



3 October 2023
GCVS Seminar

@TheIFS

The outlook for government and council funding

David Phillips



Economic
and Social
Research Council

This presentation

- Scottish government funding and spending outlook
- Implications for councils' funding and choices
- How does the National Care Service fit into this?
- What does this mean for the voluntary sector?



Scottish government funding and spending outlook

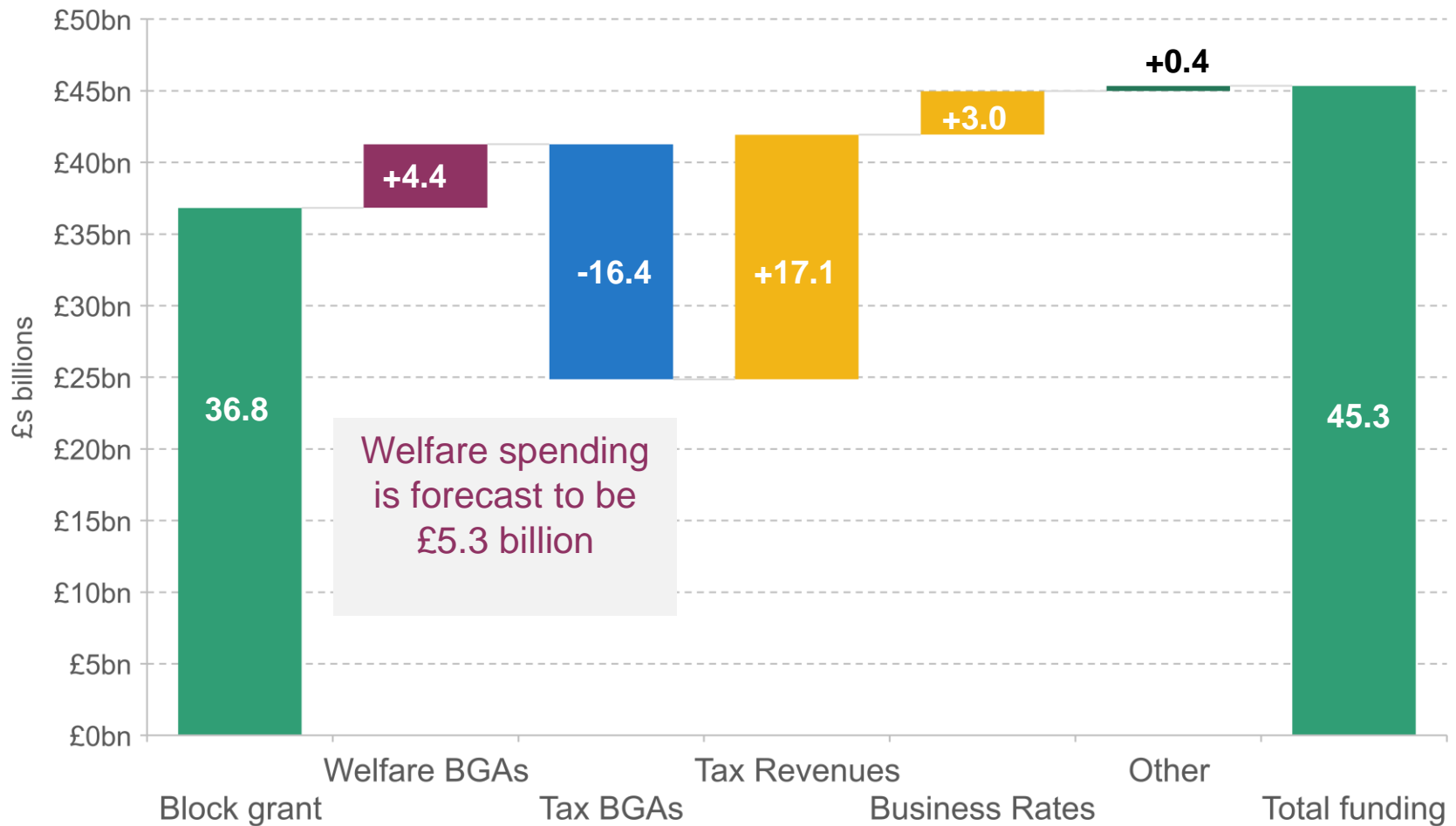
Scottish Government funding

- UK government funding
 - Block grant funding, updated annually via Barnett Formula
 - Devolved social security funding
 - Other general and ring-fenced pots
- Devolved tax and other revenues
 - Income tax on non-savings, non-dividends income
 - Non domestic rates (and council tax)
 - LBTT and SLfT
 - Other small sources (e.g. Crown Estates)
- Borrowing and reserves
 - Capped at relatively low levels

