

**Audit Scotland report:****Local government in Scotland: Financial bulletin 2024/2025**

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**Date of meeting** 21 February 2025**Date of report** 28 January 2025**Report by Chief Executive****1. Object of report**

To advise the committee on the issue of an Audit Scotland report titled '*Local government in Scotland: Financial bulletin 2023/24*' and outline the key messages and implications for SPT contained therein. Members are reminded that the full report was emailed separately.

**2. Background to report**

In January 2025, Audit Scotland published a report titled '*Local government in Scotland Financial bulletin 2023/2024*'.

The report says that Scotland's councils continue to face severe financial pressures. The need to consult with communities, clearly communicate the impact on local services, whilst working together to shape and deliver urgently needed transformation, is more important than ever.

The report adds that Councils closed a budget gap of £759 million during 2023/24, but this required them to make further and deeper savings. Reflecting on the state of council finances in that financial year, the Accounts Commission reports many councils made savings or used reserves to deliver services within budget and offset a 3.3% real-terms reduction in revenue and income. Using reserves to routinely balance budgets is not sustainable and risks financial sustainability. Despite an overall increase in funding in 2024/25 and a further funding increase announced for the year ahead, intensifying demand for services, greater borrowing and depleting reserves pose ongoing challenges.

The Accounts Commission's latest report assesses the financial position of Scotland's councils during 2023/24 and the outlook for services beyond this. In 2023/24 councils borrowed more to invest in buildings and infrastructure, whilst Scottish Government money to support capital investment continued to decline. Council borrowing increased by over £400 million and almost all councils now face higher levels of debt and annual interest costs. This investment is vital, however, in supporting spending on key areas including new schools and housing projects, whilst reducing the risk of buildings becoming unusable and impacting services still further.

The Audit Scotland report can be found at:

[https://audit.scot/uploads/2025-01/nr\\_250128\\_local\\_government\\_financial\\_bulletin.pdf](https://audit.scot/uploads/2025-01/nr_250128_local_government_financial_bulletin.pdf)

### 3. Outline of proposals

The report outlines the following key messages:

In 2023/24, councils' total revenue and income fell, including another real terms decrease in revenue funding from the Scottish Government. Councils are increasingly reliant on identifying savings, which becomes progressively more difficult year-on-year, and again used reserves to remain within their agreed budgets.

In 2023/24, capital funding remained constrained, with councils borrowing more and managing a range of complex funding models. Capital funding from the Scottish Government reduced slightly in real terms, continuing a longer-term trend. Capital expenditure was lower than planned. Councils continue to borrow more to enable investment in their estates and council debt, and annual interest costs, continue to increase.

In 2023/24, usable reserves, which are those that can be used to support service delivery, reduced and most are already committed for specific purposes. This presents an ongoing challenge for councils reliant on reserves to balance their budgets, as well as to longer-term financial sustainability. Using reserves to routinely balance budgets is not sustainable.

Councils need to intensify transformation activity, progressing at scale and pace to ensure their financial sustainability. How councils plan to use their reserves, make savings, and transform their services needs to become more transparent. The need to consult local communities and clearly communicate the implications for local services of the budget decisions taken has never been more important.

The following recommendations outlined in the report are for councils

In 2025, councils should:

- Report on the savings made within their management commentaries more comprehensively, including provision of comparisons to savings targets agreed during budget-setting, and whether they were recurring or non-recurring;
- Ensure that the impact of capital underspends, future borrowing projections and of using financial flexibilities on their indebtedness are reported clearly alongside the impact of these on future revenue budgets;
- Ensure reserves policies indicate explicitly and clearly the impact of financial flexibilities on reserves held; the nature, level of and intended timing of the deployment of committed usable reserves held; and the level of uncommitted and contingency funding held within General Funds;
- Prioritise service transformation, considering the impact of current service delivery models on longer-term financial sustainability, including the medium-term impact on reserve levels (paragraphs);
- Ensure that financial sustainability becomes a central focus of financial monitoring and reporting, making greater use of financial sustainability indicators within reports to elected members and within their regular public reporting and financial strategies and plans.

### Implications from the Audit Scotland report key messages

Councils in the Partnership area fund SPT's revenue budget.

SPT has and continues to face similar challenges as set out in the report.

The key messages also apply to service provision.

#### **4. Committee action**

The Committee is asked to note the contents of this report and the Audit Scotland report titled '*Local government in Scotland: Financial bulletin 2023/2024*'.

#### **5. Consequences**

Policy consequences	<i>None.</i>
Legal consequences	<i>None.</i>
Financial consequences	<i>None.</i>
Personnel consequences	<i>None.</i>
Equalities consequences	<i>None.</i>
Risk consequences	<i>None.</i>
Climate Change, Adaptation & Carbon consequences	<i>None.</i>

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