



The Scottish Parliament  
Pàrlamaid na h-Alba

## LOCAL GOVERNMENT AND REGENERATION COMMITTEE

### AGENDA

11th Meeting, 2014 (Session 4)

Wednesday 23 April 2014

The Committee will meet at 9.30 am in the Robert Burns Room (CR1).

1. **Flexibility and Autonomy of Local Government:** The Committee will take evidence, by video conference, from—

Harry Jansson MP, Member of Autonomy Committee, Axel Jonsson MP, Member of Autonomy Committee, and Susanne Eriksson, Secretary General to the Parliament, Parliament of Åland;

and then from—

David O'Neill, President of COSLA and Chair of the Commission, Councillor Michael Cook, Vice-President of COSLA and Member of the Commission, Professor Richard Kerley, Professor of Management (Queen Margaret University) and Member of the Commission, Louise Macdonald, CEO of Young Scot and Member of the Commission, and Adam Stewart, Secretariat to the Commission, Commission for Strengthening Local Democracy.

2. **Flexibility and Autonomy of Local Government (in private):** The Committee will consider the evidence received.

David Cullum  
Clerk to the Local Government and Regeneration Committee  
Room T3.60  
The Scottish Parliament  
Edinburgh  
Tel: 0131 348 5223  
Email: david.cullum@scottish.parliament.uk

The papers for this meeting are as follows—

**Agenda item 1**

PRIVATE PAPER	LGR/S4/14/11/1 (P)
Committee briefing	LGR/S4/14/11/2
PRIVATE PAPER	LGR/S4/14/11/3 (P)
PRIVATE PAPER	LGR/S4/14/11/4 (P)
PRIVATE PAPER	LGR/S4/14/11/5 (P)

Link to Act on the Autonomy of Åland:  
<http://www.finlex.fi/sv/laki/kaannokset/1991/en19911144.pdf>

## Local Government and Regeneration Committee

### Inquiry into the flexibility and autonomy of local government

### Local Government Revenue Funding Allocations

## INTRODUCTION

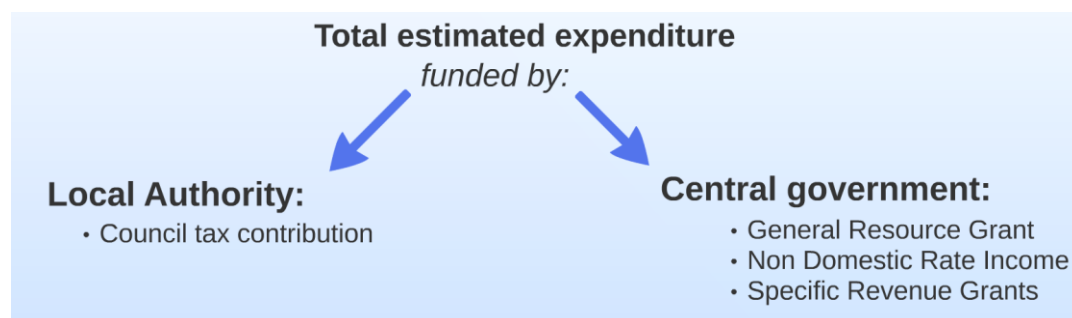
This paper explains how total Scottish Government revenue funding is allocated, on the basis of relative need to each of Scotland's 32 local authorities. The key building blocks used to calculate each local authority's share of the available funding are the service and subservice Grant Aided Expenditure (GAE) assessments which make up the bulk of local authorities' total estimated revenue spending which and is used to calculate the level of funding that the Scottish Government gives to each Local Authority each year. This paper also considers how remote and island communities are accommodated within local government funding structures.

This paper was produced to support to Committee's inquiry into the flexibility and autonomy available to local government.

## BACKGROUND

Every Spending Review the Scottish Government agrees with the Convention of Scottish Local Authorities (COSLA) the total revenue funding that will be made available for the duration of the Spending Review. This total funding when added to an assumed amount of council tax income collected locally must equal the Total Estimated Expenditure (TEE). This is shown in Figure 1.