Resource funding in 2023-24

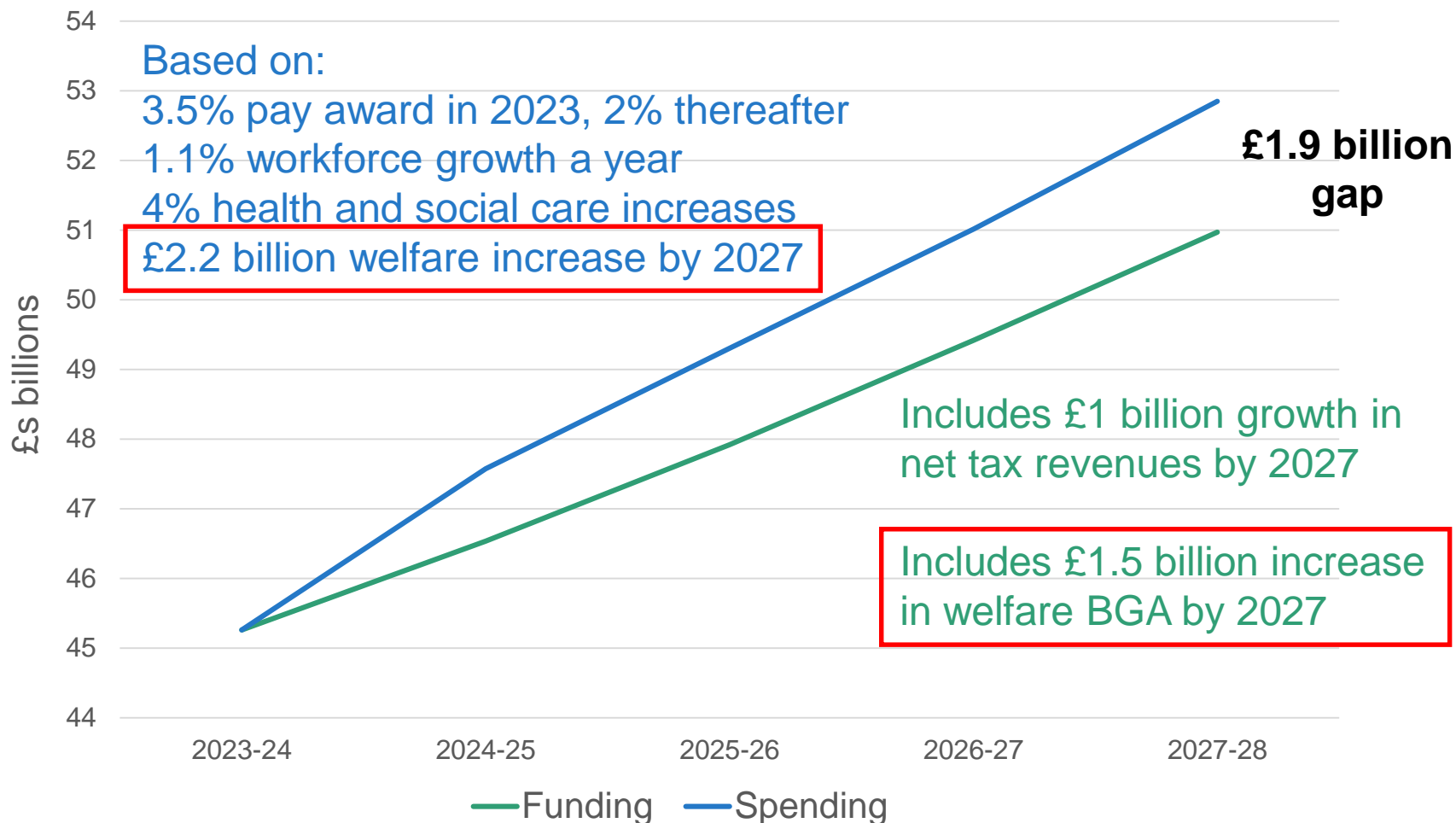


Resource funding in 2023-24



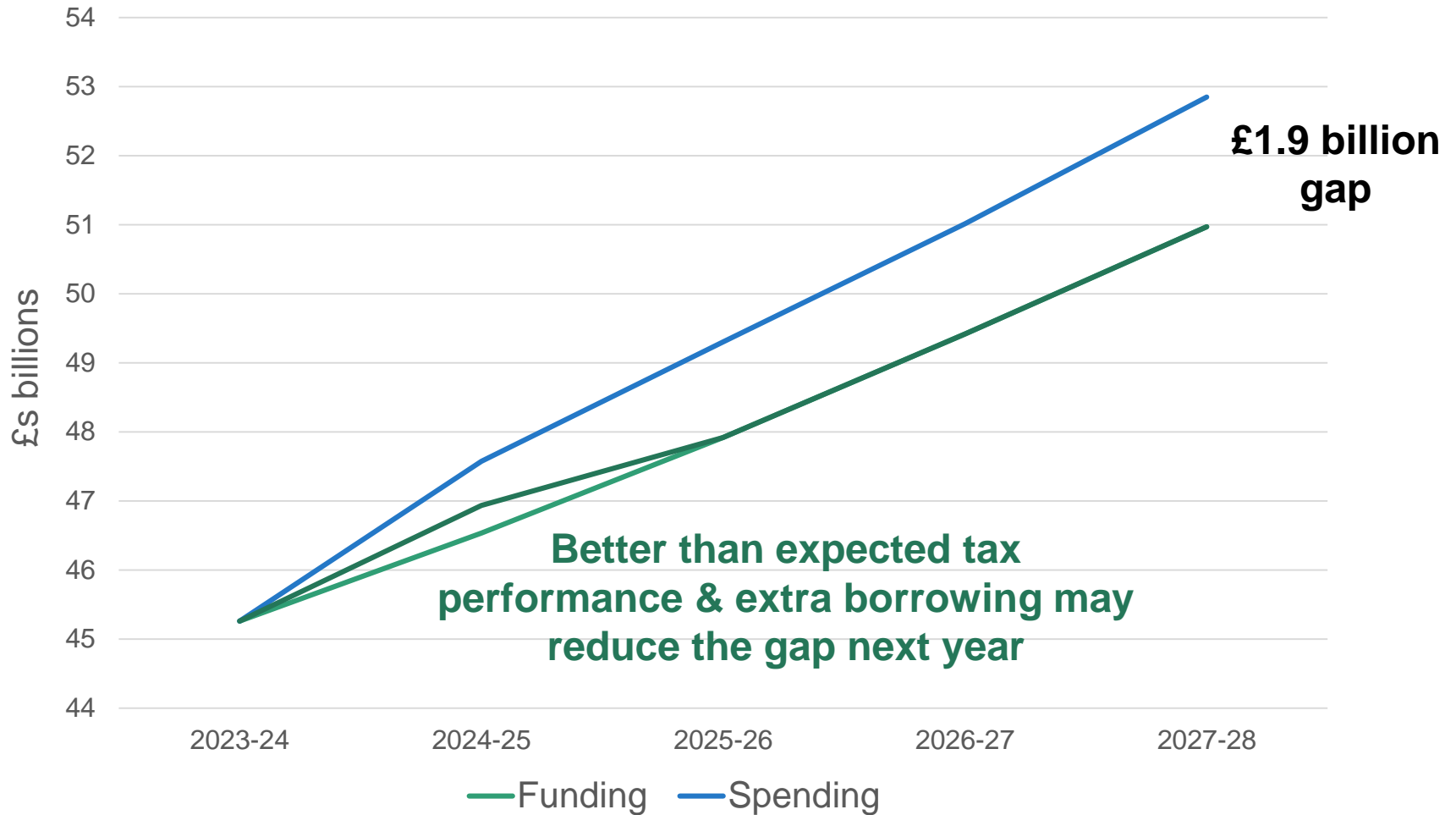
Overall funding outlook

MTFS central scenarios for resource funding & spending



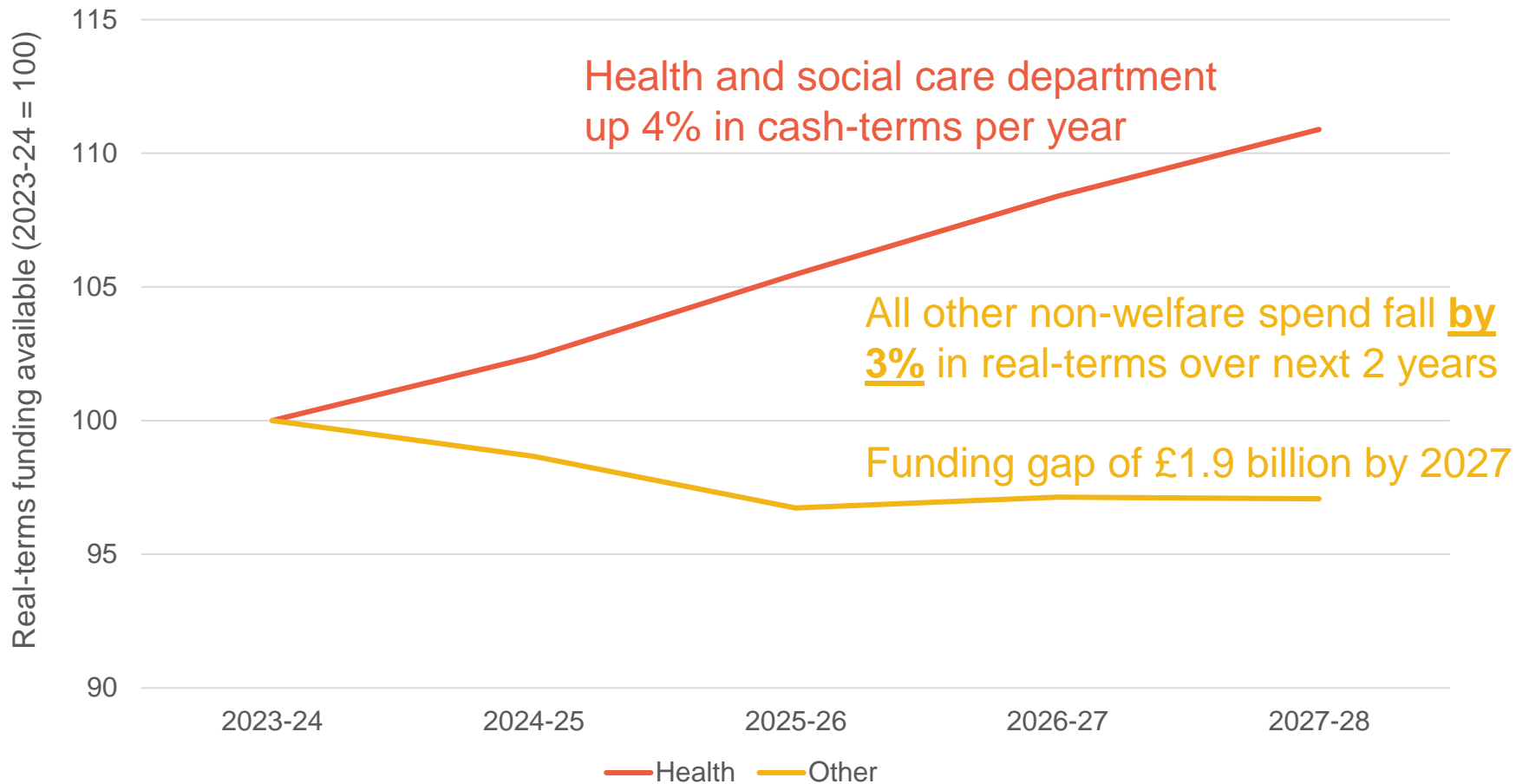
Overall funding outlook

