

Governance, Risk and Best Value Committee

10.00am, Thursday, 31 October 2024

Accounts Commission Briefing – Local Government Budgets, 2024/25 - referral from the Finance and Resources Committee

Executive/routine
Wards

1. For Decision/Action

- 1.1 The Finance and Resources Committee has referred the Accounts Commission Briefing – Local Government Budgets, 2024/25 report to the Governance, Risk and Best Value Committee as part of its work programme.

Dr Deborah Smart
Executive Director of Corporate Services

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Referral Report

Accounts Commission Briefing – Local Government Budgets, 2024/25 - referral from the Finance and Resources Committee

2. Terms of Referral

- 2.1 On 19 September 2024, the Finance and Resources Committee considered the Accounts Commission Briefing – Local Government Budgets, 2024/25. The report presented the main points contained within the Accounts Commission’s recently published briefing on council’s budget-setting processes for 2024/25.
- 2.2 The Finance and Resources Committee agreed:
- 2.2.1) To note the contents of the Accounts Commission briefing and that updates on implementing its recommendations would be reflected as appropriate within subsequent reports to the Committee.
- 2.2.2) To refer the report to the Governance, Risk and Best Value Committee for consideration as part of its work programme.

3. Background Reading/ External References

- 3.1 [Finance and Resources Committee – 19 September 2024 - Webcast](#)
- 3.2 Minute of the Finance and Resources Committee – 19 September 2024

4. Appendices

- 4.1 Appendix 1 – report by the Executive Director of Corporate Services

Finance and Resources Committee

10.00am, Thursday, 19 September 2024

Accounts Commission Briefing – Local Government Budgets, 2024/25

Executive/routine
Wards

1. Recommendations

- 1.1 Members of the Finance and Resources Committee are asked:
 - 1.1.1 to note the contents of the Accounts Commission briefing and that updates on implementing its recommendations will be reflected as appropriate within subsequent reports to the Committee; and
 - 1.1.2 to refer the report to the Governance, Risk and Best Value Committee for consideration as part of its work programme.

Dr Deborah Smart

Executive Director of Corporate Services

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Accounts Commission Briefing – Local Government Budgets, 2024/25

2. Executive Summary

- 2.1 The report presents the main points contained within the Accounts Commission’s recently published briefing on councils’ budget-setting processes for 2024/25. Based on analysis of practice across Scotland, the briefing includes a number of recommendations on improvements to enhance the transparency and comparability of reporting in this area.

3. Background

- 3.1 In May 2024, the Accounts Commission issued a briefing summarising the key issues arising from an analysis of the 2024/25 budgets approved by Scotland’s thirty-two councils. The analysis includes an overview of both the specific measures taken to address gaps between projected expenditure and available income in the immediate term and how councils are seeking to secure financial sustainability over the longer term.
- 3.2 The briefing is the first such publication issued by the Commission and includes data not previously collected. This has highlighted local-level variation in the information presented to elected members and other stakeholders, making Scotland-wide comparisons more challenging, with a corresponding recommendation for councils to include a set of key information within budget reports that will facilitate greater transparency and comparability going forward.

4. Main report

- 4.1 Drawing upon the detailed analysis undertaken, the report presents a series of overarching observations and corresponding recommendations. While the briefing’s coverage is Scotland-wide, there are some Edinburgh-specific references as noted in the later sections of this report.

Key messages

- 4.2 The report’s key messages set out on pages 3 and 4 of the briefing are as follows:

- (i) in real terms, the year-on-year 2024/25 Scottish Budget allocation of total revenue funding to local government has increased by 5.7%, however funding remains constrained as most of the increase is directed funding to deliver Scottish Government priorities and agreed pay deals. Most councils were proposing to increase their budgets by raising Council Tax rates for 2024/25 but in October 2023 the Scottish Government announced a Council Tax freeze. Although the Scottish Budget included £144 million to “fully fund” a five per cent increase in Council Tax and an additional £63 million was offered in February 2024, 11 councils said the funding provided would not “fully fund” the freeze;
- (ii) at the time of setting budgets, councils identified a difference of at least £585 million between their anticipated expenditure and the funding and income they expect to receive (the “budget gap”) for 2024/25, representing an estimated 3.5 per cent of councils’ total revenue budget. Councils agreed a range of actions to close these gaps, most commonly the use of recurring savings and reserves. Councils are also budgeting for an increase in the income generated through fees and charges, although overall this is a below inflationary increase;
- (iii) councils have had to make difficult budget-setting decisions for 2024/25, and most worked with their communities to inform or consult on the challenges faced. Some councils changed proposed savings measures in response to public opposition. It will be important for councils to deliver their planned savings in 2024/25 given the significant challenges they face in balancing their budgets in subsequent years. Councils are facing an estimated cumulative budget gap of £780 million by 2026/27 which represents five per cent of councils’ revenue budget; and
- (iv) budget-setting processes vary across councils, partly reflecting differences in organisational structures and local priorities. However, this makes it difficult to compare information across Scotland. Even within individual councils, the way in which budget papers are presented means that elected members and communities cannot easily determine the impact of budget decisions nor the overall financial position of the council, highlighting a need to improve accessibility and transparency.

