

Financial Scrutiny Unit Briefing

Local Government Funding: Draft Budget 2015-16 and provisional allocations to local authorities

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This Briefing discusses and analyses the allocation of funds from the Scottish Government to local authorities for financial year 2015-16.



The Scottish Parliament
Pàrlamaid na h-Alba

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EXECUTIVE SUMMARY

This briefing discusses the total allocation to local government for 2015-16, and the provisional allocations to individual local authorities. On the total local government budget:

- The total allocation to local government in 2015-16 will be £10,756.7m. This is a slight real terms increase (£0.6m) on the total allocation for 2014-15. The total allocation includes:
 - General Resource Grant
 - Non-Domestic Rates Income
 - Support for capital
 - Specific resource and capital grants.
- The combined figure for General Resource Grant + Non-Domestic Rates Income is guaranteed to local government. The combined GRG+NDRI is decreasing by 0.4% in real terms.
- Within that, Non-Domestic Rates Income is expected to increase by 4.0% in real terms, and the General Resource Grant is decreasing by 2.1% in real terms.
- The total cost of the council tax freeze in 2015-16 is £560m, and the total cumulative cost from 2008-09 to 2015-16 is £2,520m.

The provisional allocations to local authorities for 2015-16 were outlined in summer 2014, but the final circular has yet to be issued. This will include the allocation of a number of other funds, totalling over £500m (around 5% of the total). These funds are included in the Draft Budget 2015-16 but have not yet been allocated to local authorities, so it is not possible to produce accurate, comparable, year-on-year change figures for the 2015-16 allocations at present.

This briefing therefore uses the final 2013-14 and 2014-15 allocations to provide analysis of individual local authority settlements.

DRAFT BUDGET 2015-16: LOCAL GOVERNMENT PORTFOLIO

TOTAL LOCAL GOVERNMENT BUDGET

The total allocation to local government in 2015-16 will be **£10,756.7m**. Figure 1 shows the make-up of the 2015-16 local government budget. The Scottish Government guarantees the combined general resource grant and distributable non-domestic rate income figure, approved by Parliament, to each local authority. A drop in non-domestic rate income is compensated for by an increase in general revenue grant and vice versa.

Figure 1: 2015-16 Local Government settlement

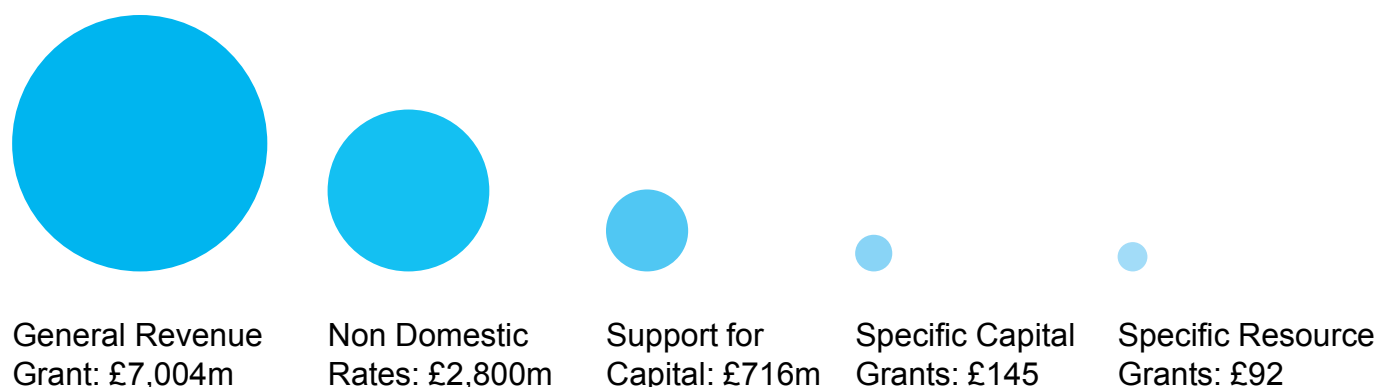


Table 1 below sets out the level 3 breakdown of the local government settlement, in cash and real terms.

Table 1: Local Government – level 3 breakdown

Level 3	2014-15	2015-16 (cash)	2015-16 (real)	Real change (£m)	Real change (%)
General Revenue Grant (1)	7,041.6	7,004.0	6,893.7	-147.9	-2.1%
Non Domestic Rates (1)	2,649.5	2,799.5	2,755.4	105.9	4.0%
Support for Capital (2)	646.5	716.2	704.9	58.4	9.0%
Specific Resource Grants	98.9	91.9	90.5	-8.4	-8.5%
Specific Capital Grants	150.2	145.1	142.8	-7.4	-4.9%
Total Local Government	10,586.7	10,756.7	10,587.3	0.6	0.0%
of which RDEL	7,140.5	7,095.9	6,984.2	-156.3	-2.2%
CDEL	796.7	861.3	847.7	51.0	6.4%
AME	2,649.5	2,799.5	2,755.4	105.9	4.0%

Notes:

(1) The Scottish Government guarantees the combined general revenue grant and distributable NDRI figure to local government.

(2) The 2012-15 capital allocations were reprofiled (-£120m/-£100m/+£120m with the remaining £94.2m now added in 2015-16). Although the sum to be added back was originally £100 million this was reduced proportionately to £94.2 million following the transfer of the police and fire funding resulting from police and fire reform.