MTFS central scenarios for resource funding & spending



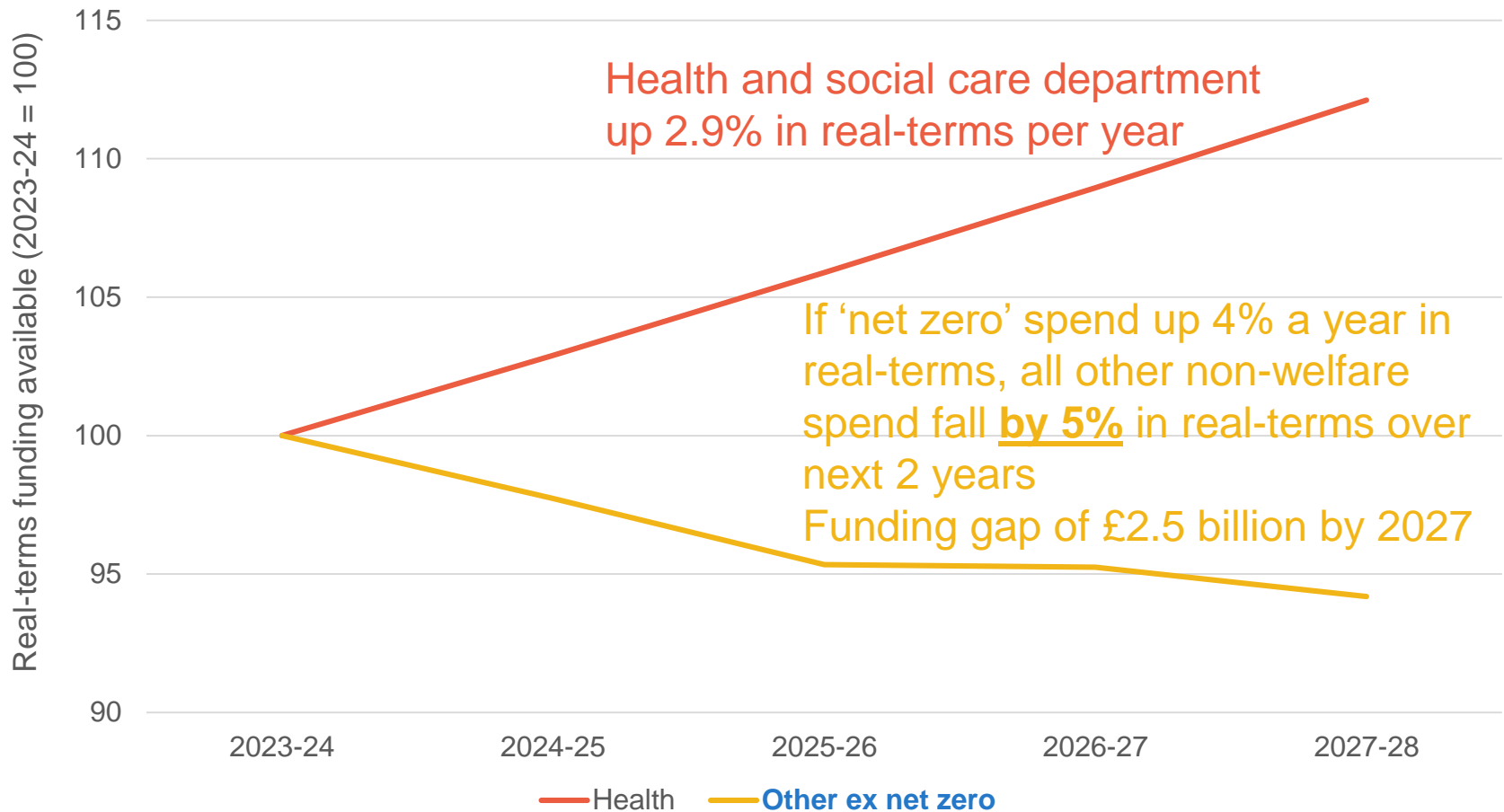
Spending trade-offs

Based on MTFS central funding and health spend scenarios



Spending trade-offs

Based on continuation of Budget 2023-24 trends



Can the hole be filled?

