



The state of local government finance in Scotland

A report by the Local Government
Information Unit (LGIU)

Local Democracy Research Centre

“Our communities now appreciate the impact of cuts and are calling for more funding. We now need [central] government to listen and fund us fairly. We can make a positive impact in prevention and early intervention in a way that no other sector can do, why don’t they use that potential?”

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About the LGIU
The LGIU – Local
Government Information
Unit – is a not-for-profit,
non-partisan membership
organisation. We are for
local government and
anyone with an interest
in local democracy and
finding local solutions to the
challenges that we all face.
Our resources, innovative
research and connections
are relied on by colleagues
across the globe.

**About the Local Democracy
Research Centre**
The LDRC was set up by
LGIU (Local Government
Information Unit) to
investigate the things that
matter to our members and
to local government around
the world. We bring together
experts, policy makers and
academics to do practical
research on some of the
biggest challenges for the
sector and to shape the
future of local democracy.

Foreword



Over the last decade LGIU has conducted a survey of senior council figures in England asking their opinion on the state of council finances. The results have always been concerning, with councils struggling to fulfil their duties in the face of sweeping cuts to their funding. But the results of the 2023 survey in England were - frankly - terrifying.

In our survey 7.5% told us the spending cuts they are having to make will put them in a place where they may be unable to fulfil their statutory obligations. This would mean another year of record-breaking numbers of council bankruptcies, a prediction that quickly came true as Woking, Birmingham and Nottingham City councils issued section 114 notices. In England, residents are paying more and getting less as councils pull every lever available to them to make ends meet.

This year, for the first time, we have replicated the study in Scotland, aiming to find out whether the picture in Scotland, where local government is devolved, is any brighter than in England. In the first half of 2023, we saw several promising signs, most notably the signing of the Verity House Agreement, a new arrangement between Scottish Government and local government, which looked set to build trust within the sector and foster cooperation on shared priorities.

However, only a few short weeks after the agreement was signed, its sincerity was thrown into question by Scottish Government's unilateral, and surprise, announcement of a council tax freeze. According to our respondents, by taking away the most important means councils have to raise revenue without so much as a warning, Scottish Government had simultaneously betrayed the Verity House Agreement and torn up councils' budget plans. Justifiable frustration at this choice permeates the responses to this survey.

After years of despairing results from English councils, we had hoped that the Scottish survey might offer a more optimistic picture. Unfortunately, nothing could be further from the truth. Senior council figures across Scottish local government are calling out for change. After years of backbreaking work during the pandemic and in the face of rising service pressures, exhausted councils have found themselves in an unsustainable financial position, forced to cut services, spend their reserves and planning to raise council tax by unprecedented levels, until that option was taken away. Crucially, senior council figures are not confident that Scottish Government will change anything.

So serious work remains to be done at once if local government is to win this argument. Local government across Scotland needs to come together with one voice to demonstrate to central government the gravity of the situation right now and urgently set out the need for a review of how local government is funded and provide a roadmap for sustainable, properly funded local government. Whilst it hasn't had the best of starts, the Verity House Agreement provides a framework for that discussion and we must hold Scottish Government to its commitment. The communities that we represent deserve nothing less.

Dr Jonathan Carr-West,
Chief Executive, LGIU (Local Government Information Unit)

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Executive summary

- Confidence in the sustainability of council finances in Scotland is critically low, with only one of forty-two senior council figures saying they were 'quite confident'.
- Respondents from eight different councils said that there was a danger financial constraints could leave them unable to fulfil their statutory duties, unable to set a balanced budget and effectively meaning their council would go bankrupt.
- There was widespread agreement on the most pressing issues in council finances: inflation, ring-fencing, staff recruitment, the cost of living crisis and pressures linked to demographic change were all considered to be problems by more than 90% of respondents.
- Councils are pulling every lever available to them to balance their books. Every respondent said they were cutting spending on services, 97% that they would be increasing fees and charges, 89% that they would be spending reserves.
- Every respondent who answered the question said they had planned to raise council tax, most often by a significant amount. Only 14% had planned a raise below 5%, compared to 73% who had planned to raise it by between 5 and 10%, and 11% who had planned to raise it by more than 10%.
- Many different services are facing cuts and respondents believe service quality has already suffered and will face further decline. The most common cuts were back office/corporate services (81%), services which provide the capacity for councils to do the work they do. After that, around two-thirds of respondents said they would be cutting education spending, spending on parks and leisure, and business support. 76% of respondents believe that these cuts will be evident to the public, and only 24% think that services are currently as good as they were last year.
- Adult social care and children's services were considered the greatest shortest-term pressures on council finances, and adult social care by far the greatest long-term pressure.
- The relationship between local government and Scottish Government is critically poor. Only 8% of respondents are happy with the progress Scottish Government has made in considering and involving local government in policy decisions.
- Not a single respondent said they were satisfied with progress on delivering a sustainable funding system.
- Only 10% of respondents agreed that the Verity House Agreement had resulted in improved communications between local government and Scottish Government, with the surprise council tax freeze cited as the most common reason.
- Finally, many respondents were keen for Scottish Government to give local government more powers to improve their financial situations, most popular of which were the freedom to raise council tax (supported by 71% of respondents) and the removal of ring-fencing and directed spending (supported by 57%).

Introduction

At the LGIU, we hear increasing warnings from our members across Scotland of worrying trends in council finances. The sector has been struggling for years in the face of ever-increasing service and workforce pressures, the shock of the pandemic and a financial model which fails to provide enough funding for councils, or enough flexibility for them to make up the difference. We haven't yet seen any Scottish councils declare effective bankruptcy, as they have started to in England, but the mood in the sector suggests it is a question of when, not if.

“It is just a matter of time before the first Scottish council goes bankrupt.”

The hard statistical evidence from the [Accounts Commission](#) and [SPICe](#) demonstrates the dire financial position councils have found themselves in. After many years without real-terms increases in the money available for councils, recent changes have meant that by 2023/2024 council revenue funding levels – the money available for day-to-day spending – have only just reached the level they had been eight years before. [At the same time](#) the amount of this money that is held back or ring fenced for spending in defined policy areas – most often social care and education – has increased, meaning local power to set spending priorities has fallen. On top of this, demand for essential services, such as [adult social care](#) has increased – although at a level that is hard to measure with the available data, and the [Accounts Commission](#) has warned of falling performance across a number of services. The amount of money councils can choose to spend on services is falling, just as demand for services is rising to unprecedented levels.

This survey adds a new perspective by investigating the opinions of those responsible for council finances ‘behind the scenes.’ In England, our survey has demonstrated the lengths councils are forced to go to to make ends meet, and the frustration there is within councils with the current arrangements. Replicating our state of local government finance survey in Scotland has allowed us to look behind the headline figures to the opinions of those who have to find ways to keep councils afloat and deliver essential services under increasingly difficult circumstances.

On top of this, we can use the results in Scotland and England as points of comparison. The two funding models, with similarities and differences in terms of the pressures they are under and the approach of their respective central governments, each have evident strengths and weaknesses. These surveys are a way to draw out lessons on how local government can be improved and continue to deliver services to those who need them.