Recommendations to enhance transparency and comparability

4.3 As noted above, the Commission recognises that there will continue to be variation in the way that councils present budget information to elected members and the public. This is influenced by political and organisational structures, established custom and practice and the role of decision-making committees and budget scrutiny groups.

4.4 However, to enhance accessibility and transparency, the Commission expects councils to present some fundamental information within publicly available budget papers. This will help establish good practice in budget setting, allow for greater

comparability between councils and provide auditors with the opportunity to assess the accessibility of the information presented. Information the Commission expects to see set out clearly includes:

- (i) the annual revenue budget, comprising funding and income, prior to savings and other 'bridging' actions;
- (ii) the associated budget gap, prior to "bridging" actions such as savings and use of reserves;
- (iii) the savings plan, clearly setting out the split between recurring and non-recurring actions;
- (iv) projected revenue budget gaps, both annual and cumulative; and
- (v) the assumptions used in calculating projected budget gaps.

4.5 It is officers' assessment that relevant budget planning and setting reports (and associated briefings) within the Council address the majority of the points noted above. Opportunities to standardise further report content to cover them explicitly will, however, also be explored.

Detailed commentary on report content

4.6 **The first sections of the report consider overall Scotland-wide levels of grant funding**, noting that these have increased significantly in both cash and real terms but with most of these funds linked to additional or expanded commitments, pay awards or compensation for freezing of Council Tax at 2023/24 levels. In setting the 2024/25 budget, the Council received £16.1m of compensating funding in agreeing to freeze Council Tax rates at 2023/24 levels. The Council additionally received £5.065m of the additional funding referred to in Paragraph 11 of the report and agreed, at the meeting of Council on 9 May 2024, to pass this on in full to the Edinburgh Integration Joint Board (EIJB) to support payment of a minimum £12 hourly wage in commissioned adult social care settings.

4.7 **Paragraphs 14 to 18** look specifically at councils' funding gaps for 2024/25 in relative and absolute terms. For the purposes of this analysis and as advised by Audit Scotland colleagues, the gap for Edinburgh is the gross savings requirement of £20.9m reported to the Finance and Resources Committee on 6 February 2024 i.e. after factoring in the impact of the provisional 2024/25 Local Government Finance Settlement and assumed savings from changes to the Council's Non-Domestic Empty Property Relief (£7m) and Council Tax second homes (£2.25m) policies and reductions in employer's pension contributions (£16m). Expressed as a proportion of the Council's budget, this equated to a relatively low 1.5% but re-emphasises the report's observation that such comparisons are a product of a specific snapshot in time during councils' budget processes, the duration, timing and format of which varies across Scotland.

4.8 **Paragraphs 19 to 21** summarise the means by which councils addressed their respective budget gaps. In Edinburgh's case, the majority of this remaining gap

was met through a combination of savings in corporate budgets, application of budget framework contingencies and one-off savings resulting from the release of provisions no longer required. This reliance on time-limited measures reinforces the need to develop sustainable and recurring savings options to address subsequent years' funding gaps.