- Mooted tax rises unlikely to make much difference
 - New tax rate between higher and top rate likely to raise at most £100 million a year (and probably less!)
 - Council tax reforms being consulted on would raise, at most, £175 million a year
- Other options could raise more
 - 1p on all income tax rates raise ~£530m
 - More radical reform of council tax could raise more
- Cut back certain areas of spending
 - Could 'salami slice' – take a bit off each budget
 - Govt has hinted at more means-testing/targeting of spend
 - Trade-off between social security and service spending

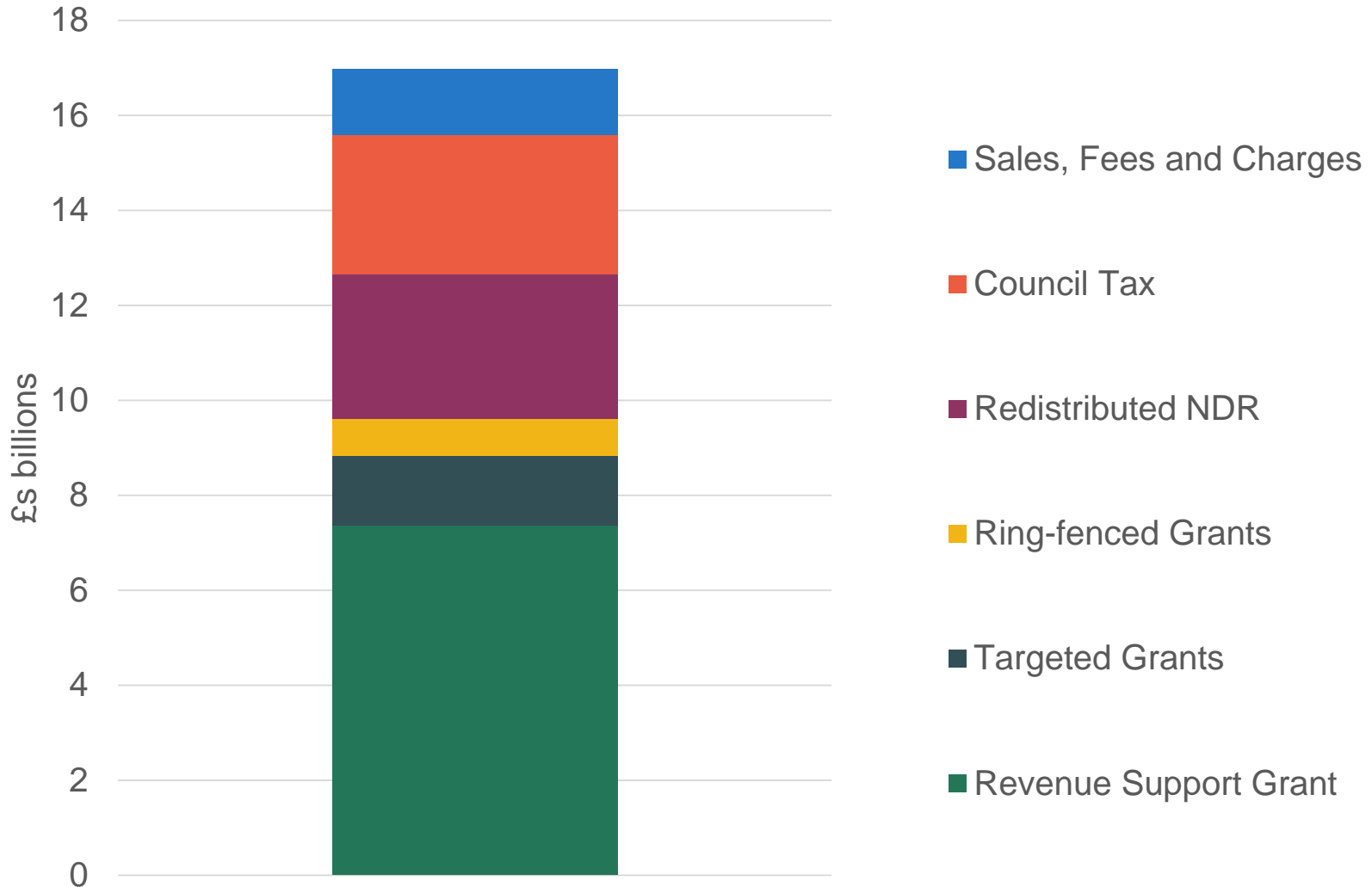
What about more UK govt funding?

- The UK government's plans for spending from 2025-26 onwards imply cuts to a range of services
- Without some (further) hefty tax rises, hard to top-up spending plans without putting debt on an unsustainable upwards path
 - Despite taxes rising from ~33% pre-pandemic to ~37% of GDP (a tax rise of over £100 billion a year)
 - High levels of debt and much higher debt interest bills
- Even if UK govt raised tax and spend sufficiently to avoid cuts in England, some services could still face cuts in Scotland
 - Spending per person on devolved services about 25% higher than what is spent in England (due to higher UK govt funding)
 - Barnett formula gives the same cash per person increase
 - This is a smaller % increase given Scotland's higher initial funding - the 'Barnett squeeze'