The survey was sent to council leaders, chief executives and directors of finance (section 95 officers) across the 32 local authorities in Scotland. We received 42 responses, covering more than 75% of Scottish councils

The evidence collected here presents a stark picture of local government finance in Scotland, and adds a much-needed local government perspective on the state of local services, finances, and central-local relations today.

Confidence in the sustainability of council finances



Confidence in the sustainability of council finances is critically low in Scotland. Of the forty two unique respondents to our survey, only one said they were 'quite confident' in council finances. Around two thirds of respondents replied that they were 'not at all confident' with the remainder saying they were not very confident.

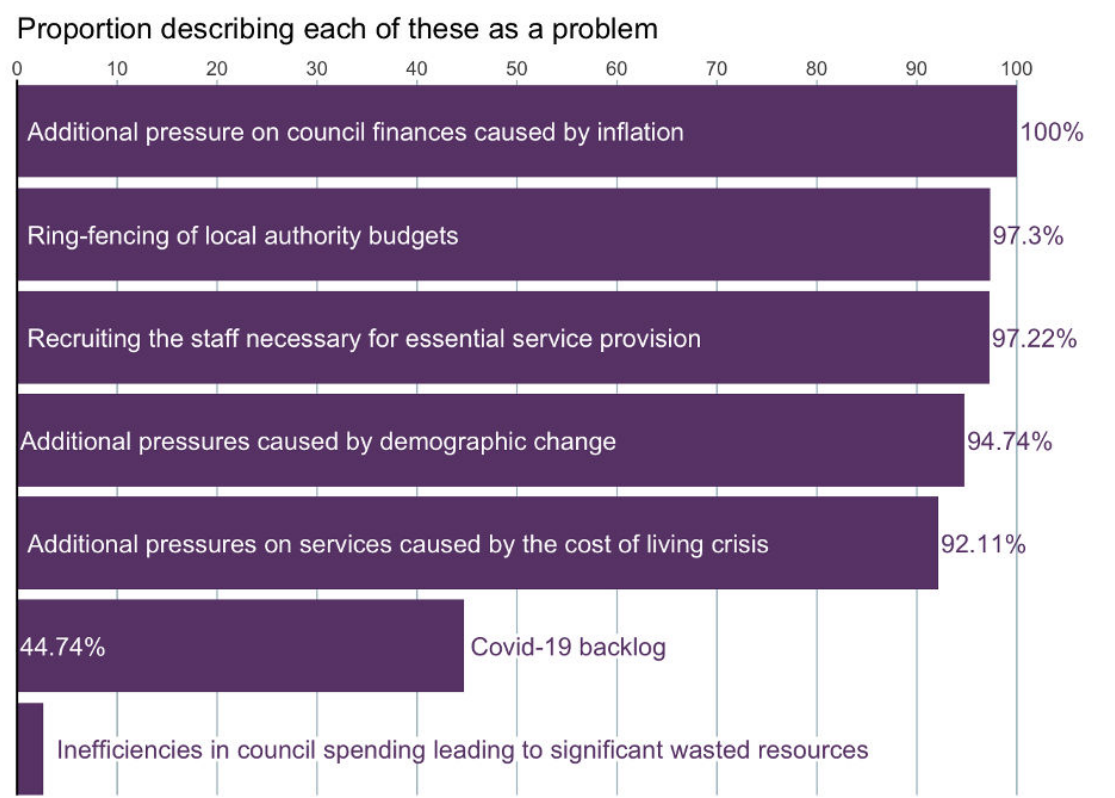
Several respondents left comments to voice their opinions on the sustainability of local government finance. **This should be seen as a severe warning from the sector - something has to change.**

“Been a CFO for [over 15] years, there have always been challenges but I have never been more concerned re the capacity to deliver and sustainability of LG services.”

“We are genuinely doomed...”

Problems in 2023

In written responses, many respondents gave reasons why 2024/25 might be a particularly difficult financial year for councils. We asked about the problems facing local government finances in 2023, and saw remarkable consensus across the sector on what exactly the issues were.



The current state of the economy, manifested in the high rate of inflation which makes everything, from wages to services, more expensive for councils, was considered to be a problem by every respondent who answered. The associated cost of living crisis – which puts additional demand on services – was also considered to be a problem by over 90% of respondents.

More complex issues that came up include the ring-fencing of local authority budgets. This is an issue when local authorities are given money, but not the power to spend it as they wish - usually because central governments provide strict restrictions on how money can be spent. This necessarily reduces local power over their own policy priorities and decision making. The Accounts Commission has calculated that [around 23%](#) of revenue funding is now ring-fenced or provided with the expectation that it will be spent in a certain way. [Although COSLA](#) has argued that the proportion of local government spending directed to Scottish Government priorities is as high as 60%. [Other analysis](#) has shown that the effect this has on local government spending is towards Scottish Government priorities and statutory services, and away from non-statutory services, such as culture and leisure, roads, planning and tourism.

One respondent pointed out that it is the directed spending that causes problems, rather than simply ring-fencing in general:

“Rather than purely ring fencing in Scotland the issue is over directed spend particularly in funding to IJB’s and Teacher Numbers”

Another participant gave a nuanced reflection on the issue, raising that ring-fencing provides a way to prove that services are underfunded, but also causes problems with councils' control over their own spending.

"...in some ways it helps local authorities hold central government to account [when] the ring-fenced budget is insufficient to cover the cost of the ring-fenced service BUT it also leads to some inflexibility."

As a point of comparison, in England only 37% of respondents considered the ring-fencing of local authority budgets to be a problem, suggesting there is a substantial issue with ring-fencing in Scotland not found elsewhere.

"Core funding is being hollowed out to fund Scottish Government priorities (but they are not being fully funded either)."

One final reflection on the issue of ring-fencing brought it back to the [Verity House Agreement](#), where the two parties agreed that '[f]rom this point onwards, the default position will be no ring-fencing or direction of funding, unless there is a clear joint understanding for a rationale for such arrangements...' One respondent used this to argue that little progress had been made on the Verity House Agreement's stated principles to remove ring-fencing.

When identifying other problems, a large majority – 97% – replied that recruiting the staff necessary for essential service provision was a significant issue. The [Local Government Benchmarking Framework report](#) for 2021-2022 suggested there were three major pressures on the workforce: rising absences, recruitment issues and high turnover. The evidence here suggests that recruitment issues, and the capacity of the workforce more generally, are a major concern for senior local authority decision makers. This raises serious questions about the provision of essential services - without a sustainable supply of workers, no service can function effectively.

The final problem mentioned by more than 90% of senior council figures was demographic change. In the question, we gave the examples of ageing and population movement, to explain what we meant by population change. Both of these are related to demand-side pressures, where an ageing population is more in need of adult social care, and a growing population will increase demand for housing. These changes are long-term and require long-term solutions, including granting councils financial settlements over multiple years, and with the capital and resource budgets to invest in future planning and infrastructure development. As one respondent said, focussing on the overall health of Scottish local government finance:

"We need to get back to three-year funding settlements as soon as possible to help on best practice planning."