- 4.9 As the report notes in **Paragraph 23**, savings approved in setting 2024/25's budget are in addition to those in-year savings approved as part of previous years' budgets. Taken together, around £40m of savings therefore require to be delivered within the Council in 2024/25, with a further £48m of savings falling within the remit of the EIJB.
- 4.10 Following the identification of offsetting one-off measures to allow one year's deferral of planned savings within schools, all of the measures presented by officers were approved as part of setting the Council's 2024/25 budget on 22 February.
- 4.11 The approved budget for 2024/25 increased by £4m the sum expected to be raised through fees and charges, with the most significant proportionate increases being in garden aid, on-street parking and road occupation charges. No significant new charges were introduced. Between 2022/23 and 2024/25, an additional £8.1m is expected to be raised through fees and charges, in line with the anticipated 5% increase in income across Scotland as a whole.
- 4.12 **Paragraphs 31 to 34** summarise councils' projected funding gaps in 2025/26 and 2026/27, with Edinburgh's proportionate gap over this period slightly below the Scotland-wide average. Without further analysis, it is not possible to confirm the reasons for this difference, although it may be linked to differing baseline assumptions around Council Tax increases (where the Council has assumed a 5% rise in each case, albeit these decisions remain subject to separate annual approval).
- 4.13 **Paragraphs 34 to 38** summarise councils' capital budgets for 2024/25, comparing these to the preceding year both in terms of quantum and the associated funding source. As with the majority of Scotland's councils, the Council's capital budget has increased (by 46%) in 2024/25, with this mainly attributable to increased in-year investment in the secondary school estate and acquisition of additional properties to alleviate temporary accommodation pressures. This increase in the overall budget was largely financed through additional borrowing, underpinned by a combination of external funding support and resulting revenue savings.
- 4.14 **Paragraphs 39 to 41** briefly consider the extent to which residents and communities were consulted in the formulation of budget proposals. Due to a combination of the specific proposals proposed to bridge the Council's funding gap and previous engagement around the contents of the Council's Business Plan, no specific or direct consultation was undertaken as part of the 2024/25 budget-setting process. In recognising opportunities to improve the transparency of decision-making in addressing longer-term funding gaps, however, a structured programme of engagement has been put in place for the 2025/26 budget-setting process, with

Phase One, focusing on residents' views on where the Council could save money, is doing well and needs to improve, concluding on 28 July 2024, and further engagement planned subject to approval by the Policy and Sustainability Committee.

- 4.15 **Paragraphs 42 and 43** consider briefly the role of equalities impact assessments in informing savings and investment choices. Although the report states that no such assessments were undertaken in Edinburgh as part of the 2024/25 process, an assessment for the Housing Revenue Account was completed and published, as well as an evaluation of the potential differential impact of changes in fees and charges levels and supporting narrative on why assessments for other savings measures were not considered to be required. As with budget engagement activity, however, opportunities to embed IIA-related considerations more comprehensively at all stages of budget development are being progressed. Council officers are also working closely with external partners, including the Scottish Women's Budget Group, in examining opportunities to widen the scope of gender budgeting and other equalities-related considerations as applied to the budget process.

5. Next steps

- 5.1 Following consideration by the Finance and Resources Committee, the report will be scrutinised by the Governance, Risk and Best Value Committee.

6. Financial impact

- 6.1 While there are no direct financial impacts arising from the report's contents, it re-emphasises the need for increasingly difficult decisions to be taken as growth in demand and other inflationary pressures continue to exceed available funding.

7. Equality and Poverty Impact

- 7.1 While there are no direct additional impacts arising from the report's contents, the briefing emphasises the increasing importance of considering the equalities-related impacts of budget choices on different groups and communities, especially those with protected characteristics under the Equality Act 2010.

8. Climate and Nature Emergency Implications

- 8.1 Although not specifically referenced in the report, councils' budget-related decisions need to take due account of national and local carbon reduction targets, costs of climate change mitigation and the benefits of preventative or early action.

9. Risk, policy, compliance, governance and community impact

- 9.1 While there are no direct additional impacts arising from the report's contents, the briefing emphasises the importance of engagement and consultation with affected communities.

10. Background reading/external references

- 10.1 [Revenue Budget Framework and Medium-Term Financial Plan \(MTFP\) 2024/29 – Progress Update](#), Finance and Resources Committee, 25 June 2024
- 10.2 [Budget Engagement Programme](#), Policy and Sustainability Committee, 12 March 2024
- 10.3 [Accounts Commission Local Government in Scotland – Financial Bulletin 2022/23](#), Finance and Resources Committee, 6 February 2024

11. Appendices

- 11.1 Appendix 1 - Accounts Commission Briefing – Local Government Budgets, 2024/25

Briefing

Local government budgets 2024/25



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
May 2024



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Accessibility

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For information on our accessibility principles, please visit: www.audit-scotland.gov.uk/accessibility.

Key messages

- 1** In real terms, the 2024/25 Scottish Budget allocation of total revenue funding to local government has increased by 5.7 per cent, however funding remains constrained as most of the increase is directed funding to deliver Scottish Government priorities and agreed pay deals. Most councils were proposing to increase their budgets by raising council tax rates for 2024/25 but in October 2023 the Scottish Government announced a council tax freeze. Although the Scottish Budget included £144 million to 'fully fund' a five per cent increase in council tax, and an additional £63 million was offered in February 2024, 11 councils said the funding provided would not 'fully fund' the freeze.
- 2** At the time of setting budgets, councils identified a difference of at least £585 million between their anticipated expenditure and the funding and income they expect to receive (the 'budget gap') for 2024/25, representing an estimated 3.5 per cent of councils' total revenue budget. Councils agreed a range of actions to close these gaps, most commonly the use of recurring savings and reserves. Councils are also budgeting for an increase in the income generated through fees and charges, although overall this is a below inflationary increase.
- 3** Councils have had to make difficult budget setting decisions for 2024/25, and most worked with their communities to inform or consult on the challenges faced. Some councils changed proposed savings measures in response to public opposition. It will be important for councils to deliver their planned savings in 2024/25 given the significant challenges they face in balancing their budgets in subsequent years. Councils are facing an

estimated cumulative budget gap of £780 million by 2026/27 which represents five per cent of councils' revenue budget.