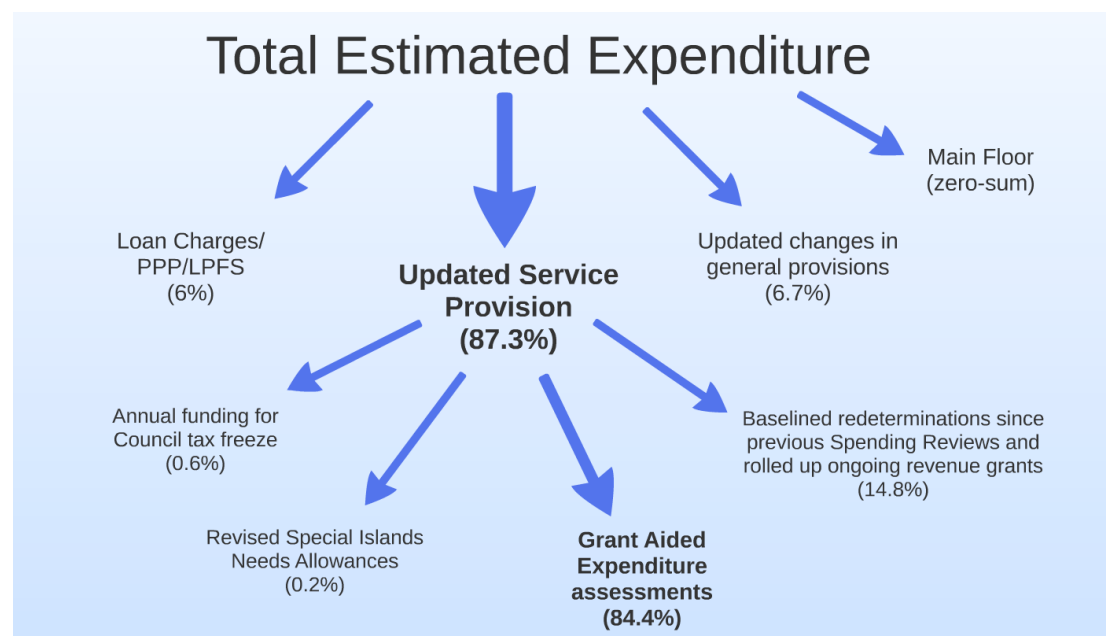
Figure 1 Local and central government Local Authority net revenue funding



TEE is the Government's view of what Scottish Local Authorities notionally need to spend on servicing debt and delivering services and provides the basis for the

distribution of the overall funding for each Local Authority to be calculated and is made up of different components as shown in Figure 2 (see Annex 1 for the complete list of TEE components as they are listed in Local Government Finance Circulars).

**Figure 2 Expenditure components of Total Estimated Expenditure**



Source: [Scottish Government](#) 2013

Updated Service Provision by far makes up the largest category of Total Estimated Expenditure, accounting for 87.3% of Total Estimated Expenditure. GAE assessments in turn make up 84.4% of Updated Service Provision and 73.6% of Total Estimated Expenditure.

Each of the individual elements of TEE is then allocated to individual local authorities to give a TEE at a local authority level.

Each Local Authority's assumed Council Tax contribution, Non Domestic Rate Income<sup>1</sup> and specific revenue grant figures are then subtracted from their TEE to reach the final GRG amount.

In 2013-14,<sup>2</sup> Council Tax revenues account for roughly 15% of Total Estimated Expenditure and Non Domestic Rate Income for about 20%. The General Resource Grant and other minor grants make up the difference.

<sup>1</sup> Council tax revenues are collected and kept by Local Authorities while Non Domestic Rate Income (NDRI) is collected locally pooled at the central government level and then redistributed back to Local Authorities at the same level as had been collected. In reality each local authority retains the total NDRI collected within its area.

<sup>2</sup> All the figures in this paper are for 2013-14.

# THE GREEN BOOK

## Grant Aided Expenditure

### Central government

GAE assessments are a way of assessing the relative need of each Local Authority for the different services that it provides. The full GAE methodology, along with all the data used in the calculations, is published at each Spending Review in the '*Green Book*' for *Grant Aided Expenditure* ([Scottish Government 2012](#)).

The Scottish Government decides what Total GAE is for all Local Authorities as shown in Figure 3. Total GAE is split between 7 Service headings, which in turn are made up of 88 sub-services.<sup>34</sup> Note that all of these figures are for *all* Local Authorities.

