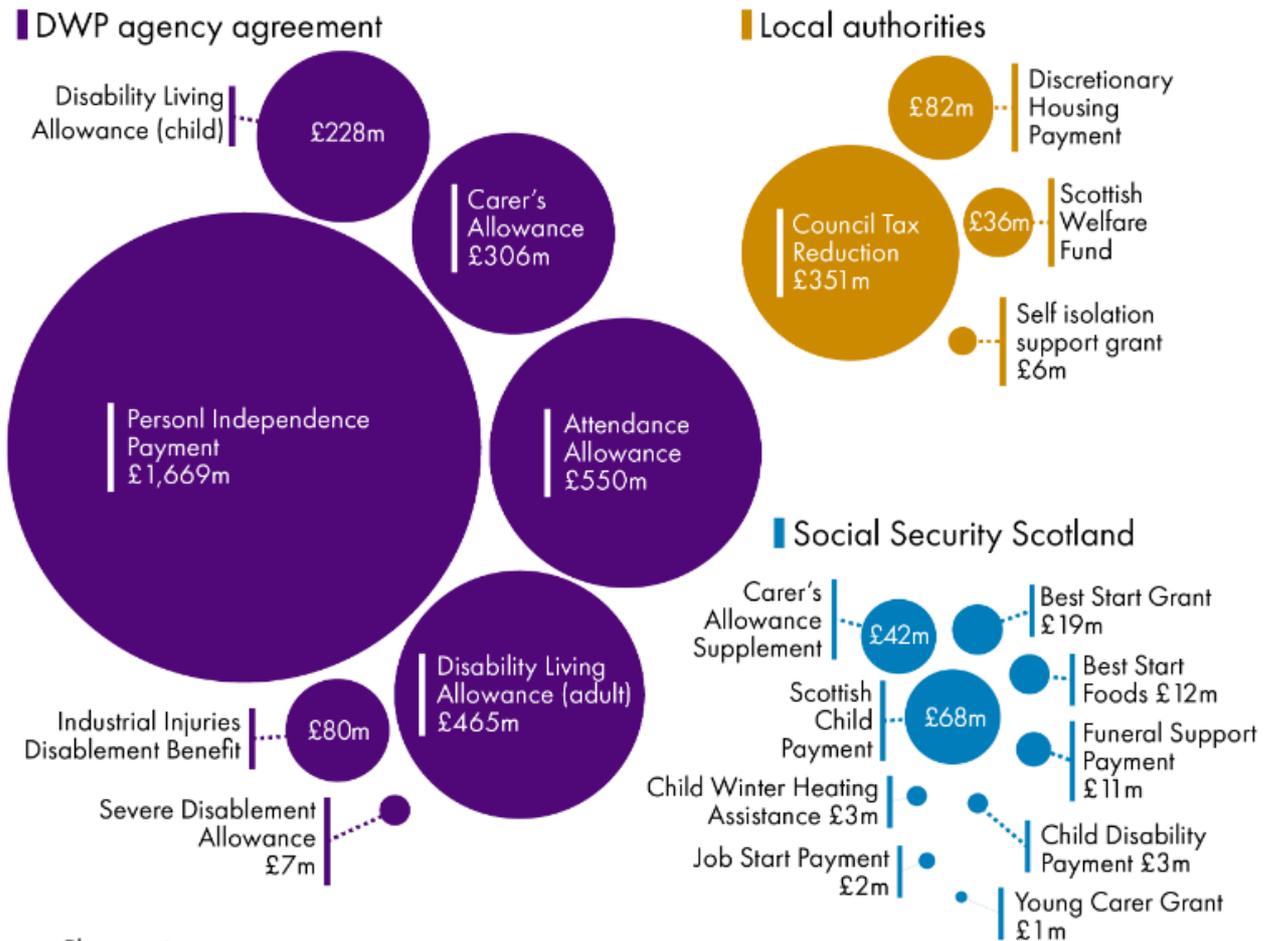
62. The Scottish Child Payment (SCP) was announced in June 2019 as a new benefit to help tackle child poverty by providing additional support for low-income families. Social Security Scotland began administering SCP towards the end of 2020/21, with the first payments for children under the age of six being made from February 2021. The SFC forecasts this will benefit around 130,000 children at a cost of £68m in 2021/22. Once fully rolled out to all children under 16 by the end of 2022, expenditure for SCP is expected to reach £105m in 2022/23 and £184m in 2023/24. As there is no equivalent UK payment, this expenditure is not funded through Block Grant Adjustments, and instead must be met fully by the Scottish Government from existing budgets each year.