- 4** Budget setting processes vary across councils, partly reflecting differences in organisational structures and local priorities. However, this makes it difficult to compare information across Scotland. Even within individual councils, the way in which budget papers are presented means that elected members and communities cannot easily determine the impact of budget decisions nor the overall financial position of the council, highlighting a need to improve accessibility and transparency.
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Commission's expectations

The Commission recognises that there will continue to be variation in the way that councils present budget information to elected members and the public. This is influenced by political and organisational structure, established custom and practice and the role of decision-making committees and budget scrutiny groups.

However, to enhance accessibility and transparency, the Commission expects councils to present some fundamental information within publicly available budget papers. This will help establish good practice in budget setting, allow for greater comparability between councils and provide auditors with the opportunity to assess the accessibility of the information presented. Information we expect to see set out clearly includes:

- the annual revenue budget, comprising funding and income, prior to savings and other 'bridging' actions
- the associated budget gap, prior to 'bridging' actions such as savings and use of reserves
- the savings plan, clearly setting out the split between recurring and non-recurring actions
- projected revenue budget gaps, both annual and cumulative
- the assumptions used in calculating projected budget gaps.

Introduction

1. This budget briefing has been prepared by Audit Scotland on behalf of the Accounts Commission to summarise key issues arising from our analysis of the 2024/25 budgets which have recently been agreed by Scotland's 32 councils.
2. Each year councils have a legal duty to set a balanced budget for the coming financial year. This means that a council's funding and income must cover their anticipated expenditure. During the budget setting process, councils may identify a budget gap, ie a difference between their anticipated expenditure for the year and funding and income they expect to receive. Councils will identify and agree bridging actions to allow them to set a balanced budget. This may include an agreement on savings to be made in the course of the year.
3. The briefing brings together data from all 32 councils to provide an indicative national picture of the budgets set for 2024/25 and how Scottish councils are addressing the challenges faced in achieving a balanced budget and longer-term financial sustainability.
4. This is the first year that we have produced this briefing and the first time we have collected some of the data for analysis. **The wide range of approaches councils take to budget setting and the level of information, and the way that it is publicly reported, make it challenging to report a definitive national position.** Some of the variation between councils is likely due to differing budgeting approaches - for example, some have moved to a multi-year budgeting approach - rather than significant differences in cost and service pressures. We have added caveats to the exhibits where caution is required. We intend to develop and refine this dataset in future years.
5. The briefing forms part of the Commission's wider overview reporting programme to provide an independent assessment of the financial health of the local government sector in Scotland, the impact that the challenging operating environment is having on service delivery and performance and the actions councils are taking to address these challenges.

What the data is telling us

Revenue budgets

6. Each year, councils must set a balanced revenue budget. For 2024/25, councils reported a combined revenue budget of around £16.6 billion. Councils' revenue expenditure is the cost of delivering services each year. Most of the funding to meet this expenditure comes from the Scottish Government. The remaining amount largely comes from council tax as well as other grants, and fees and income raised by councils.

Scottish Government funding

7. The 2024/25 Scottish Budget allocated total revenue funding (including transfers from other portfolios) of £13.25 billion to local government ([Exhibit 1, page 8](#)). Additional revenue funding was also allocated to compensate for the Scottish Government's council tax freeze ([paragraphs 10–11](#)).

8. While this revenue settlement is an increase in both cash and real terms from the initial 2023/24 Scottish Budget, a significant number of funding adjustments mean comparison between the two years is not straightforward. The large increase in the general revenue grant in part reflects over £1 billion of funding that was previously ring-fenced or transferred in-year from other portfolios being included ('baselined') into the general revenue grant. This includes:

- £522 million early learning and childcare funding
- £121 million capital into revenue switch to pay for prior year pay awards
- £333 million Living Wage funding
- £42.3 million free personal and nursing care funding
- £42.2 million free school meals funding.

9. A move towards reducing ring-fenced funding is welcomed and in line with the commitments of the Verity House Agreement. However, funding remains constrained as the increase in the general revenue grant is largely directed towards the delivery of Scottish Government policies or to support previous pay awards, rather than an increase in available funding for councils to use at their discretion.