The way in which Total GAE is divided between services and sub-services has changed over time. Service and sub-service GAEs used to be compared with Local Authorities' budgeted expenditure at a service and sub-service level and the average of the two became the following year's revised base GAE figures. In the late 1980s/1990s, Ministers decided where the Government's key priorities lay and the revised GAE sub service totals reflected those priorities.<sup>5</sup> This method remained in place until the 2007 Spending Review when it was agreed that GAE levels would be frozen. Since 2008-09 total GAE, GAE for each service and GAE for each sub-service have been maintained at the same levels (except Police GAE), with GAE totals for each local authority used to distribute any additional changes in funding resulting from subsequent Spending Reviews.

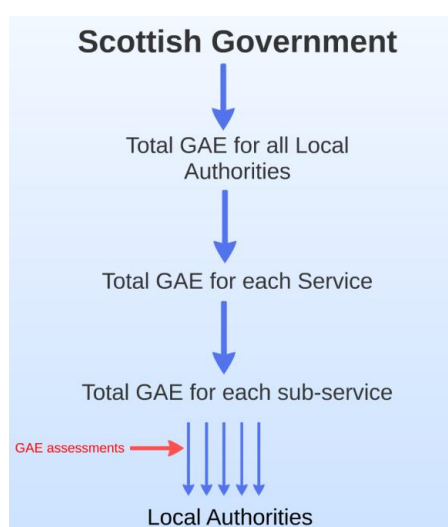
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<sup>3</sup> Previously 9 Service headings and 94 Sub-Services before the removal of Police and Fire in 2013-14.

<sup>4</sup> Some services are made up of many more sub-services than others. For example, the Education Service alone is made up of 22 sub-services such as 'Nursery School Teaching Staff' and 'Sure Start Scotland.' The Social Work Service is made up of 21 sub-services such as 'Services for Home-Based Elderly' and 'Day Care for Children.'

<sup>5</sup> Scottish Government personal correspondence.

Figure 3 Distribution mechanism of Grant Aided Expenditure



Different services make up very different percentages of total GAE. For the period 2012-15, the Education and Social Work Services account for respectively 46.8% and 23.3% of total GAE ([Scottish Government](#) 2012). On the other hand, the Election and Taxation Service accounts for less than one per cent of total GAE.

### Local authorities

As shown in Figure 3, allocations to each Local Authority are calculated at the sub-service level. In other words, total GAE for each sub-service is distributed between the 32 Local Authorities.

The allocation formula is different for every sub-service but all formulas follow the same principles in that they are all based on an assessment of need for that sub-service using the Client Group Approach (this will be discussed in detail below). For example, Aberdeen City in 2013-14 received 4.1% of GAE for the sub-service 'Nursery School Teaching Staff' but a much higher percentage (7%) of GAE for the sub-service 'Museums and Art Galleries' ([Scottish Government](#) 2012).

Summing up Aberdeen City's GAE for each sub-service relating to Education provides Aberdeen City's GAE for Education. Thus in 2013-14, Aberdeen City's GAE for Education was £138.12 million or 3.2% of total GAE for Education ([Scottish Government](#) 2012).

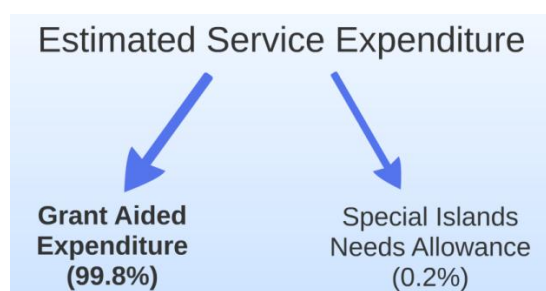
Summing up Aberdeen City's GAE for each service provides Aberdeen City's total GAE for 2013-14. In 2013-14, this was worth £333.745 million or 3.7% of total GAE for all Local Authorities ([Scottish Government](#) 2012).

As mentioned, Total GAE for all Local Authorities, for each service and for each sub-service are fixed amounts. Furthermore, because of the cash freeze on GAE assessments since 2008-09, these amounts are the same from one year to the next. Thus the GAEs for Local Authorities can only increase at the expense of other Local Authorities which see their GAEs diminish.

## Special Islands Needs Allowances

As part of estimating Total Expenditure, the Scottish Government also calculates Special Islands Needs Allowance (SINA) for the three wholly island Local authorities (Eilean Siar, Orkney Islands and Shetland Islands) and the three Local Authorities with important island communities (Argyll and Bute, Highland and North Ayrshire). The purpose of the Special Island Needs Allowance is to compensate authorities for the additional costs of island communities which are not already accommodated for or only partially accommodated for in the needs-based assessments. The sum of GAE and SINA is Estimated Service Expenditure as shown in Figure 4. GAE makes up 99.8% of Estimated Service Expenditure.