GENERAL RESOURCE GRANT + NDRI

The Scottish Government guarantees the combined general resource grant (GRG) and distributable NDRI figure, so this combined figure is used to calculate Local Government's revenue settlement. Combined GRG¹ and NDRI figures are set out in table 2 below. The overall revenue settlement also includes 2 specific revenue grants.

The combined GRG+NDRI has increased slightly in cash terms (1.2%) but has reduced slightly in real terms (-0.4%).

Business rates are set by the Scottish Government, collected by local government on behalf of the Government, paid into the Government's business rates pool and then redistributed back to local government. So, in effect, local authorities overall keep the business rates that they collect with the General Revenue Grant making up the total needs-based share of funding.

NDRI does however form part of the Scottish Government's total resources. The Scottish Government guarantees a combination of General Revenue Grant plus business rates income to each local authority on the basis of relative need. Therefore, if a local authority does not collect as much as it had expected, the Scottish Government has to make up the difference through extra General Revenue Grant and vice versa. Any shortfalls or deficits in one year are recovered or paid out in future years.

Table 2: Local Government GRG + NDRI

	2014-15	2015-16
General Resource Grant + NDRI cash (£m)	9,691.1	9,803.5
Cash terms annual change (£m)		112.4
Cash terms annual change (%)		1.2%
General Resource Grant + NDRI real (£m)	9,691.1	9,649.1
Real terms annual change (£m)		-42.0
Real terms annual change (%)		-0.4%

¹ The Budget document refers to both General Revenue Grant and General Resource Grant – both refer to the same area of the budget.

NON-DOMESTIC RATES INCOME

Non-domestic rates income (NDRI) is currently the single largest source of revenue under the control of the Scottish Government. Table 3 below shows the non-domestic rates income to be distributed in both 2014-15 and 2015-16 in cash and real terms.

In his statement to Parliament, the Cabinet Secretary stated that “the Fiscal Commission has considered our NDRI forecasts and has expressed the view that the buoyancy assumptions ‘seem optimistic’. As a result I have revised down the NDRI forecast in the Draft Budget for 2015-16.”

The NDRI forecast for 2015-16 is £83.5m lower than the forecast for 2015-16 in the 2014-15 Draft Budget. The Scottish Government states that this is due to “the UK Government’s decision in the 2013 Budget to cap the increase in non-domestic rate poundage and other estimating changes.” (Scottish Government 2014d) In order to maintain the allocation to local government, the Scottish Government has added £83.5m to the Local Government resource DEL allocation.

Taking this change into account, NDRI is expected to increase by 4.0% in real terms from 2014-15 to 2015-16.

Table 3: Non-Domestic Rates Income

	2014-15	2015-16
NDRI (cash) (£m)	2,649.5	2,799.5
Cash terms annual change (£m)		150.0
Cash terms annual change (%)		5.7%
NDRI (real) (£m)	2,649.5	2,755.4
Real terms annual change (£m)		105.9
Real terms annual change (%)		4.0%

In his statement to the Parliament, the Cabinet Secretary also noted that:

“Between 2008 and 2014, the difference between the total amount of non-domestic rates income received and the Scottish Government’s estimated budget was three tenths of 1 per cent—£40 million out of a total of £13.1 billion over the period—which was a small but welcome surplus.” (Scottish Parliament 2014)

Since the Statement, the 2013-14 Notified Amounts have been received from local authorities. These returns reverse the £40 million surplus to a £40 million deficit over the period 2008-14 but this still represents 0.3% out of the total (Scottish Government 2014d). For 2013-14, the estimate was revised from a £10.6m surplus at the time of the Cabinet Secretary’s statement to a £68.4m deficit at time of publication of this Briefing.

The annual breakdown of NDRI estimates compared to the amount collected, shown in table 4 below, shows that in individual years, the Government’s estimates were as much as 7.2% different from the total amount of NDRI received.

Table 4: NDRI – amount received compared to estimates

Year	Total collected	Total distributable	Surplus/ Deficit	Difference (%)
2008-09	1,923.8	1,962.8	-39.0	-2.0%
2009-10	2,009.8	2,165.1	-155.3	-7.2%
2010-11	2,138.2	2,068.2	70.0	3.4%
2011-12	2,251.1	2,182.0	69.1	3.2%
2012-13	2,346.9	2,263.0	83.9	3.7%
2013-14 (revised)	2,366.6	2,435.0	-68.4	-2.8%
Total	13,036.4	13,076.1	-39.7	-0.3%

Source: Scottish Government 2014d

Estimates of NDRI are influenced by a number of factors, including new build business properties, split business properties (which individually can have a higher combined rateable value than the larger property), domestic properties changing to business use, the outcome of appeals, increased revenue from the public health supplement and changes to relief eligibility (such as reductions in the value of empty property relief).

COUNCIL TAX FREEZE

The Government will provide a share of an additional £70m to those councils that agree to freeze their council tax at 2007-08 levels for another year. This brings the total cost of the freeze in 2015-16 to £560m, and the total cumulative cost from 2008-09 to 2015-16 to £2,520m.