There are reasons to think that 2023 is a particularly bad year for local government finance, not least of which is the current state of the economy, with the cost of living crisis and inflation looming large in the minds of our respondents. However, most of these problems have deep roots and stretch back much further than the current economic crisis or the Covid-19 pandemic. As one respondent put it, the problems we see today can be traced back to decisions made over multiple years that have reduced local government capacity:

"The sustainability of LG finance is also impacted by the sustainability of the workforce – the scale of disruption to the LG landscape and our finite local capacity to respond meaningfully to this following years of stripping out capacity to make ends meet."

Or as another said:

"The problems affecting local authorities in 2023 are not new – underfunding, rising demand and ring-fencing have been an issue for over a decade."

Balancing the budget

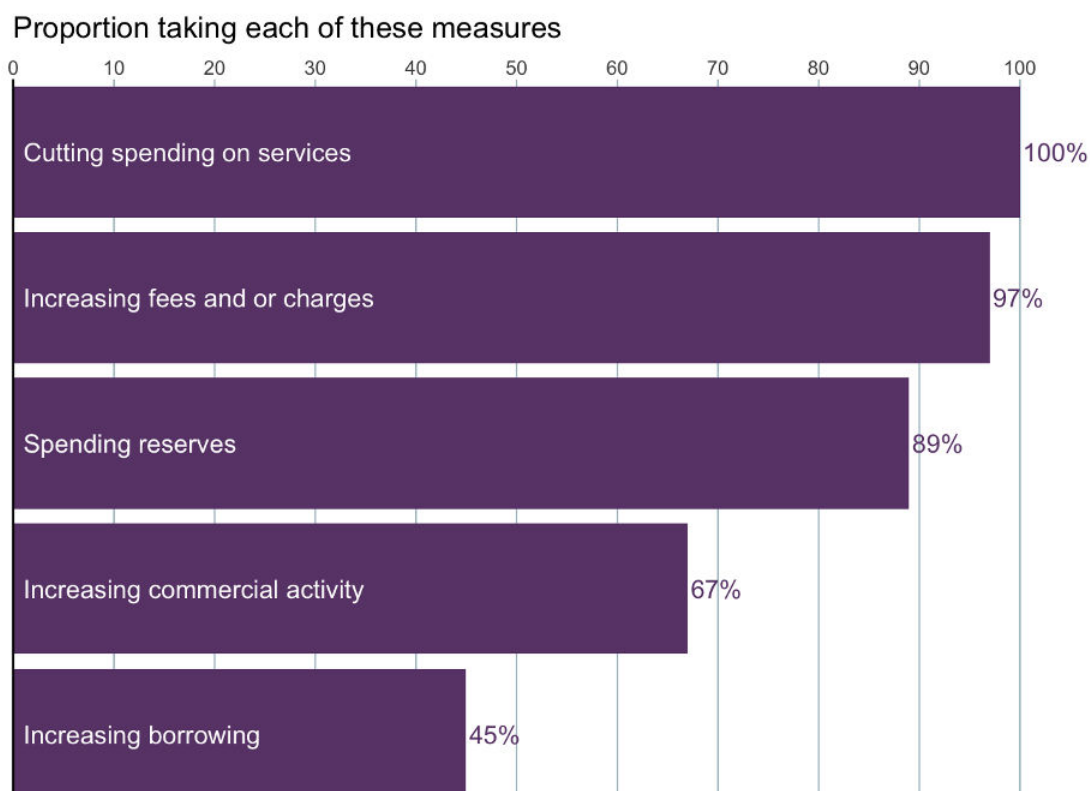
By law, councils in Scotland are implicitly [required to set a balanced budget](#) as part of the ‘proper administration of their financial affairs.’ A similar legal framework in England has led to a situation in recent years where local governments have been completely unable to balance their books, and have resorted to issuing section 114 notices – effectively council bankruptcies – most recently in Woking, Birmingham and Nottingham.

So far there has been no equivalent in Scotland. None of the 32 councils have ever declared effective bankruptcy, however the warnings coming from the sector uncovered by our survey could not be more severe.

“It is only a matter of time before a Scottish Local Authority goes bankrupt.”

Just as we found in England, councils in Scotland are pulling every lever available to them to balance the books. However, the issues in Scotland are compounded by a system where around [80% of their total funding](#) comes from Scottish Government, and where council tax – the single greatest source of additional revenue – has just been frozen in a unilateral move by Scottish Government. Councils in Scotland have even fewer options for raising revenue than those in England.

The graph below shows this in stark detail. Every respondent who answered this question said they would be cutting spending on services, 97% that they would be increasing fees and charges and 89% that they would be spending their finite reserves. Even the less popular measures – increasing commercial activity and increasing borrowing – both of which are heavily regulated in Scotland, are being pursued by 67% and 45% of councils respectively. Nearly every council is having to take more than one of these options to make ends meet: more than 90% of respondents said they were taking three or more of these options.



Council tax

The great missing link in the graph above is council tax. In a normal year, we would also have asked councils if they were increasing council tax. Instead, we had to ask councils what scale of council tax they had planned *if the council tax freeze had not been announced*. The results are clear – every respondent said they had planned to increase council tax, and by far the most common option (73% of respondents) was that councils had planned to raise council tax by 5-10%.

The 2024/25 council tax freeze was widely condemned by the respondents to our survey, who said that it took away one of the most important local controls over their finances, that it would erode local authority financial sustainability in the long term by reducing the council tax base, and that the way in which it was announced suggested limited dedication to the principles of the Verity House Agreement on the part of Scottish Government.

For context, local governments are required to set a council tax, and [the legislation](#) mandates that all expenses they incur in the discharging of their functions not otherwise covered should be met using council tax. This means that in a normal year, where council tax is not frozen, it plays an important role in making up for gaps in funding elsewhere. As one senior council official put it:

“It [council tax] is the most important fiscal flexibility and a legal duty on councils to utilise it to balance budgets. This aspect has been lost in the noise of the recent pronouncement. Taking away the opportunity (and legal duty) places local authorities in a deficit position.”

There are two reasons respondents objected to the council tax freeze despite the high chance that shortfall will be funded by Scottish Government, first is that without the freeze councils would be able to raise council tax significantly more than the probable funding Scottish Government will provide. Most (more than 85% of) respondents said they had planned to raise council tax by 5% or more, and 11% said they had planned to raise it by more than 10%. This local flexibility to set council tax rates is a core part of council's capacity to increase their funding to meet their spending commitments, and taking it away in favour of blanket measures across Scotland leaves no room for recognition of local contexts.

The second major reason councils objected to the freeze despite the high chance it would be covered is that freezing council tax for one year lowers the council tax base year-on-year. It means there is a lost year where council could not increase, and it will be harder to catch up without an even more drastic increase in council tax in future years. As one respondent put it:

“A freeze does not just affect the immediate year but rather impacts the tax base in perpetuity - once lost it can never be regained.”

Or another, explaining how this affects their council in particular:

“As a Council which has historically low council tax rates, we are aiming to move towards the Scottish average over a number of years. The freeze is particularly unwelcome in that context. The compensating payment will inevitably fall short of our likely preferred increase.”

The council tax freeze, and previous council tax freezes, were also criticised for their impact on service delivery, with respondents particularly focussing on the impact on vulnerable communities.

“The previous CT freeze, which is a regressive policy and offers little to the most vulnerable in society has taken hundreds of millions of pounds away from service delivery. It is irresponsible of the SG to repeat the pursuance of this policy.”