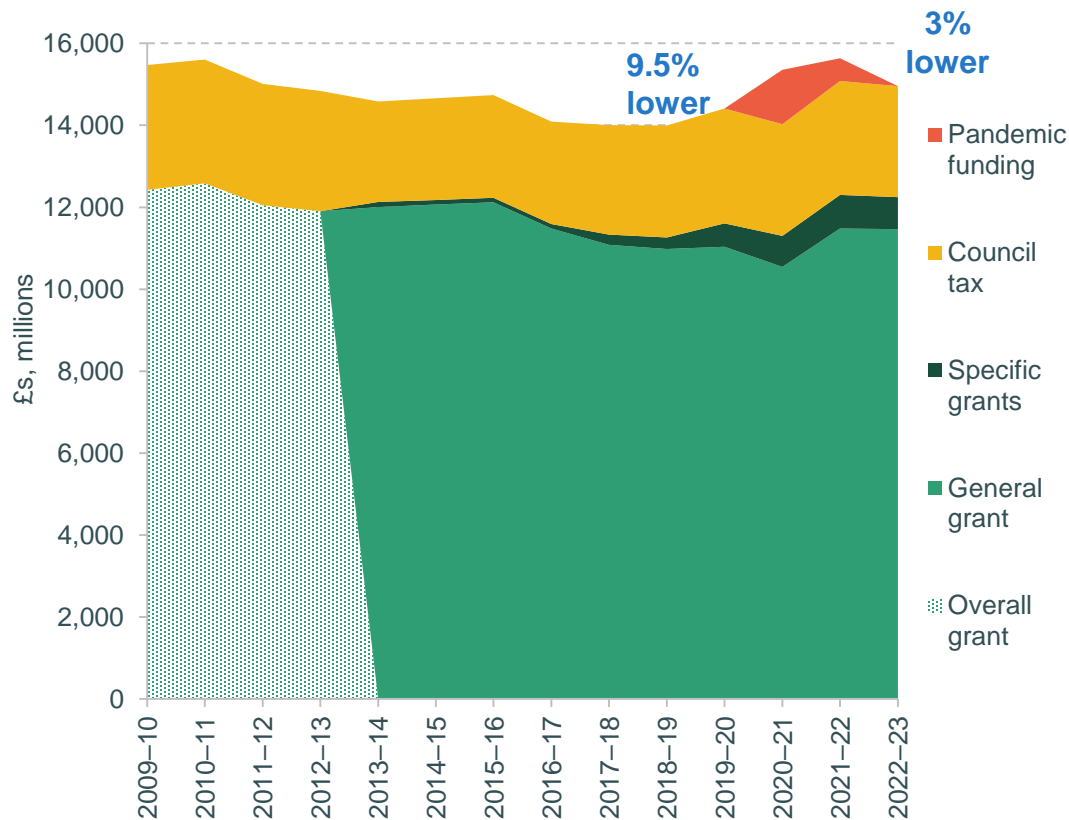
Implications for Scottish councils

Scottish council funding



Council funding since 2009

Scottish council resource funding, 2009–10 to 2022–23 (2022–23 prices)



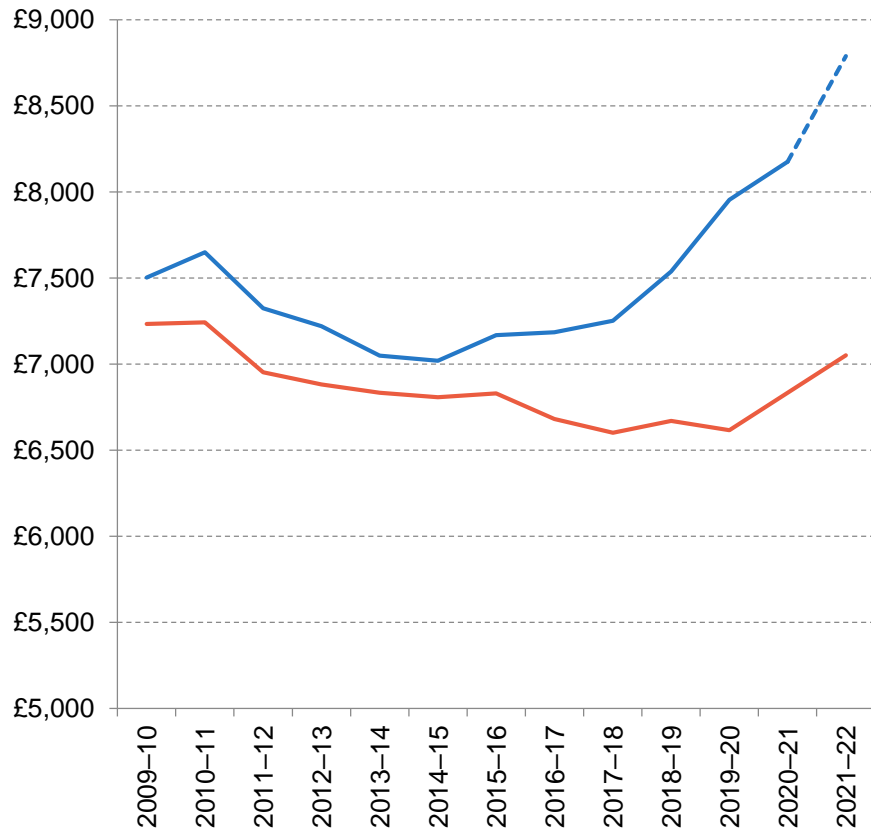
Source: Authors' calculations using Scottish Government (2022a, b) and earlier versions, and Scottish Government (2022c).

- Funding fell 9.5% (or 13.5% per person) in real-terms from 2009-10 to 2018-19
- Since then funding has increased and as of 2022-23 was 3% (or 7% per person) lower than 2009-10
- Part of the increase in funding has been for new responsibilities. Stripping out new childcare funding, funding was still 6% (or 9% per person) lower than 2009-10
- Growing share ring-fenced
- Councils reserves doubled during COVID pandemic