#### ***Local authorities administer other elements of social security support***

63. Responsibilities for administering social security is split between the Department for Work and Pensions, Social Security Scotland and local authorities (Exhibit 8). Council Tax Reduction (CTR) administered by local authorities, is not technically social security, but does provide substantial assistance through a social security-like scheme. Actual income foregone in 2021-22 may be higher, as the Scottish Government allocated an additional £25 million for the increase in claims due to Covid-19.

## Exhibit 8

### Devolved social security by agency 2021-22



Source: [Social Security Budget 2021-22](#). SPICe briefing. Figure 1 February 19, 2021

### The Local Government budget 2021/22

***The local government budget has increased overall, but the ongoing impact of the pandemic and existing financial pressures will continue***

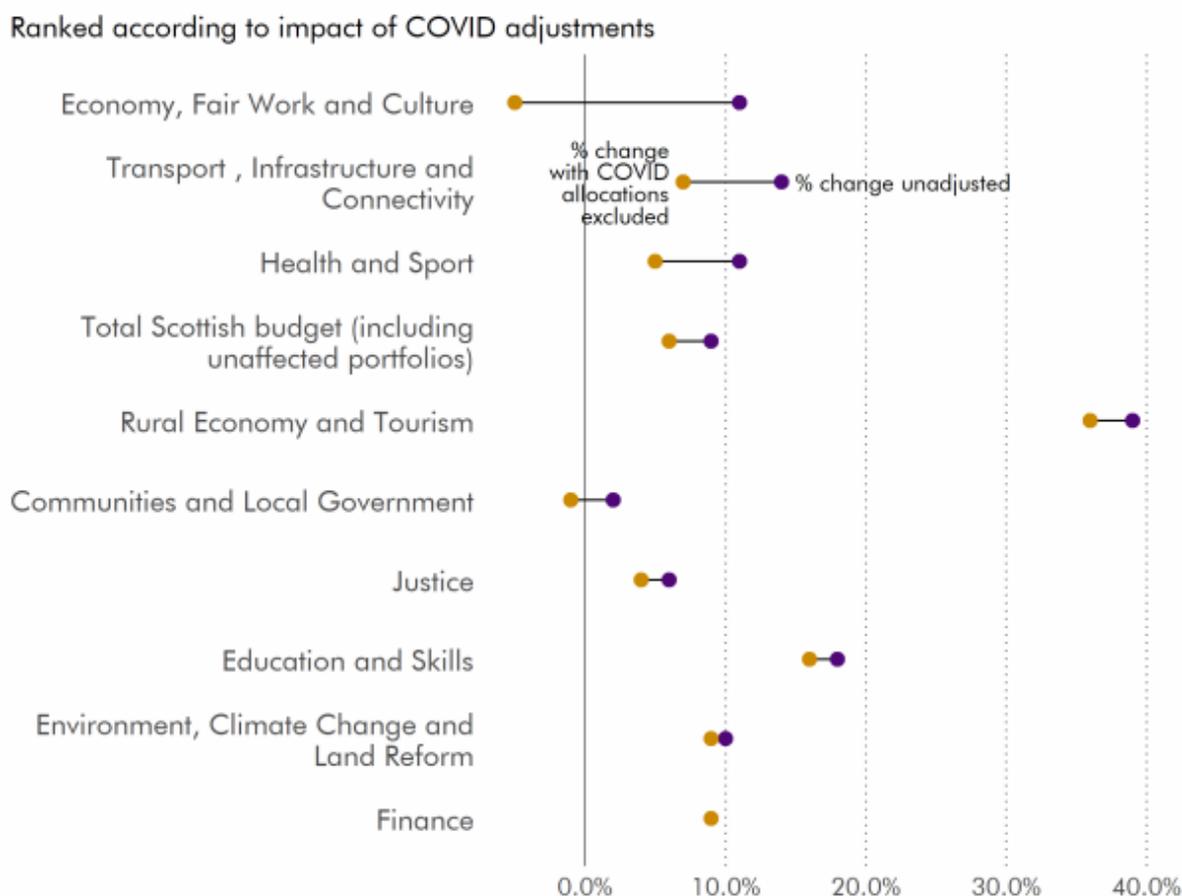
64. The 2021/22 budget includes increases to local government funding, including further funding to support Covid-19 related measures. Discussion around the split of ringfenced and non-ringfenced funding continues, and volatility around the future developments with pandemic and its aftermath remain. Significant uncertainty about the impact on businesses, individuals and public services in 2021/22 continues. This includes the levels of support required as children return to school, ongoing hardship for some citizens, and the sustainability of businesses as support, such as grants and furlough payments, is removed.
65. Financial pressures which pre-exist the pandemic also remain. COSLA has drawn attention to ongoing pressures faced by local authorities and highlighted that additional funding was 'predominantly for Government priorities': 'In its [Budget Reality 2021-22](#) document, released alongside its statement on the Budget, COSLA argues that, in comparison to the asks in its pre-Budget document: 'The settlement represents a