ALLOCATIONS TO LOCAL AUTHORITIES

FUNDING METHOD

The method for funding local authorities is described in detail in a [SPICe briefing paper for the Local Government and Regeneration Committee, issued in March 2014](#) (Berthier 2014), which will be re-issued for the Local Government and Regeneration Committee's forthcoming evidence sessions. Local authority finance is split between revenue and capital expenditure. The following is a brief summary of the funding method.

Revenue

The Scottish Government provides approximately 82% of local authority net revenue funding and the remainder is met largely from the council tax collection. Revenue funding comprises three elements:

- General Revenue Grant
- NDR income
- Specific revenue grants.

The [Scottish Government's Public Finance Manual](#) (Scottish Government 2012) describes the current system of revenue funding allocations:

“The total revenue funding is distributed between Scotland's 32 local authorities using a "needs-based" grant distribution system developed over many years through consultation between central and local government. The system recognises key factors which impact on councils' relative revenue expenditure needs. Grant distribution is calculated on the basis of councils' Total Estimated Expenditure (TEE), funded from both grant and local taxation. Councils' expenditure needs are split between expenditure on services and debt servicing (loan & leasing charges).”

Revenue allocation is based on a [complex distribution formula](#), set out in the Scottish Government's [Green Book on Grant Aided Expenditure](#) (Scottish Government 2014b). The allocation is based on:

- a range of regularly updated series of statistical measures, including for example population statistics and numbers of pupils
- an assessment of costs of delivering services in different locations, for example the higher costs of some services in rural areas.

The Scottish Government and COSLA [joint review group](#) (Scottish Government 2011) was set up in 2008, following the introduction of [the Concordat](#) (Scottish Government 2007) which removed 60% (now over 90%) of ring-fenced grants. The Group made a number of specific recommendations, but concluded that “the existing distribution methodology, while perceived externally as being complex, not easily understood and open to misinterpretation, is deemed to be generally fair” (Scottish Government 2011).

Capital

Capital investment by local authorities is largely funded through prudential borrowing. Local authorities can undertake capital investment “as long as their capital spending plans are prudent, affordable and sustainable” (Scottish Government 2012). In doing so they are required to comply with the CIPFA Prudential Code for Capital Finance. The Scottish Government supports the debt servicing costs of some local authority borrowing to fund capital investment (historical debt), leasing payments and a few approved early Public Private Partnership (PPP) projects.

PROCESS FOR 2015-16 ALLOCATIONS

In June the Scottish Government published details of the provisional Local Government Finance Settlement for 2015-16, in [Local Government Finance Circular 6/2014](#) (Scottish Government 2014b). It was published early because having previously taken the view that every council should receive the same in 2015-16 as in 2014-15, COSLA later agreed to uprate the needs-based indicators.

A further circular will be issued in early December 2014 with updated allocations, based on the overall allocation in the 2015-16 Draft Budget and any subsequent agreed sums.

Following this, the process will follow the standard timetable:

- **Early January 2015** – Deadline for COSLA to respond to the Scottish Government on the provisional allocations set out in the early December 2014 Circular.
- **Early February 2015** – The Budget Bill for 2015-16 is expected to have completed its passage through the Parliament. Soon after that (normally the next day), the Government will lay the Local Government Finance (Scotland) Order 2015, which sets out the formal allocations of the settlement for 2015-16, less the amount of holdback for the council tax freeze monies.
- **Mid-March 2015** – An amendment to the Local Government Finance (Scotland) Order 2015 will be published, to pay out the council tax freeze monies to all those councils who have agreed budgets in line with the terms of the settlement.

CHANGES BETWEEN CIRCULAR 6/2014 AND DRAFT BUDGET 2015-16

There are a number of revenue and capital changes to the totals for Local Government in the July Circular and the Draft Budget 2015-16, totalling £92.6m. This consists of revenue changes of £60.5m (£54 million towards the provision of free school meals and £6.5 million towards the costs of the council tax reduction scheme administration costs) and capital changes of £44m (£39 million for capital costs in the CYPA and £5m for Shetland).

These totals add up to an overall increase of £104.5m, but the difference between the Circular and Draft Budget is £92.6m. This is due to rounding issues, and an additional £12m still to be added to the Draft Budget numbers for the Enterprise Areas business rates relief scheme. **This will mean the totals for both the revised Circular (before any subsequent agreed changes) and the Draft Budget will be £10,768.7m**

PROVISIONAL REVENUE AND CAPITAL ALLOCATIONS 2015-16

The provisional allocations to local authorities for 2015-16 outlined in summer 2014 are presented in the table below. However, the final circular has yet to be issued. This will include the allocation of a number of other funds totalling over £500m. Sums still to be distributed on the revenue side include the Council Tax reduction Scheme £343m; £54m for free school meals; £37.9m for the Scottish Welfare Fund and £35m for Discretionary Housing payments (DHP). On the capital side there is the £39m for the Children and Young People Act 2014 (CYPA) and the £5m for Shetland.

As these funds have not been allocated to local authorities yet, it is not possible to produce accurate, comparable, year-on-year change figures for the 2015-16 allocations at present. The figures below are therefore presented for information only.

