

Audit Scotland briefing: Local government budgets 2025/26

Date of meeting 13 June 2025

Date of report 27 May 2025

Report by Chief Executive

1. Object of report

To advise the committee on the issue of an Audit Scotland briefing titled '*Local Government budgets 2025/26*' 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

Audit Scotland has published a briefing titled '*Local Government budgets 2025/26*'.

The report says that mounting pressures from inflation, increasing costs and demand are exceeding the Scottish Government's additional investment in Scotland's councils. In 2025/26 councils received over £15 billion in government funding, with more money set to be raised from council tax and charges for some services. With communities paying more for services, their expectations are increasing.

The Accounts Commission's latest report says that additional costs from wage increases, higher employer National Insurance contributions and intensifying service demands, including social care as Scotland's population ages, mean councils must cover a budget shortfall of £647 million in 2025/26.

The report adds that whilst councils have partly met this shortfall through service savings and increased charges for services, continuing to use reserves and make one-off savings is not sustainable. It intensifies pressures on future budgets. Longer-term change in the way services are delivered is happening but must accelerate. Action is also needed to better understand the impacts on the most vulnerable communities.

Capital funding is vital for councils to invest in public buildings such as schools and libraries, as well as roads. It also underpins the significant transformation needed in the ways services are delivered in the future. Capital funding from the Scottish Government is increasing but has not returned to previous levels. Councils remain heavily reliant on borrowing to fund their planned £4.7 billion capital investment in 2025/26.

The Audit Scotland report can be found at:

<https://audit.scot/publications/local-government-budgets-202526>

3. Outline of proposals

The report outlines the following key messages:

1 Scottish Government funding to local government in 2025/26 is increasing by six per cent in real terms, to £15.2 billion. However, local government continues to face recurring pressures in excess of funding uplifts, such as inflation, annual pay deals and growing demand for services, and most of the increase will be used to deliver previously agreed national commitments. Alongside this, councils are facing additional costs related to the increase in employer's National Insurance contribution rates, and investing in new buildings and assets is increasingly expensive.

2 At a time of constrained public finances and growing demand, not all cost increases can be met from central government funding and councils need to take local action to achieve budget balance over the short and medium term. At the time of setting their budgets, councils identified a difference of £647 million between anticipated expenditure and the funding and income they receive (the 'budget gap'). Councils are required to set balanced budgets and have agreed a range of actions to achieve this and close this gap. This includes all councils raising council tax rates, by between six and 15.6 per cent, identifying savings, drawing on reserves and increasing or introducing charges for accessing some services.

3 Councils continue to make savings across a broad range of services to address financial challenges and have been successful in identifying recurring measures that will help to address underlying pressures. Despite this, councils are still forecasting that more will need to be done in future years to achieve financial sustainability given their projected increases in both costs and level of service demand.

4 Councils' budget-setting processes vary, partly reflecting differences in organisational structures and local priorities, and this makes it difficult to compare information across Scotland. There remains an underlying issue with the transparency of how budget information is being presented.

5 Most councils engaged communities in some way to make decisions on their budgets for 2025/26, but there were variations in the depth and level of this engagement. By improving the accessibility and transparency of how they are reporting budget information, councils can better inform and include their local communities in making the choices required to address ongoing financial challenges.

The Accounts Commission expectations are:

In future, the Accounts Commission expect to see councils encourage more active participation in the budget-setting process by ensuring that:

- budget papers and financial monitoring reports provided to elected members include clear and understandable headline figures that state the impact of specific budget decisions on the overall financial position of the council;
- budgets should link back to the council's corporate plan to allow elected members to make spending choices better informed by, and based upon, the council's priorities;
- fundamental information, such as the forecast budget gap, is clearly presented as part of the consultation process with residents;
- estimated costings of how specific proposals will contribute to managing the budget gap are made available to residents, including the potential contribution of any proposed increase to council tax and the anticipated impact on levels of service delivery;

- general public consultations are supplemented by targeted consultations with groups most impacted by changes to specific services and that consideration is given to how to encourage participation;
- the ongoing impact of budget decisions are fully assessed, including through Equality Impact Assessments, to enable elected members to make informed decisions.

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.

SPT will endeavour to meet the Accounts Commission's expectations in future budget setting processes.

4. Committee action

The Committee is asked to note the contents of this report and the Audit Scotland report titled '*Local government in Scotland overview 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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