shortfall of £362 million in core revenue funding, £20 million in core capital funding, and £511 million in non-recurring Covid-19 funding.’

**Breakdown by Scottish Government portfolio**

- 66. Based on the figures provided within the Scottish Budget 2020/21, the Communities and local government portfolio has increased in cash terms. In its assessment of the proposals the Scottish Parliament’s information service (SPICe) has also factored in the underlying position if Covid-19 related spending is discounted. This shows as small decrease compared to the 2020/21 financial year (Exhibit 9). For the Scottish budget as a whole, the increase before adjusting for Covid-19 allocations is 9 per cent, but this reduces to 6 per cent after adjusting for Covid-19 allocations.
- 67. As the pandemic continues, differentiating between Covid-19 spending and other spending becomes more difficult. For example, as funding moves to support economic recovery, alongside other economic regeneration, the lines between supporting businesses through the pandemic and pursuing existing aims to bolster the economy may become less clear. While this exhibit demonstrates the underlying movements before and after Covid-19 allocations, there is no counterfactual which shows how funding allocations would have been applied had the pandemic not happened.

**Exhibit 9  
Budget changes before and after adjusting for Covid-19 allocations**



Source: [Scottish Budget 2021-22](#), SPICe, 1<sup>st</sup> February 2020, page 10

*Further spending following £1.1 billion additional Barnett consequentials*

68. The Scottish Government is applying an additional £1.1 billion of Barnett consequentials for 2020/21 confirmed by HM Treasury to the 2021/22 budget. The budget has now passed Stage 1 through the Scottish Parliament. This consists of £873 million of additional resource funding, £236 million capital funding, and £41 million in financial transactions.
69. As set out above, some of this funding will be used to provide 100% business rates relief for retail, hospitality, leisure, aviation businesses and newspapers for the whole of 2021-22. The removal of charitable rates relief for mainstream independent schools is to be delayed until 1 April 2022.
70. Further details on application of additional 2021/22 funding will be established as stages 2 and 3 of the budget proceed. The Scottish Government has announced how it will allocate some of this funding as follows:
- £120 million for mental health
  - £120 million for affordable housing
  - £100 million to support people on low incomes
  - £60 million to support schools manage missed education
  - £60 million for health service recovery
  - £45 million to reduce emissions from heating
  - £21.5 million for Scottish Enterprise.