Figure 4 Estimated Service Expenditure for *all* Local Authorities, 2013-14



Source: [Scottish Government](#) 2012

Contrary to GAE assessments which are fixed amounts, there is no cap on SINA and it is not a zero-sum category. In other words, an increase in SINA for one Local Authority does not imply a decrease for other Local Authorities.

Table 2 shows the change in SINA from 2008-09 to 2014-15.

Table 1 Total Special Islands Needs Allowance for *all* affected local Authorities, 2008-09 to 2014-15

£000s	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Cash terms	21,569	21,541	21,484	21,105	20,946	<b>20,853</b>	20,782
Real terms (2013-14)	24,153.2	23,477.7	22,819.6	21,907.2	21,364.9	<b>20,853.0</b>	20,354.6

Source: Scottish Government [2008](#), [2011](#), [2012](#)

In real terms, Total SINA decreases by 15.7% between 2008-09 and 2014-15. This is because SINA calculations are based on GAEs for the relevant Local Authorities, and GAEs are frozen at 2007/08 levels.

## **Methodology**

### **The Client Group Approach**

A Client Group Approach is used to divide GAE assessments for each sub-service between the 32 Local Authorities. The Client Group Approach does not determine the level of provision in absolute terms, nor its allocation between different GAE services. GAEs are not targets, and are not ring-fenced. For example, Aberdeen City does not have to spend its 'Nursery School Teaching Staff' GAE or even 'Education' GAE on that sub-service or service.

Each sub-service has its own needs-based allocation formula. The method aims to take into account variations in the demands for services and the costs of providing them to a similar standard, and with a similar degree of efficiency.

Statistical data describing the 'clients' that are understood to benefit from each individual GAE service are used to achieve this (for example, the number of school pupils are used as an indicator of expenditure on school teaching staff). The calculation of relative GAEs for individual services involves distributing between authorities an apportionment related to a primary indicator and, where found to be justified, further apportionment(s) for one or more secondary indicator.

### **Primary indicators**

The primary indicator is considered to be the most significant single determinant of expenditure on a service. Composite primary indicators are single indicator expressions which encompass a number of factors, each considered to be plausibly associated with inter-authority variation in expenditure.

If there is only one Primary indicator for a sub-service, a local authority's GAE share would be a simple pro-rata share of the total GAE for that sub-service. Where there is more than one primary indicator, each primary indicator has a monetary share of the GAE Total for that sub-service. For example, total GAE for the sub-service 'Sure Start Scotland' is £59.912 million. It has three primary indicators (a rural, population and composite component) with monetary values of £4.73 million, £18.92 million and £36.263 million respectively, summing up to £59.913 million<sup>6</sup> ([Scottish Government](#) 2012).

### **Secondary indicators**

Secondary indicators are demand and cost factors that are outside of the control of Local Authorities, which offer plausible explanation for - and which can be shown to be associated with - inter-authority expenditure variation. This includes indicators of population dispersion (i.e. rurality) and deprivation.

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<sup>6</sup> The Green Book ([Scottish Government](#) 2012) lists £59.912 million due to rounding.



Secondary indicators must be factors which plausibly affect either the demand for services or the unit cost of meeting that demand. They are selected after discussions with local authorities and other service specialists. In addition, the secondary indicator must be shown to be clearly correlated with inter-authority variations in expenditure. The size of the allowance made for a secondary indicator is derived mathematically from the relationship between past expenditure and the secondary indicator, and results in some redistribution of relative GAE. For instance, Grant Aided Expenditure for primary school teaching staff is adjusted by a secondary indicator which takes account of the higher ratio of staff to pupils in rural areas.

### **Island Local Authority (LA) Adjustment**

In addition to primary indicators, the Education sub-service 'Secondary School Teaching Staff' includes an 'Island LA Adjustment.' Only the three wholly island Local Authorities (Eilean Siar, Orkney Islands and Shetland Islands) benefit from this. Like secondary indicators, the monetary value of the Island LA Adjustment is zero, meaning that the total sum attributed to the three wholly island Local Authorities is exactly made up for by taking the equivalent sum away from the other Local Authorities. This is done pro rata on their primary indicator - the number of secondary school pupils they have.