“It is a regressive approach that actually harms the lowest income households through reductions in the front line services they rely on.”

Other than these substantive issues with the council tax freeze, many respondents also criticised the manner in which the council tax freeze was decided by Scottish Government – without consulting or warning the local government sector. We will return to this in the chapter on the central-local relationship.

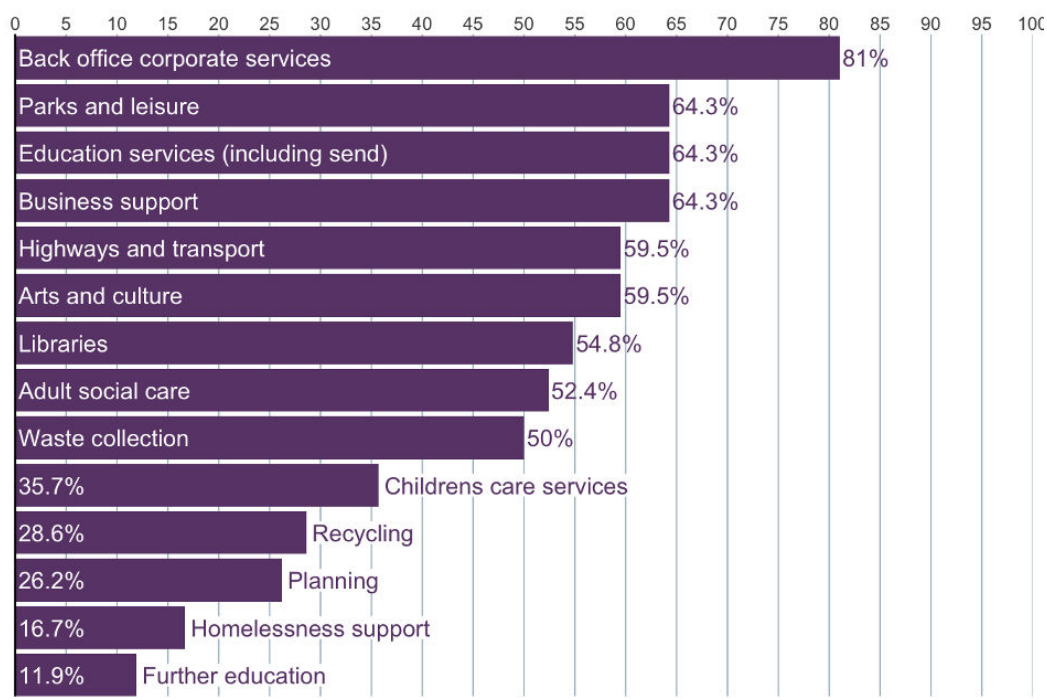
Spending reserves

Eighty nine percent of respondents said they would be spending their reserves in the next financial year, a definitionally unsustainable way to fund services. Reserves should not be necessary to make up for gaps in grant funding, and the fact they need to be used more frequently indicates a growing issue with how local government is funded. Concerningly, 67% of respondents said they had used their reserves this financial year (2023-2024) and 62.5% of respondents said they had both used their reserves this year and would use them again next year.

As the Accounts Commission wrote in their [2021/2022 financial bulletin](#): “*Delivering recurring savings and reducing reliance on using reserves to fill budget gaps will be key to ensuring longer-term financial sustainability.*” The repeated use of reserves should be seen as evidence of a financially unsustainable position for local councils if it continues.

Cuts to council services

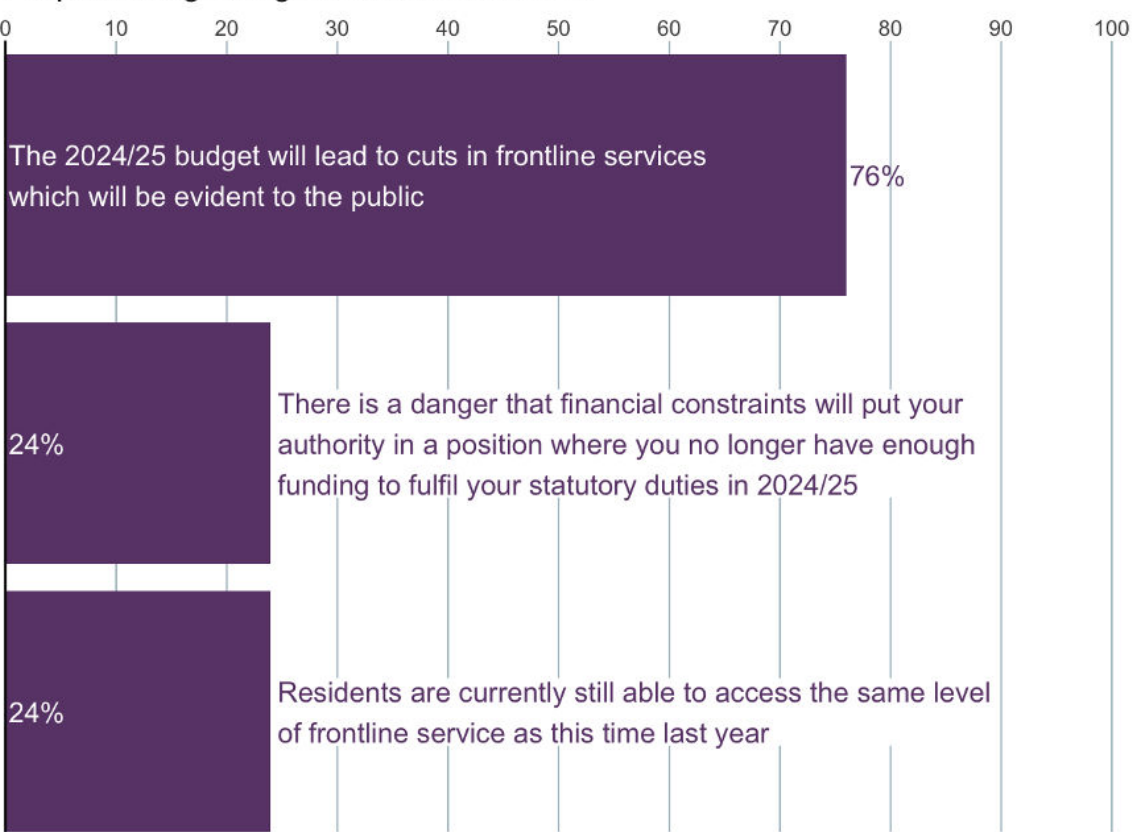
Given that 100% of respondents said they would be cutting council services, the next most important question is exactly which services are due to be cut. The answer is that most councils will be reducing spending on a large number of services. These include services that the Accounts Commission [recently identified](#) as having seen their performance decline in recent years: adult social care, culture, leisure and environmental services.



However, by far the most commonly cited cut was spending on corporate services, an area the Accounts Commission reported had managed to maintain performance in recent years. The concern now is that the buoyancy of this service area - and the overall capacity of council workforces - will be threatened by the difficult financial circumstances councils are in.

On top of this, we also asked respondents to indicate how far they agreed with a series of statements on the cuts they are making to their councils.