Exhibit 1.

Scottish Budget local government revenue settlement 2023/24 and 2024/25

Scottish Government revenue funding	Cash terms			Real terms		
	2023/24 £ million	2024/25 £ million	change %	2023/24 £ million	2024/25 £ million	change %
Total revenue	12,405	13,245	6.8%	12,529	13,245	5.7%
General revenue grant	7,134	8,404	17.8%	7,205	8,404	16.6%
Non-domestic rates	3,047	3,068	0.7%	3,077	3,068	-0.3%
Specific resource grants	752	239	-68.2%	760	239	-68.6%
Transfer from other portfolios	1,472	1,534	4.3%	1,487	1,534	3.2%

Note: Additional revenue funding to compensate for the council tax freeze is not included in this table.

Source: Scottish Budget documents 2023/24 and 2024/25. Real terms uses 2024/25 prices, calculated using the most recent GPD deflators (March 2024), (see [Appendix](#) for further information).

Council tax

10. In October 2023, the Scottish Government announced a council tax freeze for 2024/25. In the 2024/25 Scottish Budget, £144 million was allocated to 'fully fund' the freeze – equivalent to a five per cent increase on 2023/24 levels - which will be baselined into the general revenue grant in future years. COSLA disputed the claim from the Scottish Government that the £144 million would 'fully fund' a council tax freeze.

11. An additional £62.7 million was offered to councils following discussions between the Deputy First Minister and COSLA in February 2024. The extra funding comprises £45 million of Barnett consequentials arising from the UK Government providing additional funding for adult social care in England, with the remaining £17.7 million added to councils' general revenue grant by the Scottish Government. The £144 million figure was also uplifted to £147 million.

12. With the exception of one (Inverclyde), all councils accepted the Scottish Government's council tax freeze, but 11 of the 31 councils said that the funding provided by the Scottish Government would not fully fund the freeze. Inverclyde did not accept the freeze, instead increasing the council tax rate by 8.2 per cent and accepting Scottish Government funding, which will be passed directly to residents through a one-off rebate.

13. The setting of council tax rates is a decision for elected members and is one of the few levers councils have to raise income to support the setting of a balanced budget. Many councils will have had working assumptions on the potential of increasing council tax. Freezing council tax removed this local discretion, and added complexity to the budget setting process, at a time when councils were having to make challenging decisions about the level of savings to make.

Budget gaps

14. At the time of setting their 2024/25 budgets, councils identified a total budget gap of around £585 million. This represents a budget gap in the range of 3.5 per cent of councils' total revenue budget for 2024/25.

15. At a council level, budget gaps ranged from £3.1 million in Glasgow to £65.6 million in Highland ([Exhibit 2, page 10](#)), which is 0.2 per cent and 8.5 per cent of their respective total revenue budgets.