***Budget for local government***

71. The draft Scottish Budget presented on the 28th January set out the allocation to local government. SPICe has published a detailed breakdown of the 2021/22 budget and provisional local authority allocations [here](#).
72. The total allocation to local government in the 2021-22 Budget is £11,108.2 million. This is mostly made up of General Revenue Grant (GRG) and Non-Domestic Rates Income (NDRI), with smaller amounts for General Capital Grant and Specific (or ring-fenced) Resource and Capital grants.
73. Revenue funding within other portfolios (but within the totals in the Finance Circular and detailed in Budget 2021-22 table 5.14) increases the total to £11,620.4 million. Further, once a number of funding streams attached to particular portfolio policy initiatives, but outside the totals in the Circular are included, the total rises to £12,270.8 million (Exhibit 10).
74. Due to the unique circumstances around this budget, comparisons between previous years will be made in cash terms rather than real terms. There are challenging comparability issues caused by the impact of the pandemic on the 'GDP deflator', used

to calculate figures in 'real terms'.<sup>5</sup> Because of these issues, it is accepted by SPICe that the best comparison in this budget is to use the actual cash terms figures.

## Exhibit 10

### Local government funding included in Scottish Government budget proposals

General Revenue Grant	6,763.400	7,108.160	+5.1
Non-Domestic Rates Income	2,790.000	2,631.000	-5.7
	9,553.400	9,739.160	+1.9
Support for capital	467.937	477.937	+2.1
Specific resource grants	685.600	751.981	+9.7
Specific capital grants	310.104	139.104	-55.1
	11,017.041	11,108.182	+0.8
Revenue funding in other portfolios to be transferred to LG	428.700	512.200	+19.5
<b>Total Local Government Settlement</b>	<b>11,445.741</b>	<b>11,620.382</b>	<b>+1.5</b>
Revenue funding outwith core	197.900	223.500	+12.9
Capital funding outwith core	382.400	426.900	+11.6
<b>Overall Scottish Government funding</b>	<b>12,026.041</b>	<b>12,270.782</b>	<b>+2.0</b>
Allocation of Covid-19 consequentials – non-recurring	-	259.000	N/A

Source: SPICe and the Scottish budget 2021/22

75. The Cabinet Secretary for Finance has stated this budget contained:

- An increase in the core settlement of 3.1 per cent cash terms.
- An amount provided for replacement of lost income, the third such payment in terms of lost income. Those instalments for lost income are £200 million, £49 million, £279 million.
- An allocation of de-ringfenced funding for next year, of £259 million, which local authorities can do as they see fit.

76. SPICe has analysed cash terms changes to different elements of the budget (Exhibit 11). Its analysis indicates that the combined Budget document figure for General Revenue Grants and Non-Domestic Rates Income only (ie, the amount of money to deliver services over which local authorities have control) increases by 1.9 per cent in cash terms, or £185.8 million. Once specific, ring fenced resource grants are included, then the combined figure for the resource budget increases by 2.5 per cent in cash terms, or

<sup>5</sup> Spice definition. while the GDP deflator is normally considered a good general measure of inflation, clearly over the next few years the forecast is skewed by the significant impact of the economic response to COVID-19.

by £252.2 million. With the additional £259 million announced for the allocation of Covid-19 consequentials added to this, the additional funding increases to £511.2 million.

## Exhibit 11

### Change in local government budget, 2020/21 to 2021/22



Source: [Local Government Finance: Budget 2021-22 and provisional allocations to local authorities](#), SPICe, 5<sup>th</sup> February 2021, page 13

77. To get the £594.6 million figure quoted in the Cabinet Secretary’s statement to the Parliament, the figure for ‘Total revenue within other Portfolios’ is added to this combined sum. Alongside the revenue budget, used to pay for public services, local government also receives a capital budget, again made up of general (ie, discretionary) and specific (ie, ring-fenced) grants.
78. Overall, the total capital budget sees a decrease in cash terms this year, of –20.7 per cent or by £161 million. This is mostly driven by a decrease in non-recurrent specific capital grants, with support for capital remaining relatively static with an increase of 2.2 per cent, following a significant decrease between 2019-20 and 2020-21.
79. COSLA has drawn attention to ongoing pressures faced by local authorities and highlighted that additional funding was ‘predominantly for Government priorities’: ‘In its [Budget Reality 2021-22](#) document, released alongside its statement on the Budget, COSLA argues that, in comparison to the asks in its pre-Budget document: ‘The

settlement represents a shortfall of £362 million in core revenue funding, £20 million in core capital funding, and £511 million in non-recurring Covid-19 funding.’