Proportion agreeing with each statement



The results indicate three worrying trends. First, levels of service provision have already declined. Only 24% of respondents believe that services now are as comprehensive as they were last year. Next, that service provision will continue to get worse. Of respondents, 76% believed that their services will be noticeably diminished based on their 2024/2025 budget.

Finally, and most concerning, 24% of respondents, representing eight unique councils, said they could be put into a position where they are unable to fulfil their statutory duties. This would mean that, without intervention, these councils are at risk of declaring effective bankruptcy.



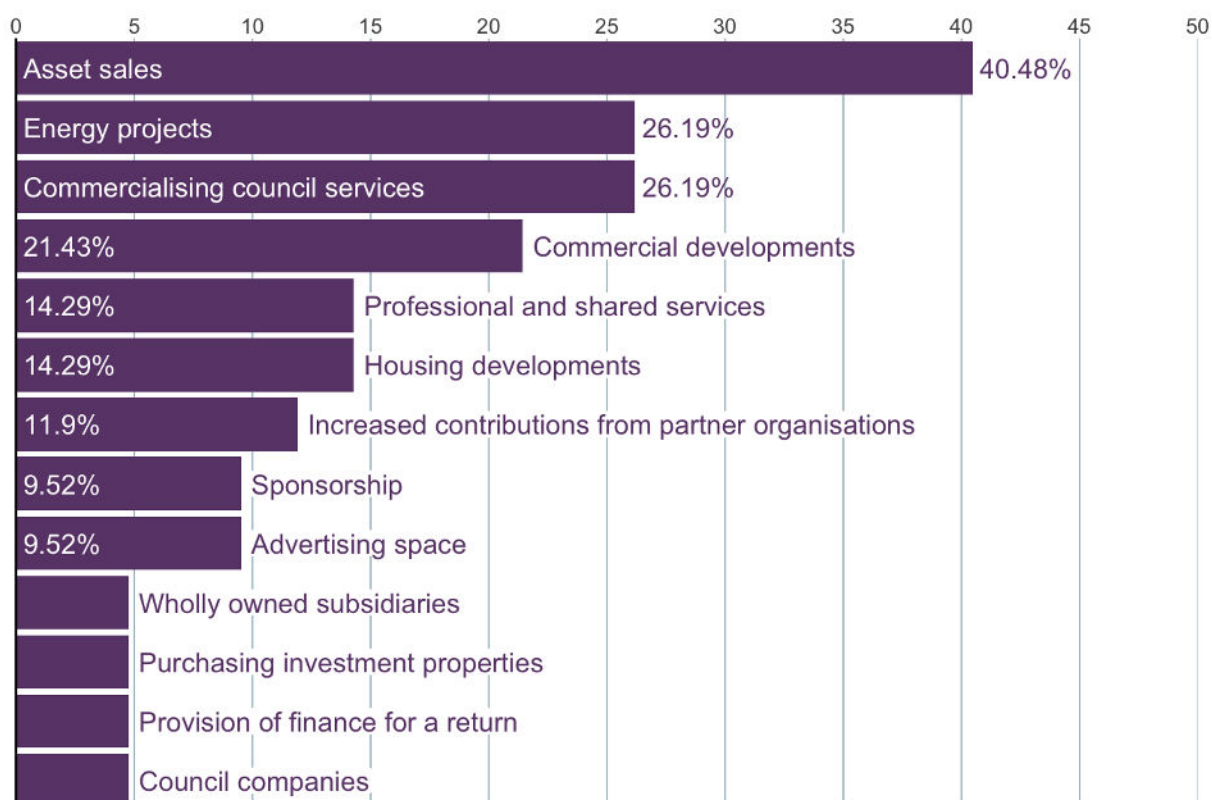
Commercial activity

Two-thirds of respondents said they planned to increase commercial activity. The types of commercial activity that councils can undertake in Scotland are limited in comparison to England – councils do not have a ‘[general power of competence](#),’ meaning that their commercial activities are more restricted.

Asset sales are by far the most common type of commercial activity. Again, this represents a clear case of unsustainable funding. Assets can only be sold once and represent a short-term way to make enough money to fund services, it is no way to ensure the long-term viability of a service.

Many of the other selected options are less concerning individually, but they all tie council finances, and by extension the funding of essential services, to market fluctuations. Asset sales made when the assets are undervalued but councils are desperate represent wasted taxpayer money. Energy companies, as we have seen in England, can lose money and result in councils ending up in a worse financial position than they started in.

Although councils have the right to undertake commercial activity, it should be in order to produce additional funds beyond the minimum required for service delivery rather than by necessity to make up for gaps in their budgets.



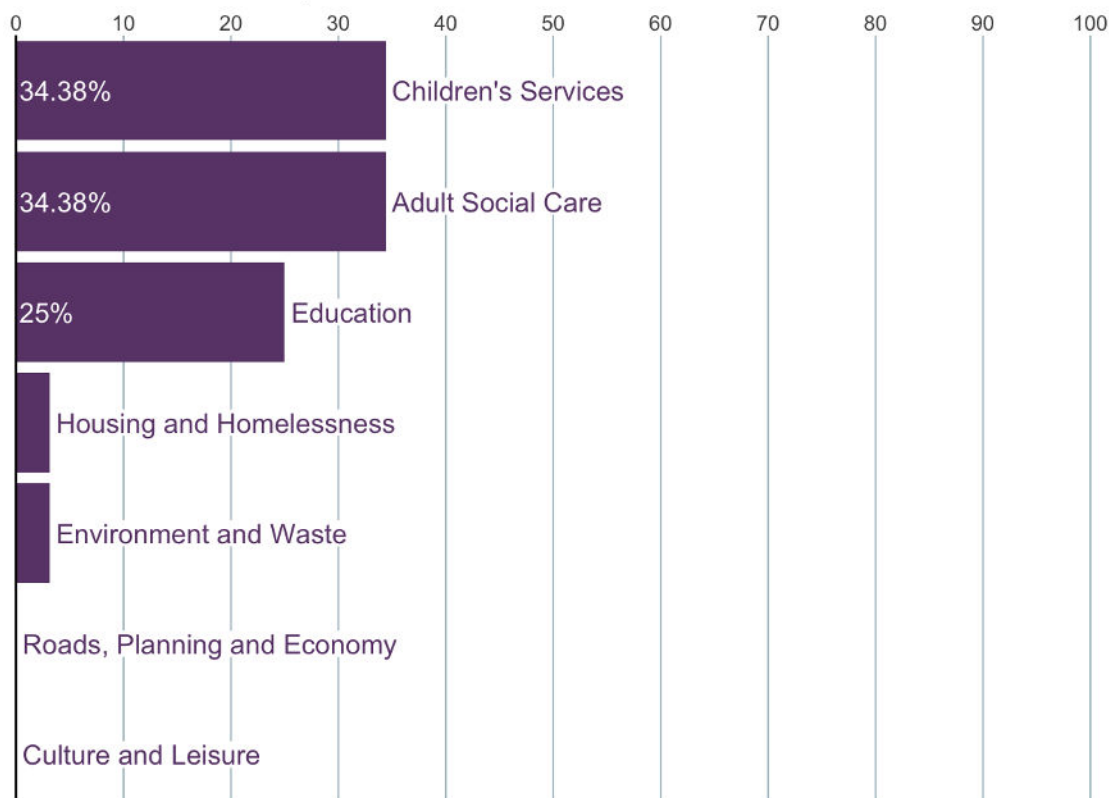
Pressures on council finances

We asked councils what services were causing the greatest pressures on their budgets. The two graphs below show how in both cases adult social care tops the list (tied with children's services), but far more councils see it as a significant long-term pressure. This is to be expected as the demand for adult social care steadily increases with demographic changes, particularly the ageing population.