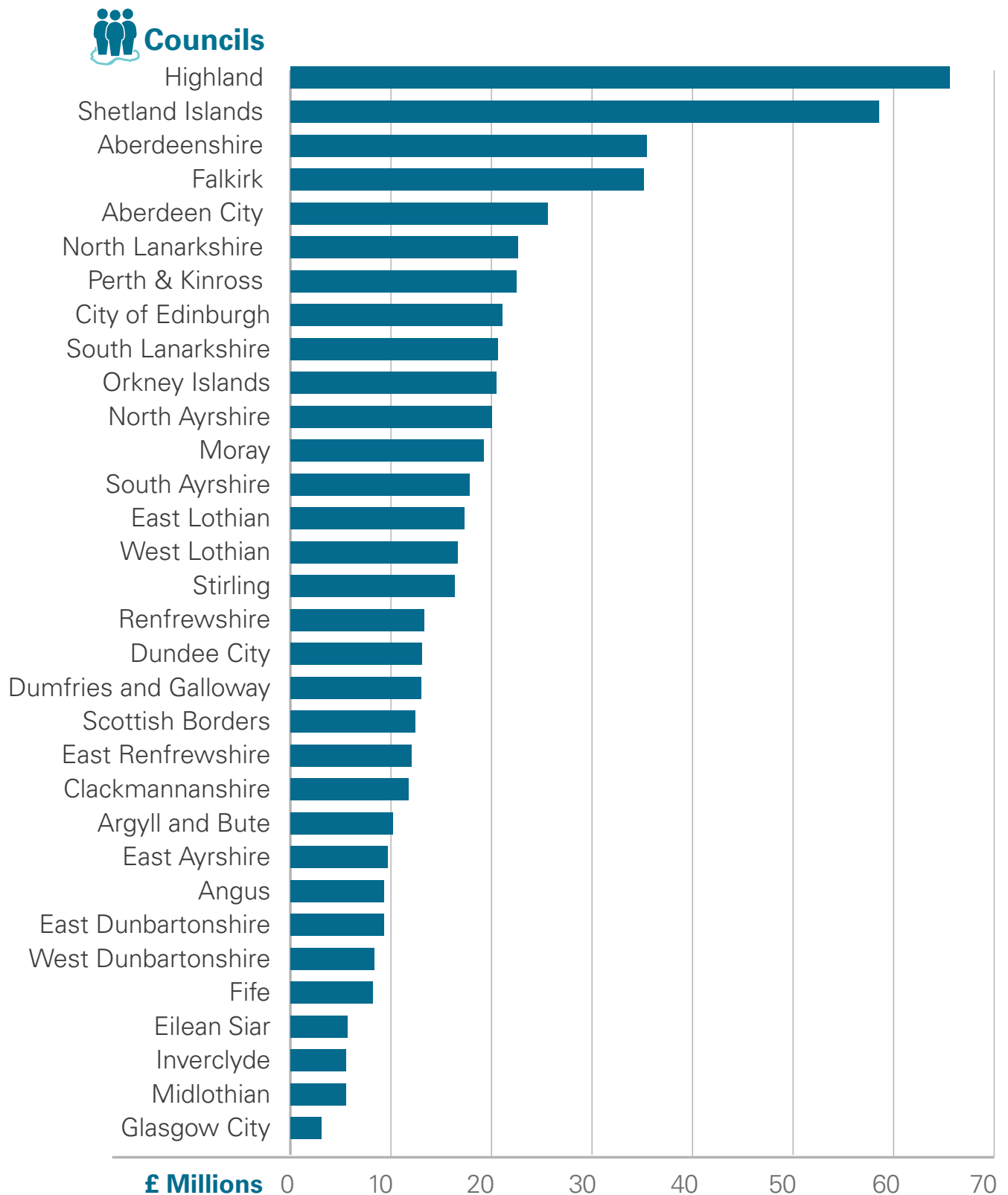
16. Analysing the budget gaps as a proportion of councils' revenue budget provides an illustration of the size of the budget gap relative to the council's budget ([Exhibit 3, page 11](#)).

17. Highland has the largest budget gap both in terms of value and as a percentage of their revenue budget. Their gap is largely due to pay increase assumptions (£16.9 million), service pressures (£15 million) as well as the need to address the use of £23 million of reserves in 2023/24 in a sustainable way.

18. Glasgow's 2024/25 budget gap is an outlier. However, this is due to a multi-year approach to addressing and reporting on their budget gap. The council is focused on addressing their three year cumulative budget gap to 2026/27 and as part of their 2024/25 budget approved savings of £94 million over the three years to 2026-27, of which £34.7 million related to 2024-25 as part this longer-term plan.

Exhibit 2.