Table 5 – 2015-16 provisional allocations

£m	Revenue	Capital
Aberdeen City	324.8	25.8
Aberdeenshire	402.7	32.7
Angus	197.7	23.2
Argyll & Bute	197.0	14.8
Clackmannanshire	91.7	6.1
Dumfries & Galloway	281.6	22.2
Dundee City	275.4	19.9
East Ayrshire	217.6	11.7
East Dunbartonshire	179.3	10.5
East Lothian	164.3	11.6
East Renfrewshire	173.8	8.0
Edinburgh, City of	704.3	87.5
Eilean Siar	99.8	8.9
Falkirk	270.4	15.1
Fife	609.8	39.3
Glasgow City	1,174.1	152.5
Highland	439.5	37.2
Inverclyde	160.5	10.7
Midlothian	147.6	10.3
Moray	154.7	12.1
North Ayrshire	260.2	14.9
North Lanarkshire	592.3	36.9
Orkney Islands	69.3	7.1
Perth & Kinross	240.6	30.0
Renfrewshire	295.8	18.3
Scottish Borders	200.9	35.4
Shetland Islands	85.4	7.4
South Ayrshire	193.3	12.6
South Lanarkshire	541.9	33.9
Stirling	161.3	11.1
West Dunbartonshire	177.8	10.0
West Lothian	294.5	17.6
Scotland	9,379.7	795.4
Undistributed	467.0	21.9

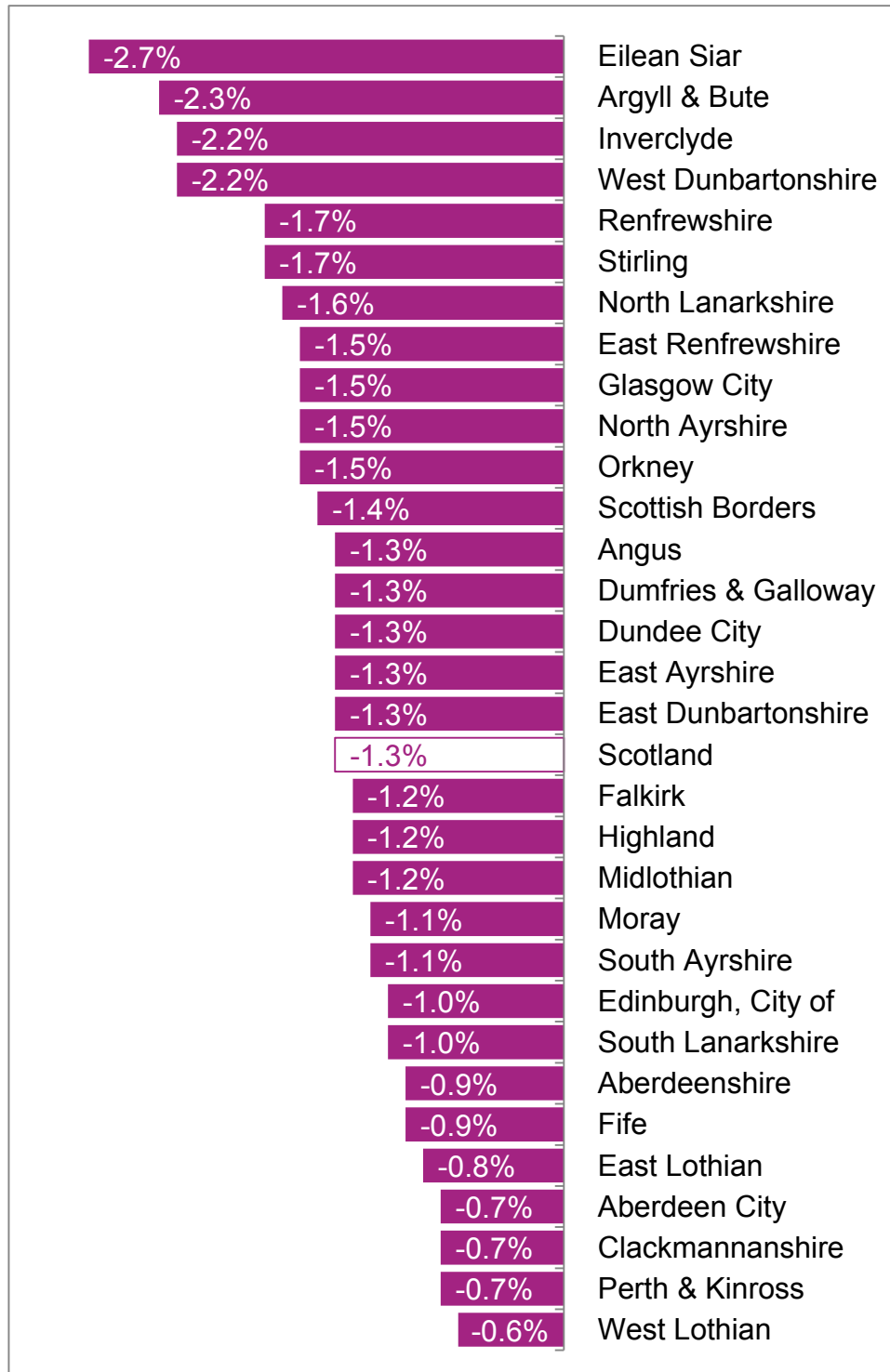
REVENUE ALLOCATIONS 2013-14 AND 2014-15

As noted above, it is not possible to provide further analysis of the 2015-16 provisional allocations at this time. But, we can use the final numbers for 2013-14 to 2014-15 to provide context for the Committee's scrutiny. 2013-14 is used as the base year in these calculations as that was the first year in which police and fire functions (and funding) were removed from local government, and years prior to 2013-14 are therefore not directly comparable.