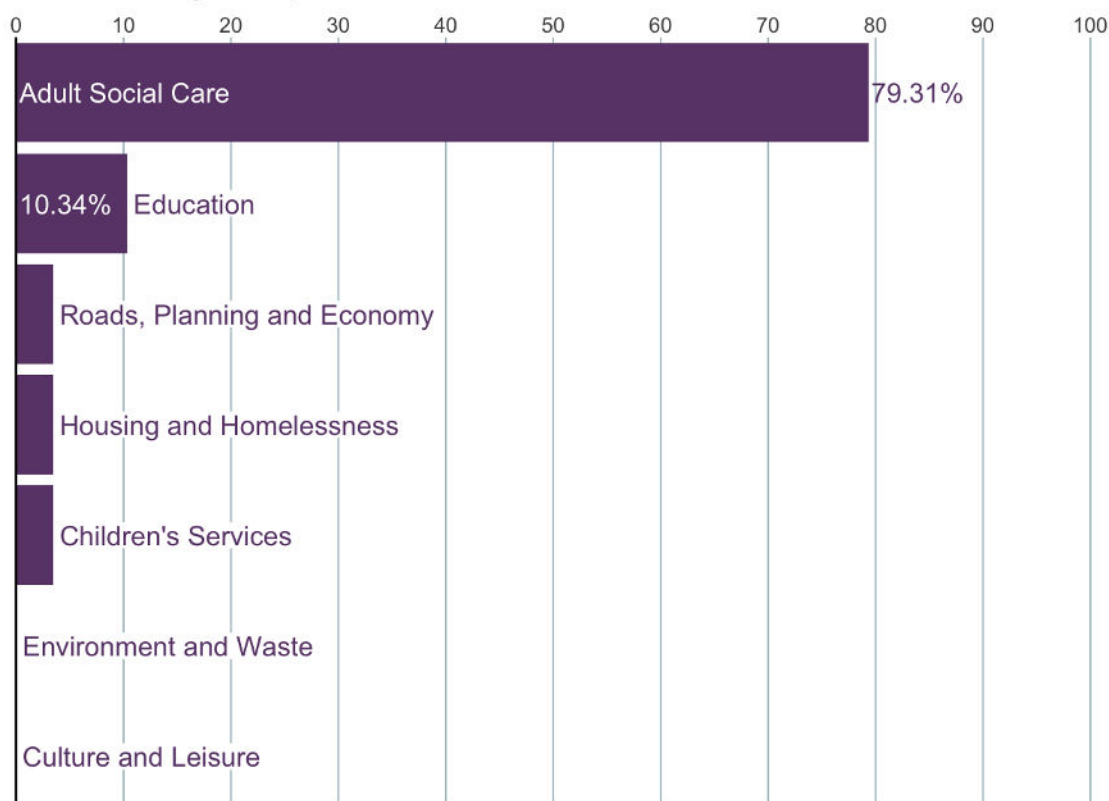
Other major short-term pressures include children's services and education, whereas only education is also a significant long-term pressure, and even then only 10% of respondents selected it.

Overall, the key conclusions from these service pressures are: first, that essential services like adult social care, children's services and education are the services causing the most pressure. These services are protected by the law, and councils are not in a position to make significant changes to ease these service pressures, nor should they have to. They have to meet the demand. Second, demand for adult social care, the most prominent long-term pressure, will continue to rise. This is especially concerning as the [Accounts Commission](#) has identified the adult social care sector as already being in crisis. This crisis will worsen without significant change to how social care is funded or delivered.

Greatest short-term pressures



Greatest long-term pressures



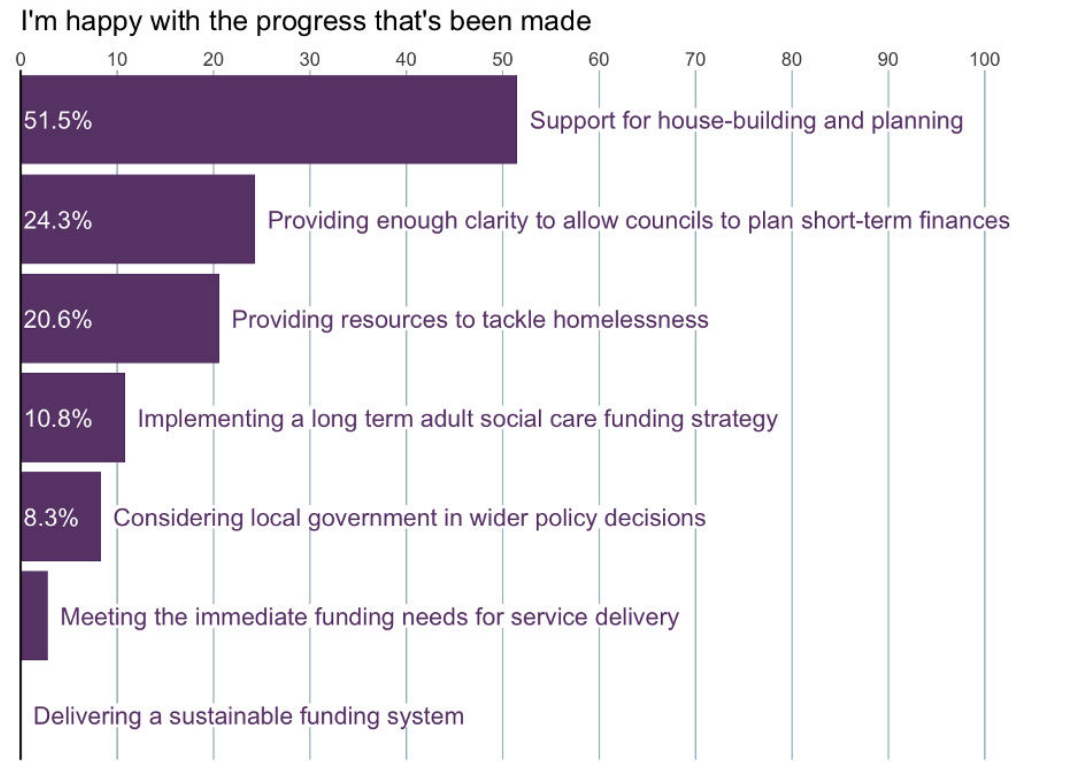
Verity House and the central-local relationship

The relationship between Scottish Government and local government is a crucial element of the state of local government finance in Scotland. The evidence is overwhelmingly negative, with the only optimism coming from senior local government officials broadly positive conclusions about Scottish Government support for house building and planning, an evaluation that is qualified by their more limited confidence that this will continue to be a priority in the future.