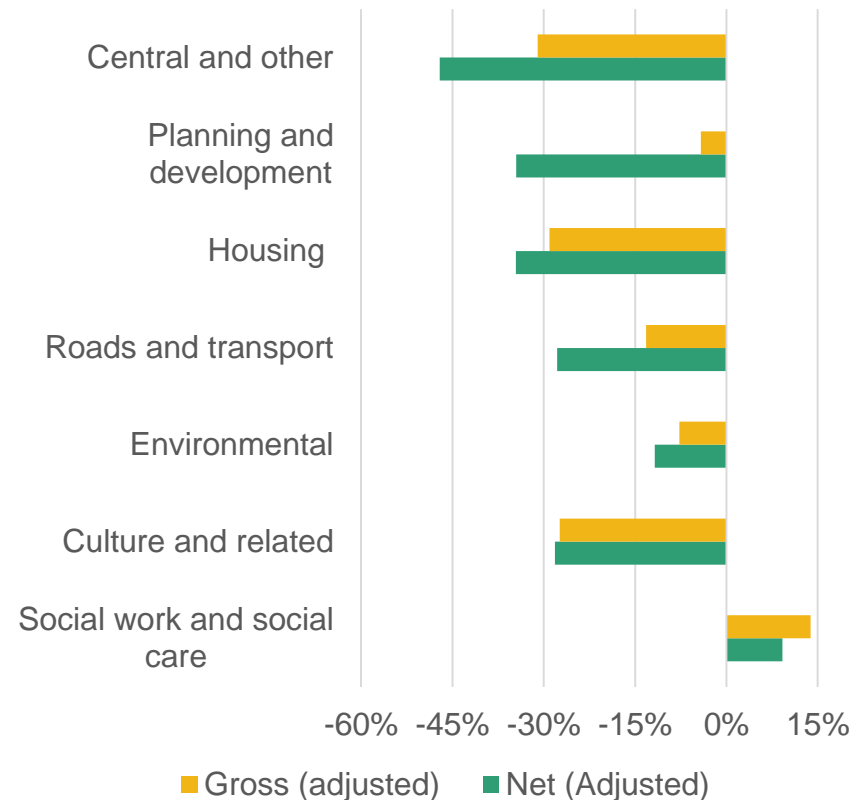
Council spending trends

Schools and 3+ childcare spending changes in Scotland and England

— England — Scotland

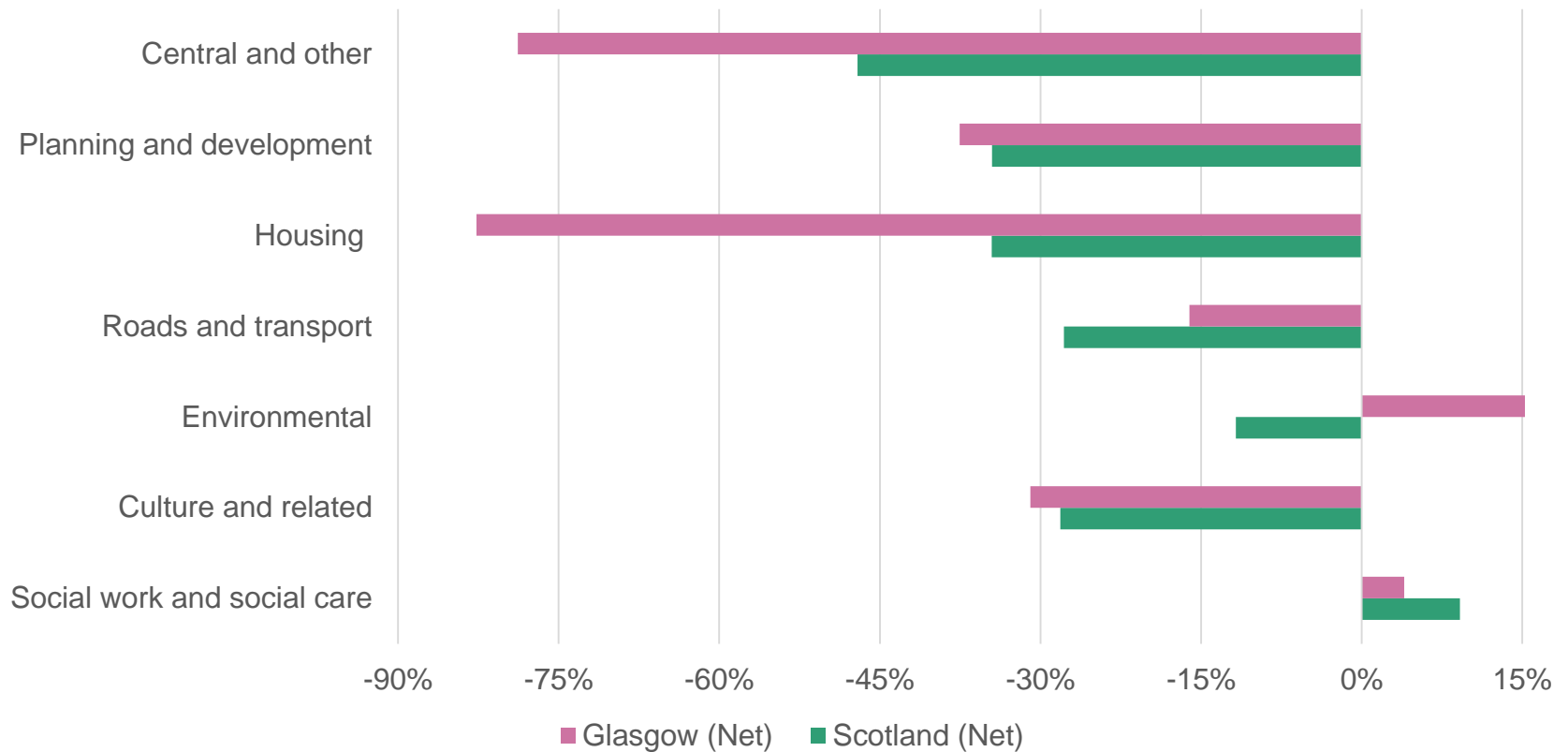


Other service spending change in Scotland, 2009-10 to 2021-22



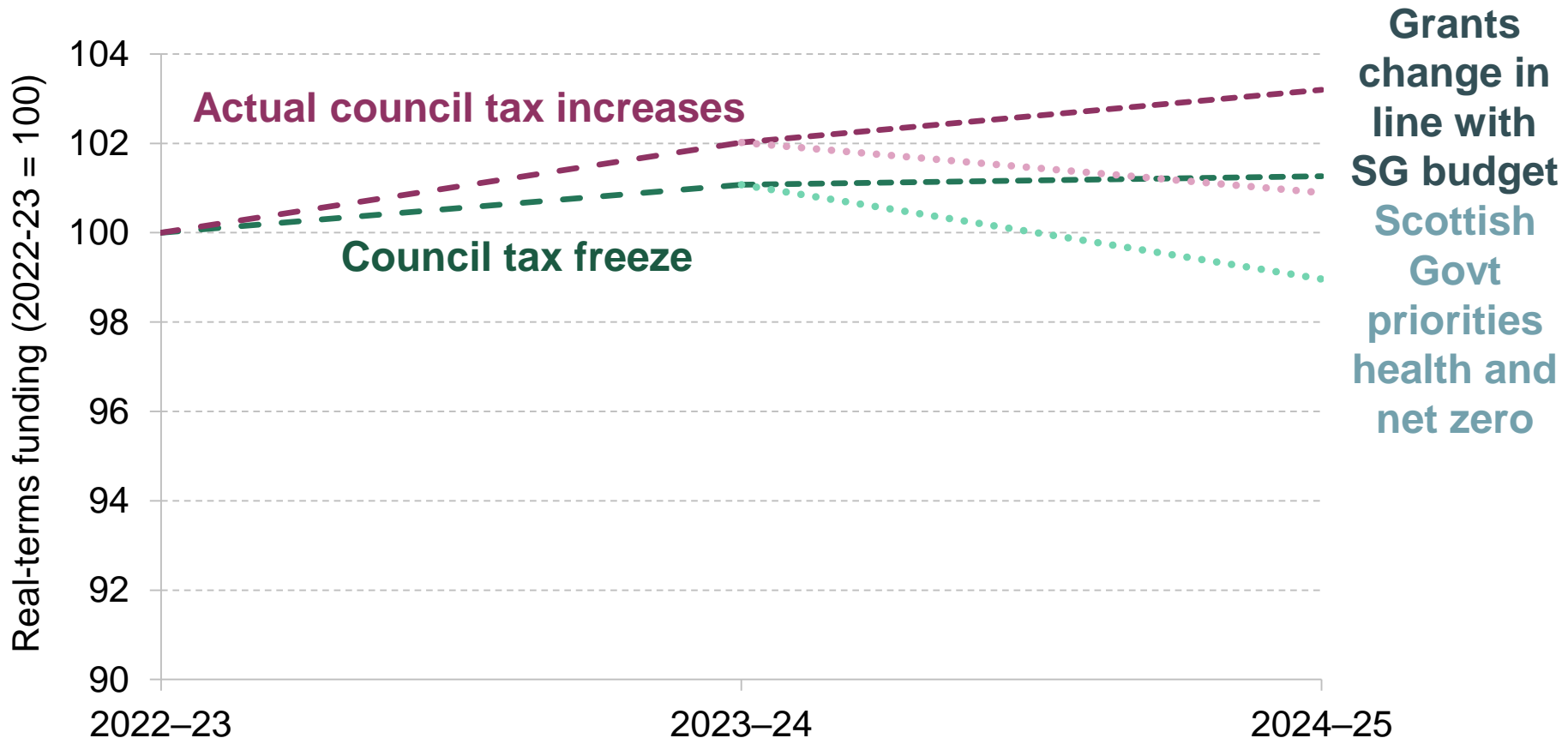
What about Glasgow?