Council budget gaps 2024/25

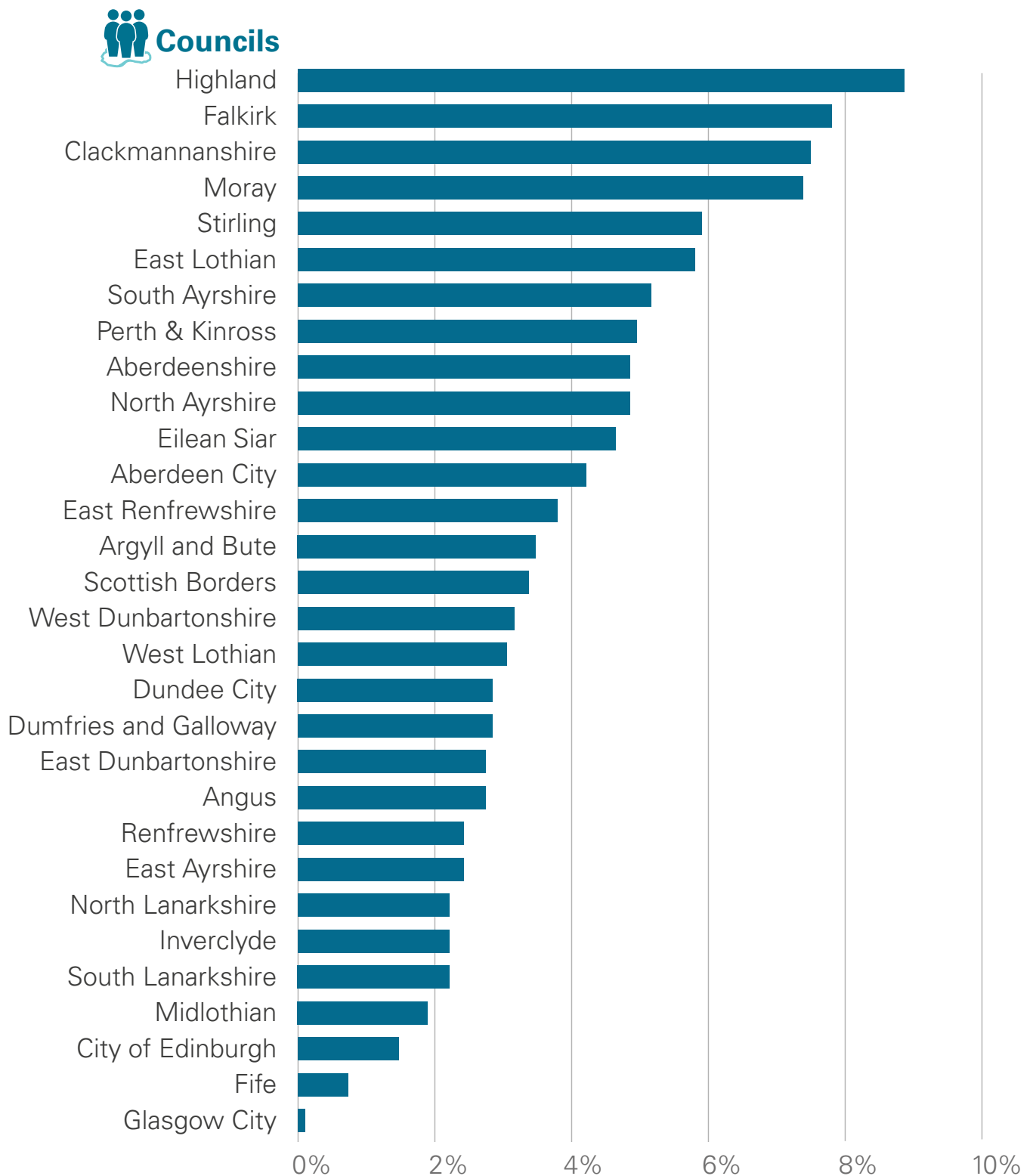


Note: There are differences in the way councils approach and present their budget and identify budget gaps. This means that direct comparison should be taken with caution. Glasgow is a significant outlier due to their approach ([paragraph 18, page 9](#)).

Source: Auditor data return

Exhibit 3.

Budget gaps for 2024/25 as a percentage of revenue budget



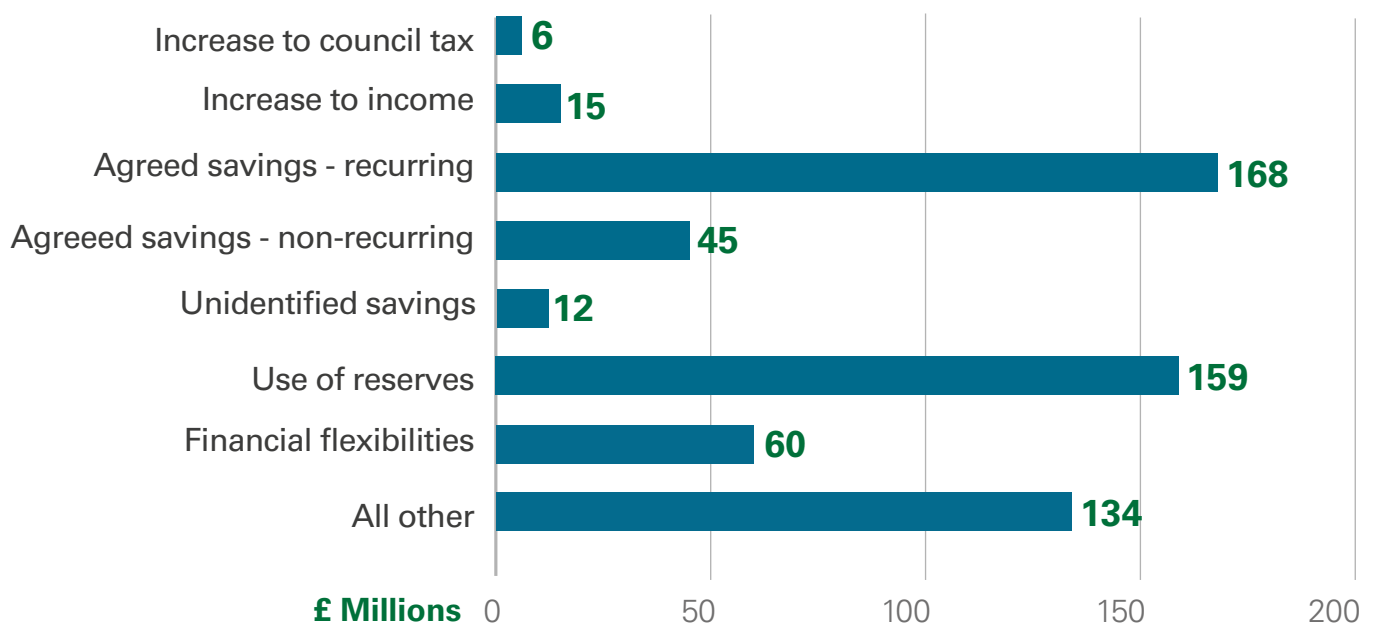
Note: Shetland and Orkney are excluded from this chart as they are outliers due to their planned use of (large) reserves to their balance budgets. Their budget gaps as a percentage of revenue budget are 35 per cent and 18 per cent respectively. Glasgow at 0.2 per cent is a significant outlier due to their approach ([paragraph 18, page 9](#)).