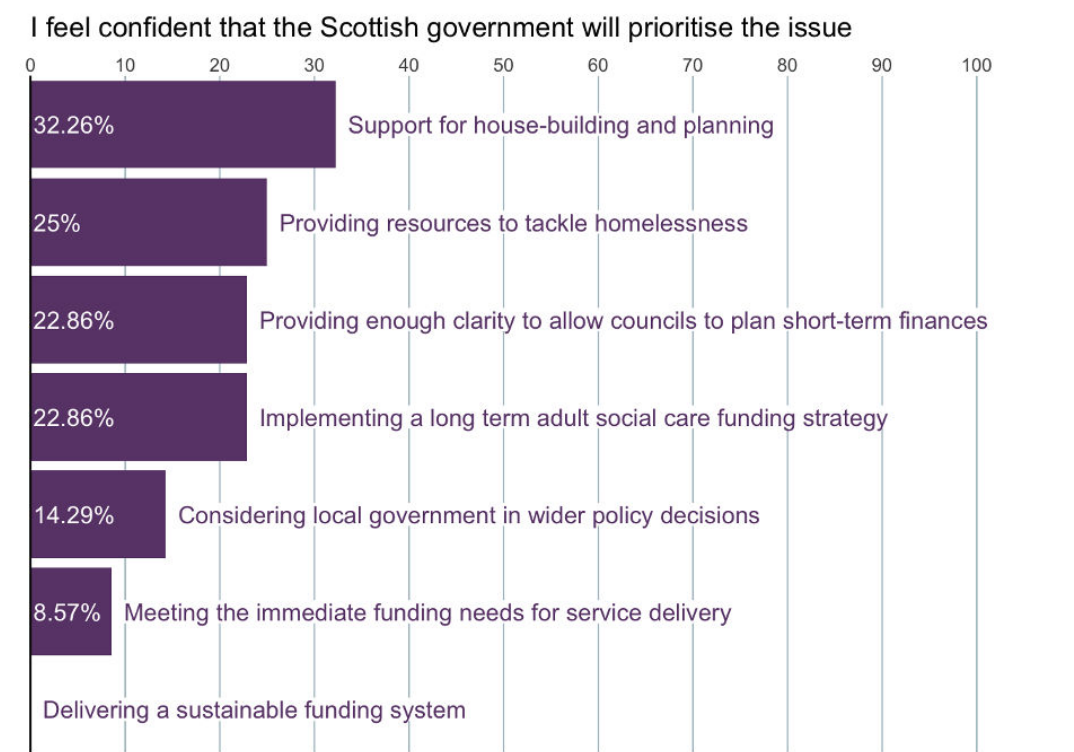
On their satisfaction with the current progress, there are several areas of immediate concern. Only just under 11% are happy with the progress that's been made on implementing a long-term adult social care funding strategy, indicating yet more concern about this struggling service – considered to be by far the greatest long-term pressure on councils' finances. The LDRC has [recently published research](#) on the impact a National Care Service might have on this picture.

The problems we saw with funding services in the survey are reflected in the critically low satisfaction with Scottish Government progress on this issue, only 2.8% of respondents are happy with the progress that has been made on meeting the immediate funding needs for local services, and not a single respondent was happy with the progress made on implementing a sustainable funding system. Senior council figures are concerned about the current situation and see no evidence that it is moving in the right direction.

The relationship between central and local government was also heavily criticised. Only 8.3% said they were happy with the progress that has been made on considering local government in wider policy decisions. An indictment of the progress made in signing the Verity House Agreement.



We also asked respondents to indicate whether they were confident that Scottish Government would prioritise these issues going forward. The evidence is fairly similar, but with a slightly higher confidence that Scottish Government will come to consider local government in wider policy decisions. But confidence that Scottish Government will meet the funding needs for service delivery or prioritise delivering a sustainable funding system are still critically low.



To further support this evidence, we also asked how far senior local government figures believed that Scottish Government had listened to the needs of the local government sector when forming the budget. Only a single respondent believed that Scottish Government had listened to local government's needs. Several comments explained the level of concern on this issue, mainly pointing out that there is a difference between listening and acting on what they heard.

"They may well listen but they don't act on that listening."

"I think they have to an extent but gone on to ignore / dismiss when making decisions"

On top of this, only 10% of our respondents agree that the Verity House Agreement has resulted in improved communication between local government and Scottish Government, and 45% disagree. However, within these two broad camps there are many nuances to how respondents have evaluated the Verity House Agreement. The single most common response was to say that the survey is taking place early in the life of the Verity House Agreement, but that the council tax freeze was not a promising start.

"The Verity House Agreement is significant but it is too early to say if it will actually improve communication in the long term and announcements like the Council Tax freeze show how fragile the agreement is."

However, this does not mean there is no value to the Verity House Agreement. One respondent eloquently described how the text of the Agreement has provided a way to talk about and evaluate the relationship between local governments and Scottish government.

"The Verity House agreement has made an initial change to the tone of discord and something being/not being in the spirit of Verity House is mentioned a lot. Whether this will translate into real change remains to be seen."

This agreement, and agreements like it, provide a framework for how central-local relationships should be working. It is unfortunate, then, that according to our respondents the relationship has not yet fundamentally shifted.

Funding bids

In recent years, through initiatives like the Levelling Up and Shared Prosperity Funds, local governments have become more involved in competitive bids for funding, most often for capital projects. It is [local authorities](#) that apply for these bids and that are tasked with implementing the initiatives, so the impact these funds have on local government finance is important, even if the proportion of funding they account for is low.

Only two councils (5% of respondents) said that all of their bids had been successful, meaning that the other 80% of respondents who answered this question had all had at least one failed bid. Each of these bids were described by our respondents as using up precious resources for limited benefit with a high chance of failure and limited transparency.

"Hugely resource-intensive pieces of work, usually with ridiculous timescales, that usually result in no financial gain with little explanation why."

Bids were also criticised for being an ineffective way to meet the needs of the sector, and even counterproductive by reducing the capacity for long-term planning.

"Bid funds add bureaucracy at a time when it is patently obvious that core services are underfunded. Properly funded core services should be the priority not bid funds with limited scope."