In 2000 SINA was reviewed and extended to all Local Authorities with significant island communities instead of applying only to three wholly islands ones. It was decided that the Island LA Adjustment should be retained until a much wider review of dispersed population and economies of scale could be undertaken ([Scottish Government](#) 2009).

Annex 2 lists the monetary values for all secondary indicators and the Island LA Adjustment. As Table 4 shows, secondary indicators redistributed around 1.42% of Total GAE.

### **Examples of the Client Group Approach**

All primary indicators feed into the distribution formula of each sub-service in the same way.

The following example is for the Education sub-service 'Nursery School Teaching Staff' which has only one primary indicator.

#### **Example 1: Aberdeen City Nursery School Teaching Staff GAE, 2013-14**

- Total GAE for Nursery School Teaching Staff: £26.215 million
- Primary indicator: Population Aged 3 and 4
  - Scotland has 118,029 children aged 3 and 4
  - Aberdeen City has 4,839 children aged 3 and 4 or 4.1% of Scotland's total
- Aberdeen City's GAE for Nursery School Teaching Staff is calculated by multiplying its share of children aged 3 and 4 by Total GAE for this sub-service:

$$26.215 \times 4.1\% = \text{£1.075 million}$$

Example 2 is for the Education sub-service 'Primary School Teaching Staff' which has one primary indicator and one secondary indicator. As with primary indicators, the secondary indicators for all the sub-services feed into the distribution formula in the same way.

#### **Example 2: Aberdeen City Primary School Teaching Staff GAE, 2013-14**

- Total GAE for Primary School Teaching Staff: £902.523 million
- Primary indicator: Primary Sector Pupils
  - Scotland has 371,412 primary sector pupils
  - Aberdeen City has 12,296 primary sector pupils or 3.3% of Scotland's total
- Aberdeen City's GAE for the Primary indicator is:  
 $902.523 \times 3.3\% = £29.878$  million
- Secondary indicator: Percent of Pupils in Small Schools
  - Coefficient: 0.0286<sup>7</sup>
  - Weighted Mean (Wt Mean): 4.7%<sup>8</sup>
  - Aberdeen City has 0 pupils in small schools
- Formula for the SI effect:  
 $SI\ Effect = (PI \times coefficient) \times (SI - Wt\ Mean\ SI)$
- Aberdeen City:  
 $SI\ Effect^9 = (12,296 \times 0.0286) \times (0 - 4.7\%) = - £1.670$  million
- Aberdeen City's GAE for Primary School Teaching Staff is the sum of GAE assessments based on the PI plus GAE assessments based on the SI:

$$29.879 - 1.670 = £28.208 \text{ million}$$

Example 3 is for the Education Sub-Service 'Secondary School Teaching Staff.' It has one primary indicator and the only Island Local Authority Adjustment in GAE assessments.

#### **Example 3: Aberdeen City Secondary School Teaching Staff GAE assessment, 2013-14**

- Total GAE for Secondary School Teaching Staff: £1,141.745 million
- Primary Indicator: Secondary Sector pupils (including adults)

<sup>7</sup> This is revised annually and is based on the regression line between expenditure on primary pupils and the percentage of pupils in small schools. This captures the fact that higher the percentage of pupils in small schools, the higher the expenditure per primary school pupil.

<sup>8</sup> This is the percentage of primary pupils in small schools in Scotland. Local Authorities that have more than 4.7% of their pupils in small schools have a GAE in addition to that determined by the primary indicator whilst Local Authorities that have less than 4.7% of their pupils in small schools have money taken away from the GAE assessment determined by the primary indicator. This is captured in the secondary indicator (SI) effect formula with the multiplier (SI – Wt Mean SI).

<sup>9</sup> Original calculation in £000s.