Real terms change

Figure 2, and the table 6 in the Annex of this Briefing, show the real terms changes in individual revenue allocations from 2013-14 to 2014-15.

Figure 2: Real terms change in revenue allocations, 2014-15 on 2013-14, ranked in percentage terms



Some points to note:

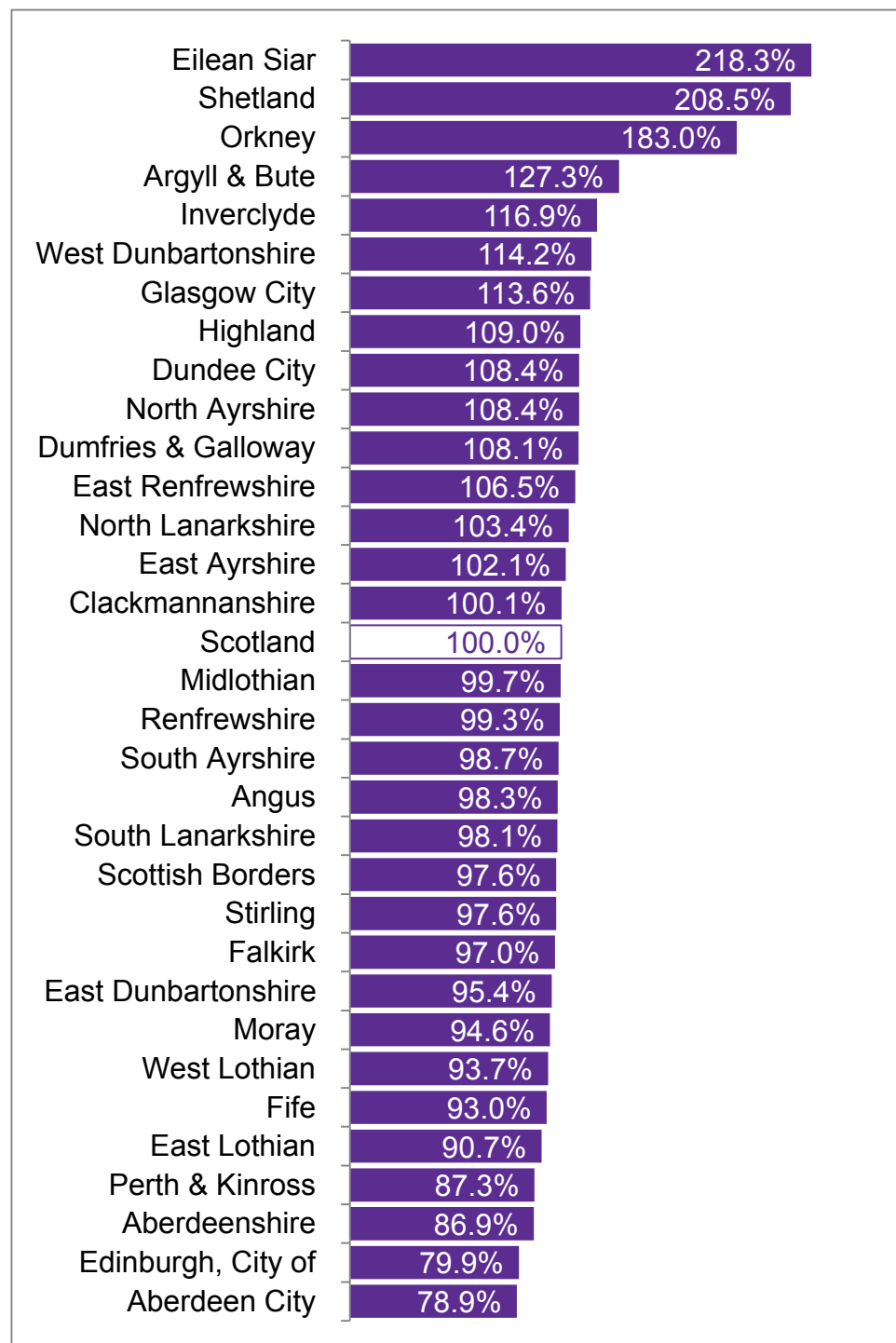
- All local authorities were given real terms reductions in their revenue allocation.
- In absolute terms, Glasgow (-£18.7m) and North Lanarkshire (-£10.1m) had the largest reduction, and Clackmannanshire (-£0.6m) and Orkney Islands (-£1.0m) the smallest

- In percentage terms, Eilean Siar (-2.7%) and Argyll and Bute (-2.3%) had the largest reduction, and West Lothian (-0.6%) and Perth and Kinross (-0.7%) the smallest