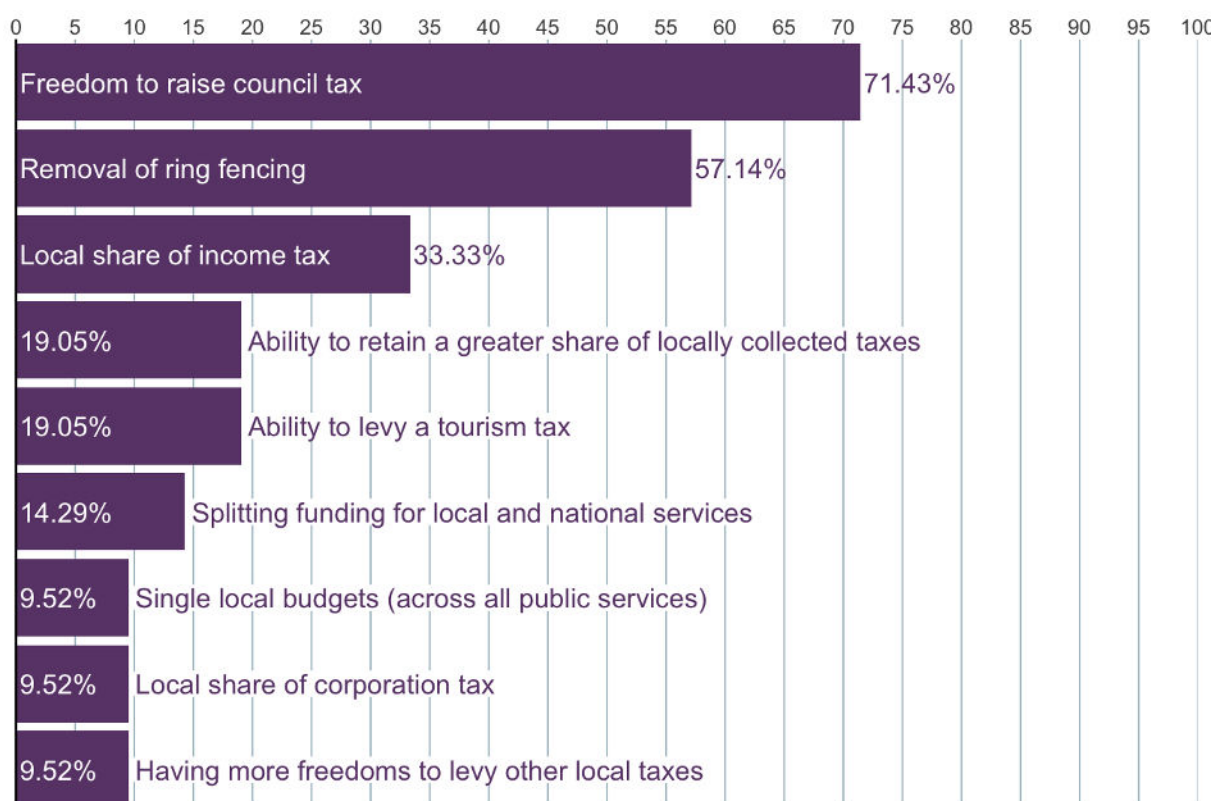
"Competitive bidding processes are enormously wasteful of resources and tend to be one off funding. This mitigates against more strategic and targeted use of funding to address local challenges and opportunities."

Fiscal devolution

Local governments in Scotland are severely restricted in both their capacity to raise funds and discretion over their spending. In analysing the needs of the sector, it is also important to recognise the areas where local government figures believe devolution of powers can lead to improvements in their overall financial position. We offered a series of options for fiscal devolution on both the revenue raising and spending sides and asked respondents to pick which three they believe would have the greatest positive impact on their finances.

By far the most popular option on the revenue-raising side was the power to increase council tax. This is a power local councils should already have, and was only included in the survey because of the shock announcement of a council tax freeze by the Scottish government. The 71% of respondents arguing that councils should be free to raise council tax is more evidence of severe disapproval of the freeze in the sector, and of the importance council tax plays for local authority control over their finances. Other than freedom to raise council tax, a local share of income tax was relatively popular option, with around a third of respondents selecting it, and the ability to retain a greater share of locally collected taxes (such as non-domestic rates) and the power to levy a tourism tax receiving approval from around one in five respondents each. Of these, the tourism tax (or “local visitor levy”), is the option which has received the most recent attention from Scottish Government, who have [introduced legislation](#) to the Scottish parliament to allow councils to introduce a tax on overnight accommodation.

On the revenue-spending side, the removal of ring-fencing (or more accurately directed spending as one comment pointed out) was seen as the option most likely to have a positive effect on council finances.



Participatory budgeting

In recent years Scottish government has worked with local government to introduce a form of [participatory budgeting](#) where at least 1% of local government budgets would be decided directly by citizens. Based on the assessments of senior council figures, the current arrangement for participatory budgeting, partly because of the financial difficulties faced by councils, is not reaching its full potential or is actively detracting from the other essential work of councils.

“Participatory budgeting has a strong role to play but there is a lack of realism about how much influence it can have when so much of Council spending is directed/ringfenced or statutorily required.”

“It is increasingly difficult to plan to comply when the main pressure is to balance a budget and zero a deficit.”

Others were positive about the idea and the chance to increase public participation, but were less convinced that in its current form participatory budgeting was achieving this.

“It has forced councils to think differently around resident participation in projects - which is a good thing.”

“...true participation is limited outwith particular communities of interest.”

There were also significant concerns about the administrative costs required to make participatory budgeting work, and whether these are matched by its potential benefits.

“Not convinced that benefits outweigh admin required.”

However, despite these criticisms, the overall views on participatory budgeting were decidedly mixed, with many respondents praising the idea, but emphasising that the true benefits of participatory budgeting will be difficult to produce when council budgets are under intense pressure.



Conclusion

Local government finances in Scotland are in a critically poor state, and without significant change to their funding councils risk falling into the same cycle of declining service quality, rising costs for taxpayers, and eventual effective bankruptcies that has been the operating model across English councils for several years. This is an unacceptable risk when councils are responsible for delivering essential services to millions of people, including many of the most vulnerable members of society.

The respondents to our survey were overwhelmingly concerned about the sustainability of council finances, beset by inflation, ring-fencing and facing the challenge of demographic change. Councils in Scotland have very few ways to raise money, especially in a context where Scottish government has unilaterally decided to freeze council tax, and are resorting to cuts to make ends meet.

For the average person in Scotland, this means they have already seen their services decline, and that they will continue to decline in the future. Council funding of non-essential services will fall and fall until councils are reduced to providing only the bare minimum. Residents will lose their democratic power over local decisions as councils' choices are restricted by their limited funding.

Local government has the potential to be much more than a provider of bare-minimum services. As one respondent said:

“Our communities now appreciate the impact of cuts and are calling for more funding. We now need [central] government to listen and fund us fairly. We can make a positive impact in prevention and early intervention in a way that no other sector can do, why don't they use that potential?”

Scottish councils are part of the democratic infrastructure of Scottish life. Even in their current dire financial situation, they improve the quality of millions of people's lives every day. If they were properly funded they could do much more: they could give residents more control over their local area, they could tailor their policies to the needs of local people, they could contribute to the whole system of public services, reducing pressure on the NHS through early intervention, boosting local economies through targeted interventions, using their unique position to tackle the big issues of today - climate change, poverty, technological change - in a way that genuinely reflects local needs.

But to get there, something needs to change. Funding needs to reflect need. Local councils need more powers over how they raise and spend money. And the relationship between central and local government needs to be one of mutual respect, enforced by institutional cooperation and recognising their shared responsibility to the public.

[LGIU@40: For the Future of Local Government](#) outlines these changes, and the steps local and central governments across Scotland, the UK and the wider world have to take to unleash the potential of local government.

Respondent characteristics

- We received responses from over 75% of councils in Scotland.
- Our respondents were identified as 36% chief executives, 25% council leaders and 36% section 95 officers.
- The respondents were from both LGIU member and non-member authorities.
- For reasons of anonymity we cannot identify the responses for any individual council.

Packages used

The statistics and data visualisations in this research were done using the statistical programming language R.

The following packages were used in this project:

- `ggplot2`
- `ggVennDiagram`
- `kableExtra`
- `readr`
- `stringr`
- `tidyverse`
- `waffle`

For more information on the code and data used to produce this report please contact greg.stride@lgiu.org.

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