Other service (net) spending change in Glasgow Scotland, 2009-10 to 2021-22



The funding outlook

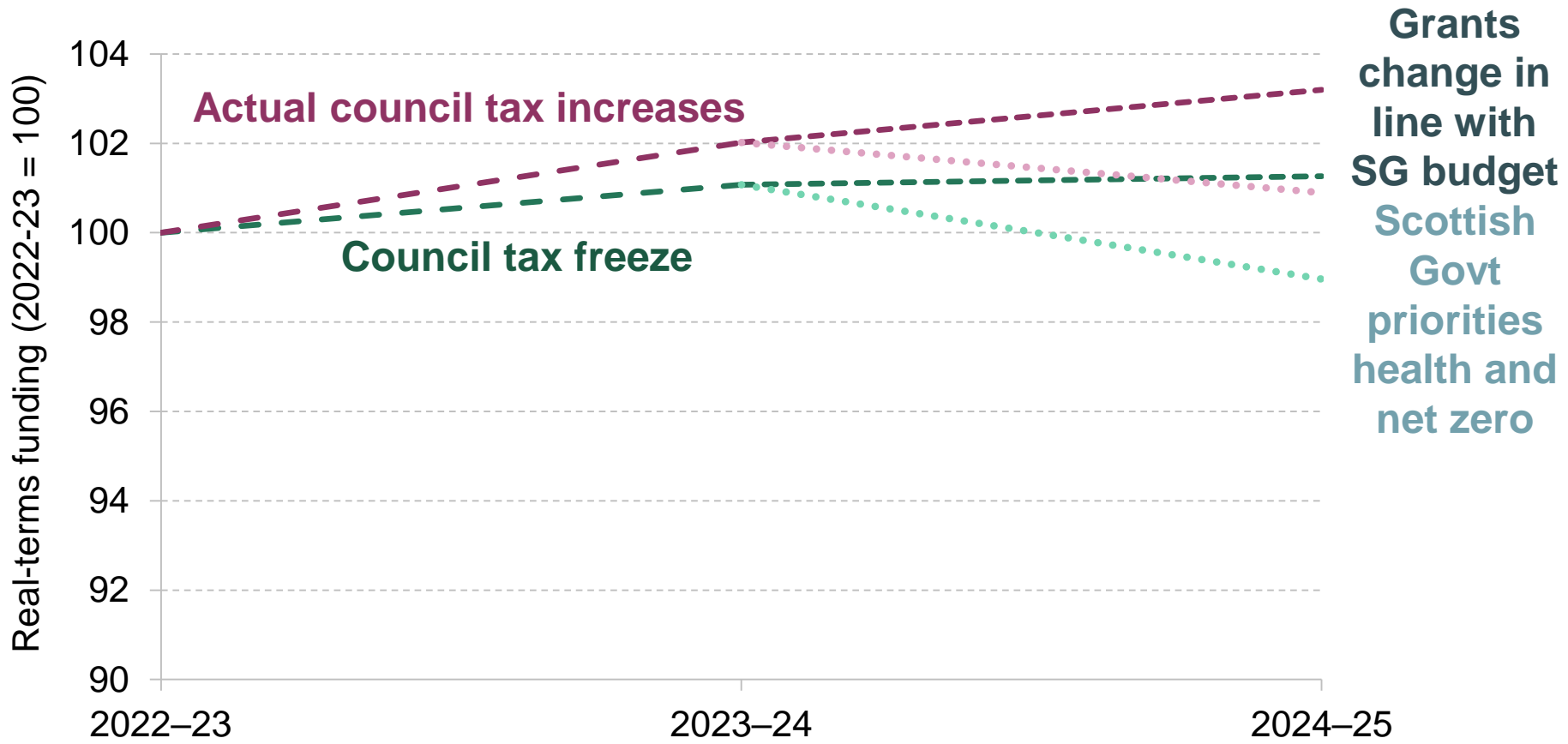
Projected Scottish council funding from grants and council tax, real-terms using official GDP deflator



Source: Updated version of Figure 4.4 of the IFS Scottish Budget Report 2023-24.