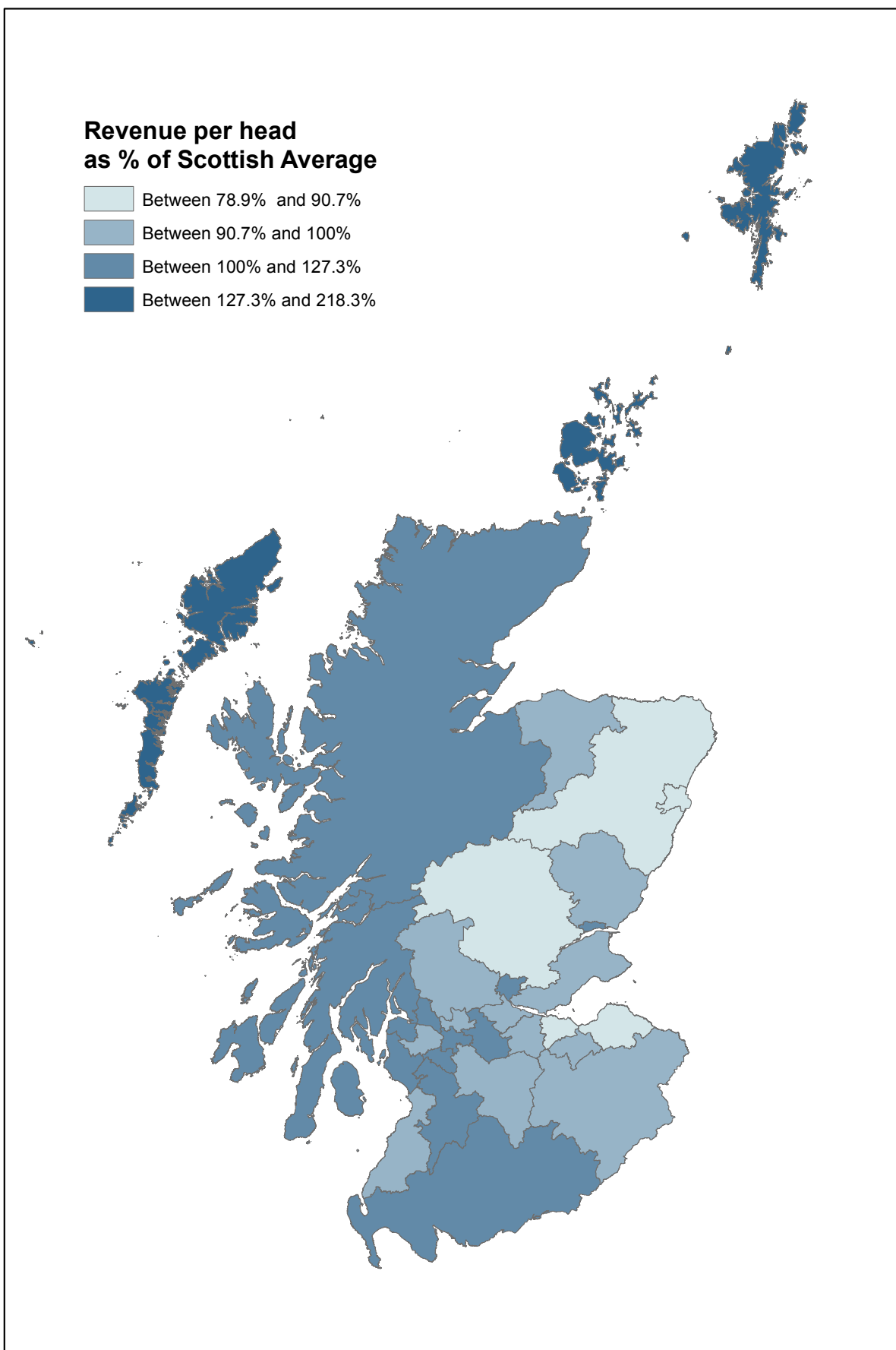
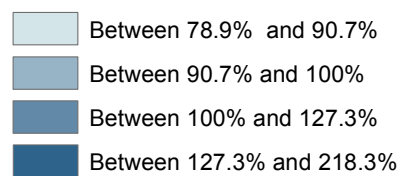
Per head revenue allocations

Figures 3 and 4 below, and table 7 in the Annex show the per-head revenue allocations in 2014-15, expressed as a percentage of the Scottish average.

Figures 3 and 4: 2014-15 Revenue allocations – per capita – percentage of Scottish average



**Revenue per head
as % of Scottish Average**



Some points to note:

- The island authorities have the highest per head allocation.
- Edinburgh and Aberdeen city have the lowest per head allocation, discussed below.

Revenue calculations have included a “minimum floor” arrangement for a number of years to ensure a minimum guaranteed increase in revenue funding to every local authority in years where the overall general revenue funding increases and conversely a maximum level of decrease when the overall total declines. In addition to this, as part of Spending Review 2011, the Scottish Government’s 2012-13 to 2014-15 local government finance settlement includes a mechanism to ensure that no local authority received less than 85% of the Scottish average in revenue support.

At a cost of £25 million per year over the three years of the 2011 spending review, the Government estimated as a result of Spending Review 2011 that the two councils directly benefitting, Aberdeen City Council and Edinburgh City Council, would have seen their revenue allocations per head of population rise to 85.5 % of the Scottish average.