### ***Council tax freeze***

80. The settlement includes £90 million available to compensate councils that choose to freeze their Council Tax at 2020-21 levels. The Scottish Government has stated that this equates to an increase in Council Tax of around 3 per cent. Distribution of this amount across councils is set out in column 12 of Annex B to the Local Government Finance Circular.
81. This freeze currently only applies to the 2021/22 budget year. If councils wish to maintain 2021/22 council tax income in the 2022/23 financial year, councils will need to increase council tax simply to match these levels. If councils wish to increase council tax income above 2021/22, larger increases will be needed; for example, matching the council tax freeze and increasing council tax income by another 3 per cent would require over a 6 per cent increase in 2022/23. The Cabinet Secretary for Finance has stated her willingness to continue to engage with COSLA regarding councils’ concerns about this potential outcome.

### ***Pre-budget scrutiny***

82. As part of their pre-budget scrutiny process, the Local Government and Communities Committee (LGCC) Committee asked for clarification on a number of areas.
  - The Scottish Government’s view on whether the pandemic has resulted in a £500m gap in local government resources.
  - The resilience of local services, particularly around the social protection agenda.
  - The financial position of IJBs.
  - And progress with COSLA on a fiscal framework for local government.
  - A number of housing issues, including security of tenancy, progress with social housing provision and learning lessons from the success in tackling homelessness during the pandemic.
83. The Cabinet Secretary’s response to the committee, in November 2020 on the issue of the gap in resources included:
  - announcing additional financial flexibilities to address the financial pressures caused by Covid-19 which could be worth around £600 million over the next two year on 8 October
  - finalising a lost income scheme worth an estimated £90 million which when added to the previously committed £49 million consequentials will provide an extra £139 million of committed funding. Taken together, these measures will provide councils with an overall financial flexibility and funding package of up to approximately £750 millions

- announcing an additional £382.2 million in direct support during 2020-21 - over and above their regular grant payments. This brings the value of the overall Covid-19 support package for councils to more than £1 billion.<sup>6</sup>

84. The Scottish Government responded to the LGCC pre-budget scrutiny in the budget document. 'The Scottish Government continues to work closely with partners, including local government and COSLA, to assess and mitigate the harms caused by the Covid-19 pandemic, and has committed over £500 million of investment in social protections, including for the winter period... Due to the lack of future funding figures from the UK Government and unreasonable constraints to the timetable for producing Scottish Budget 2021-22, the Scottish Government has no option but to provide local government with a single-year settlement, a position COSLA understands and accepts. However, the Scottish Government remains committed to providing local government with long-term financial certainty and will continue to work on this with COSLA.'<sup>7</sup>

### ***Budget scrutiny***

85. The Local Government and Communities Committee met the Cabinet Secretaries for Communities and Local Government and Finance on 17 February. This discussion focused on the replacement of lost income and the returns from local authorities for the first quarters of 2020/21 to quantify that impact. The Scottish Govt's response referred to the three instalments for lost income, £200, £49 and £279m. The Cabinet Secretary for Finance also set out that it has no confirmation from the UK govt of what the consequential will be for loss of income. The Cabinet Secretary for Finance also set out that £259m of funding had been de-ringfenced. Regarding financial flexibilities, clarification was given that the extension in loan repayments was up to 20 years. There was discussion about the freeze on council tax and the need for it to be built into the baseline. There was also discussion about the squeeze on unprotected budgets and how those services such as economic development, employability services and leisure and culture were essential to economic recovery and had been subject to a decade of underfunding.
86. Discussion also covered the complexity of the arrangements in Scotland. Reference was made to the 30 different pots of money and the difficulty of navigating that system. The response from the Scottish Government was about the need to develop a bespoke situation to prevent business from following through the cracks. The Cabinet Secretary for Finance gave tribute to the tremendous effort from local government in getting those schemes open.
87. COSLAs most recent response, published on 18 February welcomes the additional flexible funding and additional funding for education. The council tax increase must be baselined to avoid a larger rise next year. However, once policy commitments are honoured, Carers Act, FPC and living wage, the £335m revenue increase turns into a £94m (0.9 per cent) increase to core funding.<sup>8</sup>