The funding outlook

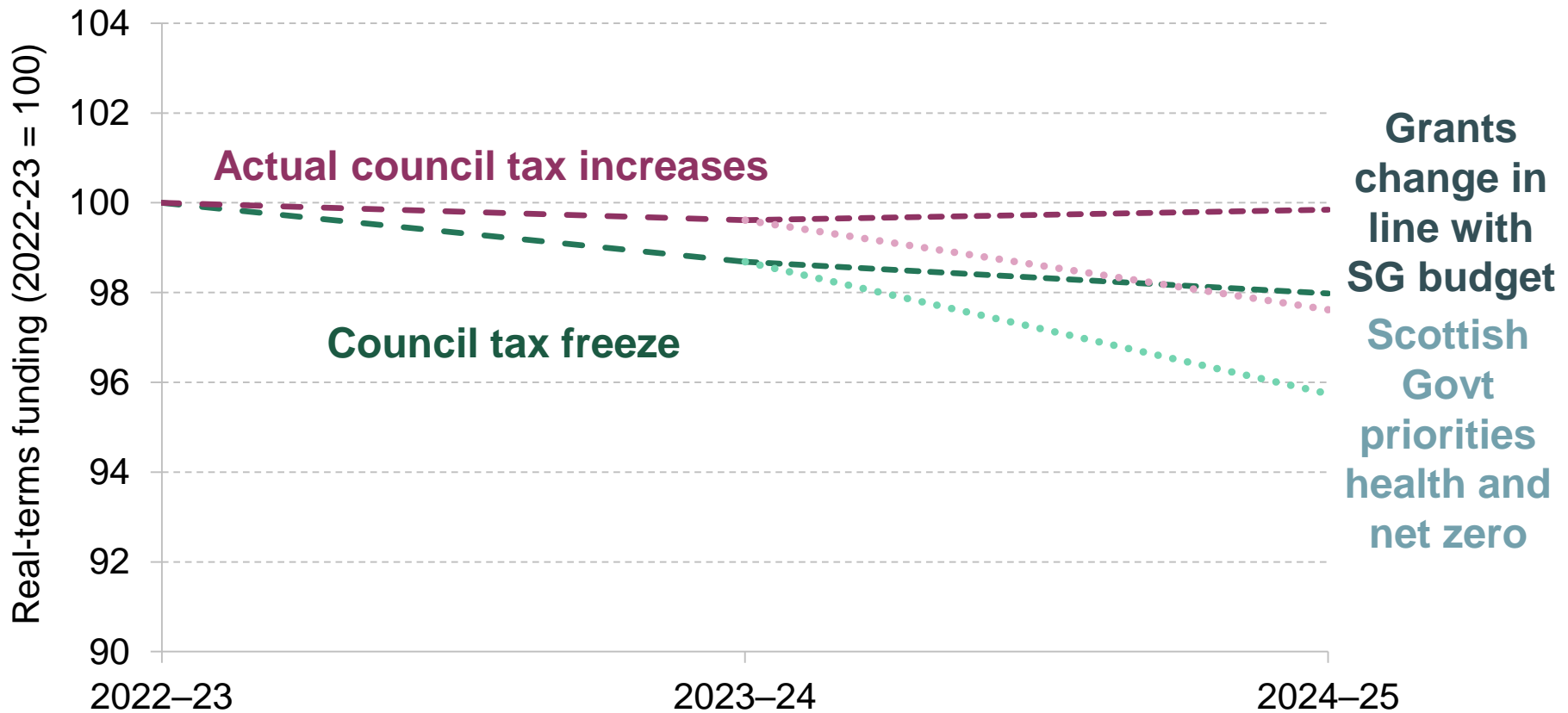
Projected Scottish council funding from grants and council tax, real-terms **assuming 5% and 2.5% inflation in 2023 and 2024**



Source: Updated version of Figure 4.4 of the IFS Scottish Budget Report 2023-24.

The funding outlook

Projected Scottish council funding from grants and council tax, real-terms **assuming 5% and 2.5% inflation in 2023 and 2024**



Source: Updated version of Figure 4.4 of the IFS Scottish Budget Report 2023-24.

Spending trade-offs

- Education spending is around 50% of councils' net service spending, and social care/services around a further 33%.
 - Protecting education from cuts implies doubling cuts for other services (including social care/services)
 - Protecting education & social care/services from cuts implies cuts 5 TIMES larger for other services
- Given the big cuts made to other services during the 2010s, it seems unlikely they can bear the brunt of all cuts
 - Can education spending be pared back given falling numbers of pupils following drop in birth rate in 2010s?
 - Have some pandemic-related social care costs finally started to abate?



The Scottish National Care Service

The original plans

- New Care Boards, separate from councils, to be responsible for commissioning adult (and possibly children's) social care
 - Would have required transferring up to 1/3 of councils' budgets to these new bodies
 - Aims of this were to aid further integration with healthcare and provide more consistent services across Scotland
 - But this plan entailed a number of costs and risks
 - Set up and operation costs of these new care boards
 - Councils can vary council tax or shift funding around if centrally-assessed funding for social care (or other services) is insufficient
 - Can also use discretion to offer above- or below-average quality of social care
- ➔ Centralisation can reduce consistency and create unfairnesses

A BIG change in plans



- Councils will retain responsibility for commissioning social care services in their areas – and their existing staff & buildings
 - Ministers and councils legally jointly accountable for meeting new national standards of care
- This removes some key risks/challenges
 - Care board set-up and operational costs
 - Councils will still be able to vary council tax or shift money between services if central needs assessments go awry or if they wish to prioritise spending differently (subject to min standards)
 - Although I expect more funding to be ring-fenced for social care
- Less a national service, more a national brand
- Big challenge to pay for improvements in staff conditions and new service standards and rights – delay / water-down?



Implications for the voluntary sector

What does this mean for you?

Need to plan for a world where government and council funding is incredibly stretched – not just in the next few years but in the longer-term too

- Do more of the things you'll already be doing for your own viability
 - Diversify funding sources if grant-funding is important
 - Maximise efficiency of spending including via mergers, partnership arrangements, and effective M&E
- What matters most for the people you represent/support?
 - Lobby government to protect these areas of spending
 - Pivot your own work if can help ensure these services continue
- Maximise opportunities for volunteering and social connections
 - Young Scots score particularly highly in PISA 'global competence' test covering ability to engage with local & global issues: is there scope to engage them more?

The Institute for Fiscal Studies
7 Ridgmount Street
London
WC1E 7AE

www.ifs.org.uk