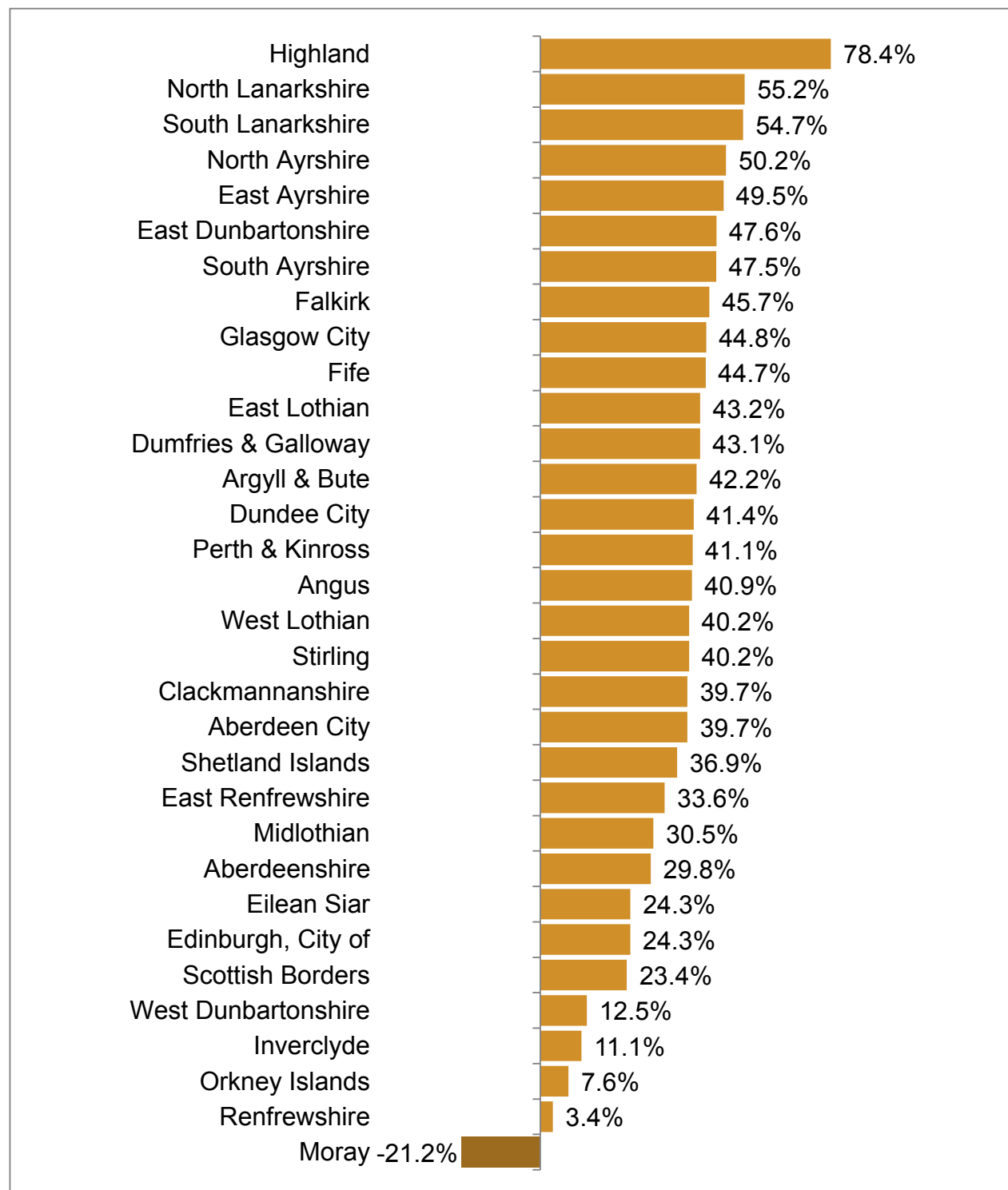
But, this was before the removal of the police and fire funding (and functions) from local government. The Government states that - as is standard practice - 3 year settlements, including the floors, are not reopened during the period of the Spending Review except for additions or reductions in funding.

So, with the removal of police and fire funding, as Aberdeen and Edinburgh spent proportionally more on police and fire than other local authorities, those two local authorities have slipped below the 85% funding floor. But, they still receive the initial “85%” allocation agreed in the 2011 spending review.

CAPITAL ALLOCATIONS 2013-14 AND 2014-15

Figure 5 below, and table 8 in the Annex, show the cash terms change in capital allocations in 2014-15 on 2013-14. Most councils, bar Moray, show large cash terms increases. This is due to the reprofiling of the local government capital budget, where cash was removed from 2012-13 and 2013-14 and added to 2014-15 and 2015-16 (discussed in the 2015-16 Draft Budget section above). Moray Council received a reduction in 2014-15, which was due to two flooding projects (and associated funding) reaching completion in 2013-14.

Figure 5: cash terms change in capital allocations, 2014-15 on 2013-14, ranked in percentage terms