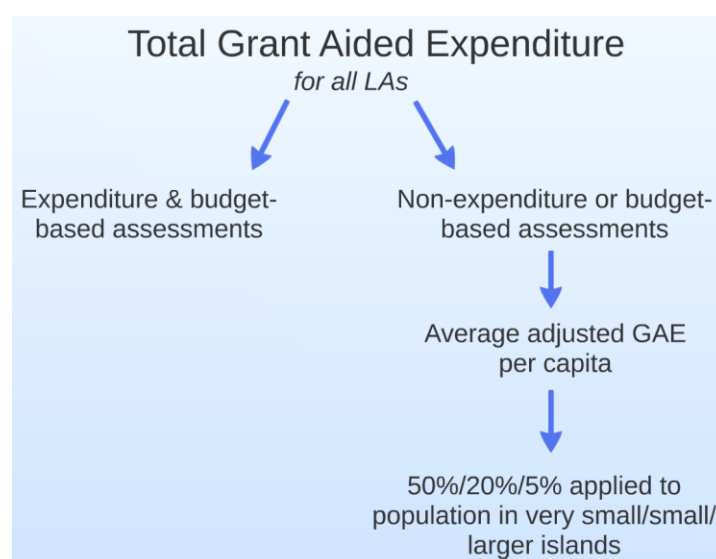
- Scotland has 306,089 secondary sector pupils
- Aberdeen City has 9,470 secondary sector pupils or 3.1% of Scotland's total
- Aberdeen City's GAE for the primary indicator is:  
 **$1,141.745 \times 3.09\% = \text{£}35.324 \text{ million}$**
- Island Local Authority Adjustment:
  - Fixed Adjustment:  $0.8084^{10}$
  - Non-Island Pupils in Scotland: 301,671
- Process:
  - Take the number of pupils each wholly island Local Authority has and multiply it by the adjustment. This provides the financial effect for each wholly island Local Authority. For example Eilean Siar has 1,624 pupils so the financial effect for Eilean Siar is:  
 $1,642 \times 0.8084 = \text{£}1.328 \text{ million}$
  - Sum up the above effects from the 3 wholly Island LAs to get Total Island Local Authority Adjustment:  
 $1.328 + 1.006 + 1.238 = \text{£}3.571 \text{ million}$
  - The equivalent value must now be deducted from the other Local Authorities. For each non-island Local Authority, calculate its percentage of non-island pupils. Aberdeen City has:
    - $9,470/301,671 = 3.1\%$  of Scotland's non-island pupils
  - Calculate Aberdeen City's share of Total Island LA Adjustment:  
 **$3.571 \times 3.1\% = \text{£}112,000$**
  - Deduct the above value from the GAE for the primary indicator:  
 **$35.324 - 0.112 = \text{£}35.212 \text{ million}$**

## SINA calculations

There are two elements in the SINA calculation. Factor A provides an adjustment for service provision to outer islands to acknowledge the additional costs associated with delivering services to these islands. For this calculation an island is defined as "a land mass which is not accessible by road and can only be reached by crossing water". Islands connected to the main council area are excluded and islands which have fixed links with each other are treated as one island. Islands are then categorised based on their population size: very small (population of under 875), small (population between 875 and 1750) and larger (population between 1750 and 7000). Factor A for each authority is then calculated by summing the weighted average GAE per capita (excluding expenditure and budget based GAE allocations) for each category - very small islands receive a weighting of 50%, small islands receive a weighting of 20% and larger islands receive a weighting of 5%.

<sup>10</sup> This is based on the difference in average cost per pupil between island and non-island Local Authorities and has been fixed since 2001/02.

Figure 5 Special Islands Need Allowance (SINA): Factor A



Example 4 shows how SINA Factor A is calculated for the Orkney Islands in 2013-14.

**Example 4: Orkney Islands SINA Factor A, 2013-14**

- Average Non-Expenditure or Budget Based GAE per head in Scotland: £1,525
- The totality of the population of the Orkney Islands (2,719 people) lives on islands of less than 875 inhabitants ('very small islands'), thus Factor A:

$$1,525 \times 50\% \times 2,719 = \text{£}2.073 \text{ million}$$

Factor B provides an additional allocation to authorities which have no mainland foothold, Eilean Siar, Orkney and Shetland. This is calculated by providing each of these authorities a 10% uplift of their GAE allocations. For this calculation, expenditure and budget based GAE allocations and Teacher Remoteness and Distant Islands Allowances are removed to avoid double counting. For these three authorities, Factor A and Factor B are summed to yield SINA payments as shown in Example 5.