<sup>6</sup> Correspondence from Cabinet Secretary for Communities and Local Government to the LGCC as part of pre-budget scrutiny.

<sup>7</sup> Scottish Budget: 2021-22 Page 60

<sup>8</sup> COSLA, Fair Funding for Local Government, 18 February 2021

**SCOTTISH GOVERNMENT SPENDING ANNOUNCEMENTS  
RELATING TO LOCAL GOVERNMENT AS AT END 2020**

<b>Support for business</b>		
To 31 July 2020	£1.202 billion for the £10,000 Small Business Support Grant and the £25,000 Retail Hospitality and Leisure Support Grants £875 million to cover the cost of business rates relief £34 million newly self-employed hardship fund	2,111
August to December 2020	£48 million support for businesses in tier 4	48
<b>Total business support</b>		<b>2,159</b>
<b>Support for communities</b>		
To 31 July 2020	Scottish Welfare Fund (Communities Fund) £22m Food fund (Communities fund) £30m LA Hardship fund (Communities Fund) £50m	102
August to December 2020	Community and Third Sector Recovery Programme £25m	25
<b>Total support for communities</b>		<b>127</b>
<b>Education</b>		
To 31 July 2020	Digital inclusion for children and young people £10m Additional funding to recruit teachers and for local authorities education recovery £ 45m.	55
August to December 2020	Support for school staff £1.5m	1.5
<b>Total education</b>		<b>56.5</b>

<b>Support for individual</b>		
To 31 July 2020	Additional Discretionary Housing Payments for tenants £5m	5
August to December 2020	Care Experienced Children and Young People fund £11.6m Increase in Discretionary Housing Payment £3m Self-Isolation Support Grant £0m For individuals facing financial hardship £16m	30.6
<b>Total support for individual</b>		<b>35.6</b>
<b>Other local government</b>		
To 31 July 2020	Increased demand for council tax reduction costs £25m Community justice coordinators £0.4m Death registration service to work weekends and bank holidays £0.6m	
<b>Total other local government</b>		<b>26</b>
<b>Health and social care</b>		
August to December 2020	Children and young people's mental health £15m	
<b>Total health and social care</b>		<b>15</b>
<b>Non ring-fenced allocations</b>		
To 31 July 2020	UK Government Consequentials £155m	155
August to December 2020	Lost income scheme £200m	200
<b>Total non ring-fenced allocations</b>		<b>355</b>
<b>TOTAL</b>		<b>2,774</b>

Note – The amounts identified above are the spending measures that be administered by local government, including Scottish Government support to business which is being administered by councils on an agency basis. As such not all amounts above form part of the local government budget.

## Link to further information

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There is a large amount of useful analysis performed by commentators and researchers if you are interested in finding out more of the detail.

- [Covid-19: Tracking the implications of Covid-19 on Scotland's public finances, Audit Scotland, February 24, 2021.](#)
- [Covid-19: Implications for public finances in Scotland, Audit Scotland, August 20, 2020.](#)
- [Scottish Budget 2021-22, SPICe briefing, February 1, 2021.](#)
- [Local Government Finance: Budget 2021-22 and provisional allocations to local authorities, SPICe briefing, February 5, 2021.](#)
- [Social Security Budget 2021-22, SPICe briefing, February 19, 2021](#)
- [Why the 2021/22 Budget does not represent fair funding for local government. COSLA, February 18, 2021.](#)