ANNEX – DETAILED TABLES

Table 6: Revenue allocations - Real terms change, 2014-15 on 2013-14

£m, 2013-14 prices	2013-14	2014-15	Real change (£m)	Real change (%)
Aberdeen City	320.4	318.1	-2.4	-0.7%
Aberdeenshire	397.9	394.3	-3.6	-0.9%
Angus	197.9	195.2	-2.6	-1.3%
Argyll & Bute	204.6	199.9	-4.7	-2.3%
Clackmannanshire	93.0	92.4	-0.6	-0.7%
Dumfries & Galloway	287.5	283.8	-3.7	-1.3%
Dundee City	285.0	281.4	-3.6	-1.3%
East Ayrshire	221.8	218.9	-2.9	-1.3%
East Dunbartonshire	177.5	175.1	-2.3	-1.3%
East Lothian	165.5	164.2	-1.3	-0.8%
East Renfrewshire	171.6	169.1	-2.5	-1.5%
Edinburgh, City of	731.2	723.8	-7.4	-1.0%
Eilean Siar	103.8	101.0	-2.8	-2.7%
Falkirk	271.9	268.7	-3.2	-1.2%
Fife	620.1	614.5	-5.6	-0.9%
Glasgow City	1,240.0	1,221.4	-18.7	-1.5%
Highland	446.6	441.1	-5.5	-1.2%
Inverclyde	165.3	161.7	-3.6	-2.2%
Midlothian	148.3	146.5	-1.7	-1.2%
Moray	151.7	150.0	-1.7	-1.1%
North Ayrshire	263.0	258.9	-4.1	-1.5%
North Lanarkshire	613.0	602.9	-10.1	-1.6%
Orkney	68.0	67.0	-1.0	-1.5%
Perth & Kinross	242.2	240.5	-1.7	-0.7%
Renfrewshire	305.5	300.2	-5.3	-1.7%
Scottish Borders	202.7	199.9	-2.8	-1.4%
Shetland	87.9	84.2	-3.6	-4.1%
South Ayrshire	197.0	194.9	-2.1	-1.1%
South Lanarkshire	555.9	550.4	-5.4	-1.0%
Stirling	162.5	159.8	-2.7	-1.7%
West Dunbartonshire	186.4	182.3	-4.1	-2.2%
West Lothian	297.7	296.0	-1.7	-0.6%
Scotland	9,583.1	9,458.0	-125.1	-1.3%

Table 7: 2014-15 revenue allocations – per head

Local authority	2014-15 (£ per capita)	% of Scottish average
Aberdeen City	1,429	78.9%
Aberdeenshire	1,573	86.9%
Angus	1,780	98.3%
Argyll & Bute	2,304	127.3%
Clackmannanshire	1,812	100.1%
Dumfries & Galloway	1,956	108.1%
Dundee City	1,962	108.4%
East Ayrshire	1,848	102.1%
East Dunbartonshire	1,726	95.4%
East Lothian	1,642	90.7%
East Renfrewshire	1,928	106.5%
Edinburgh, City of	1,446	79.9%
Eilean Siar	3,951	218.3%
Falkirk	1,755	97.0%
Fife	1,683	93.0%
Glasgow City	2,057	113.6%
Highland	1,973	109.0%
Inverclyde	2,117	116.9%
Midlothian	1,804	99.7%
Moray	1,713	94.6%
North Ayrshire	1,962	108.4%
North Lanarkshire	1,872	103.4%
Orkney	3,313	183.0%
Perth & Kinross	1,579	87.3%
Renfrewshire	1,797	99.3%
Scottish Borders	1,767	97.6%
Shetland	3,774	208.5%
South Ayrshire	1,787	98.7%
South Lanarkshire	1,776	98.1%
Stirling	1,767	97.6%
West Dunbartonshire	2,067	114.2%
West Lothian	1,695	93.7%
Scotland	1,810	100.0%

Table 8: Capital allocations - cash terms change, 2014-15 on 2013-14

£m	2013-14	2014-15	Cash change (£m)	Cash change (%)
Aberdeen City	16.8	23.4	6.7	39.7%
Aberdeenshire	22.7	29.4	6.8	29.8%
Angus	9.2	13.0	3.8	40.9%
Argyll & Bute	10.0	14.2	4.2	42.2%
Clackmannanshire	4.1	5.8	1.6	39.7%
Dumfries & Galloway	14.2	20.4	6.1	43.1%
Dundee City	14.2	20.1	5.9	41.4%
East Ayrshire	7.2	10.8	3.6	49.5%
East Dunbartonshire	6.5	9.6	3.1	47.6%
East Lothian	7.5	10.8	3.2	43.2%
East Renfrewshire	5.6	7.5	1.9	33.6%
Edinburgh, City of	67.5	83.9	16.4	24.3%
Eilean Siar	7.0	8.8	1.7	24.3%
Falkirk	9.7	14.2	4.4	45.7%
Fife	24.3	35.1	10.8	44.7%
Glasgow City	104.1	150.8	46.7	44.8%
Highland	26.9	48.0	21.1	78.4%
Inverclyde	7.5	8.4	0.8	11.1%
Midlothian	7.2	9.4	2.2	30.5%
Moray	33.0	26.0	-7.0	-21.2%
North Ayrshire	9.4	14.1	4.7	50.2%
North Lanarkshire	22.5	34.9	12.4	55.2%
Orkney Islands	6.0	6.5	0.5	7.6%
Perth & Kinross	12.0	17.0	4.9	41.1%
Renfrewshire	16.6	17.1	0.6	3.4%
Scottish Borders	12.2	15.1	2.9	23.4%
Shetland Islands	4.9	6.8	1.8	36.9%
South Ayrshire	7.9	11.6	3.7	47.5%
South Lanarkshire	20.8	32.2	11.4	54.7%
Stirling	7.3	10.3	2.9	40.2%
West Dunbartonshire	8.4	9.4	1.1	12.5%
West Lothian	11.7	16.4	4.7	40.2%
Councils Total	596.5	821.4	224.9	37.7%

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