**Example 5: Orkney Islands Factor A + B, 2013-14**

- Total GAE for the Orkney Islands: £52.536 million
  - Expenditure & Budget GAEs for the Orkney Islands: £12.800 million
  - Teacher Remoteness and Distant Islands for the Orkney Islands: £3.190 million
- Adjusted GAE:  $52.536 - 12.800 - 3.190 = \text{£}36.736 \text{ million}$
- 10% uplift:  $36.736 \times 10\% = \text{£}3.655 \text{ million}$**
- Actual SINA Payment: Factor A + Factor B
- $2.073 + 3.655 = \text{£}5.728 \text{ million}$**

## **The Floor Calculation**

Once all GAE lines have been calculated, the lines are summed to give GAE totals for each local authority. The GAE allocations are the first step in the calculation of the General Revenue Funding each local authority receives from the Local Government Finance (LGF) Settlement. An important part of the LGF Settlement is the floor calculation, which is a self financing mechanism that ensures a local authority's allocation will not fall by more than a set amount (previously ensured a minimum increase) from the previous year. The floor works by reallocating some of the initial needs based funding between local authorities. Those authorities with grant changes above the agreed minimum contribute to the floor in proportion to the quantum of their total grant and those below the minimum receive this money to raise them to the agreed floor level. For the 2012-15 LGF settlement, the Scottish Government funded a further funding floor to ensure that no local authority received less than 85 per cent of the Scottish per capita average.

**Anouk Berthier**

**SPICe Research**

**22 April 2014**

Note: Committee briefing papers are provided by SPICe for the use of Scottish Parliament committees and clerking staff. They provide focused information or respond to specific questions or areas of interest to committees and are not intended to offer comprehensive coverage of a subject area.

## ANNEXES

### Annex 1

Table 2 Total Estimated Expenditure (TEE) components as listed in Local Government Finance Circulars

	Comments
Updated Service provision	Includes: <ul style="list-style-type: none"> <li>• Updated GAE assessments</li> <li>• Revised SINA</li> <li>• On-going former ring-fenced revenue grants which have been rolled up into the core local government finance settlement</li> <li>• Baselined redeterminations since the 2007 Spending Review</li> <li>• Share of Council Tax freeze</li> </ul>
Changes	New combined, non-ring fenced changes in general provisions from previous Spending Reviews and allocated pro-rata to each council's share of GAE + SINA
Loan Charges/PPP/LPFS	Updated share of loan charges support for outstanding and new debt and same level of ongoing Public Private Partnerships/Level Playing Field Support
Main floor	<p>This provides protection to LAs with falling population or high levels of deprivation. When overall funding is increasing the floor is set to guarantee a minimum increase so that all councils get at least that amount. In times of flat cash or lower funding the floor is set to guarantee a maximum decrease. It is calculated to ensure that four or five councils benefit from the floor. The floor is self-financing so those councils that gain do so at the expense of those councils receiving funding above the level of the floor. The floor is set at the start of a three-year settlement and not revisited during the three-year period. The main floor adjustment is calculated by excluding:</p> <ul style="list-style-type: none"> <li>• PPP level playing field support</li> <li>• ongoing former ring-fenced revenue grants which have been rolled up into core LG finance settlement</li> <li>• council tax freeze amounts</li> </ul>

## Annex 2

Table 3: Secondary Indicators: Redistributive effect by Individual Assessment, 2012-15 Settlement

Sub Service	Secondary Indicator	Amount Redistributed	Amount Redistributed
		£0	(as % of service GAE)
Primary School Teaching Staff	Percentage of Pupils in Small Rural Schools	27,622	3.06%
Secondary School Teaching Staff	Island Local Authority Adjustment	3,631	0.32%
School Transport	Population Dispersion	8,547	15.58%
School Meals	Income Support Dependants per 1,000 Aged 0-19	3,036	4.07%
School Non-Teaching Staff	Urban Settlement Pattern	11,282	1.31%
School Hostels & Clothing	Hostel Places per 1,000 Pupils	5,810	21.52%
School Hostels & Clothing	Income Support Dependants per 1,000 Aged 0-19	2,417	8.95%
Fire Running Costs	Standardised Establishment per Station	822	3.13%
Road Maintenance	No of Body Type - Car Licences per Km Unweighted Lane Length	34,819	17.83%
Winter Maintenance	No of Body Type - Car Licences per Km Unweighted Lane Length	6,079	9.36%
Parks & Open Spaces	Urban Settlement Pattern	8,482	6.57%
Waste Collection	Population Dispersion	3,115	3.78%
Street Cleaning	Road Density/Area Deprivation	7,137	10.34%
Street Cleaning	Tourism Share of Adjusted Population	2,463	3.57%
Environmental Health	Rural Settlement Pattern	1,877	2.75%
Consumer Protection	Rural Settlement Pattern	1,195	6.66%
School Crossing Patrols	Urban Settlement Pattern	863	6.61%
<b>TOTAL</b>		<b>129,196</b>	<b>1.42%</b>