Source: Auditor data return

Actions to close the budget gap

19. Councils used a range of actions to set balanced budgets for 2024/25 ([Exhibit 4](#)). The most common actions taken were to agree recurring savings (28 per cent, £168 million) and the use of reserves (27 per cent, £159 million). This is a similar pattern to previous years.

Exhibit 4. Councils' bridging actions to set their 2024/25 budget



Note: Highland's savings are included in the All other category as detail was not provided by type of savings (ie, recurring, non-recurring and unidentified). The chart elements add up to £599 million which is higher than the total anticipated budget gap. This is because some councils identified bridging actions of greater value than their budget gap to allow for additional investment in priority areas.

Source: Auditor data return

20. Examples of other actions include:

- Funding from the Scottish Government to freeze council tax.
- New council tax levy on second homes.
- A reduction in non-domestic rates relief.
- Savings where these have not been separated by recurring and non-recurring.

21. The use of reserves and other non-recurring measures is unsustainable and is only a temporary plug for a budget gap in that one year. The gap will need to be met with the same level of recurring measures such as recurring savings or increases to income in future years.

Savings

22. Councils identified at least £282 million of new savings for 2024/25.

These comprise of:

- £199 million of agreed recurring savings
- £45 million of agreed non-recurring savings
- £26 million of agreed savings where the type of savings was not specified
- £12 million of savings yet to be identified.¹

23. As well as new savings identified for 2024/25, many councils will have previously agreed savings built into their 2024/25 revenue budgets or will be continuing to assess and identify savings proposals to meet longer-term budget gaps. It will be important for councils to deliver their planned savings in 2024/25 given the significant challenges they face in balancing their budgets in subsequent years (see paragraphs 31 to 33).

24. Different council structures and financial reporting formats make it difficult to compare across Scotland.

25. We know that some councils have experienced significant negative public opposition to some of their proposed savings measures, including in the case of threats of judicial review of Aberdeen City's proposed closure of a number of local swimming pools and libraries. Further examples include the postponement of cuts to library and leisure services in Clackmannanshire and a reversal of plans to close 39 community facilities in North Lanarkshire in response to public opposition.

26. The extent of savings across different service areas, and their impact on service delivery and service users is an area of interest for the Accounts Commission and we will continue to develop our monitoring and reporting on this in future outputs.

Fees and charges

27. Twenty-seven councils provided information about how much income they anticipate generating through fees and charges in 2024/25. For these 27 councils, the anticipated income is £1.3 billion.

¹ These savings do not match the savings identified as bridging actions in [Exhibit 4 \(page 12\)](#) due to savings being identified at different time points within the budget setting process.

28. Sixteen councils indicated they would introduce new charges in 2024/25 – these include garden waste collection, bulky waste uplift, harbour fees for cruise ships and new charges in relation to short-term lets licensing. Low emission zone charges were reported for Dundee City.

29. There has been a cash increase in income generated from fees and charges between 2022/23 and that anticipated in 2024/25. For the 23 councils where comparative data is available, an additional £51 million from fees and charges is anticipated compared to 2022/23. While this represents a five per cent cash increase, this is a below inflationary increase in real terms (two per cent).

30. Some auditors reported that the amount of income generated from fees and charges is not collated at a council level but is done within individual service or even directorate area budgets. As such, it is not possible from our analysis to calculate the overall extent and changes to which the public are being asked to contribute towards the cost of council services.

Projected budget gaps


31. Based on 30 councils, the total projected revenue budget gap for 2025/26 is £393 million ([Exhibit 5, page 15](#)). The total projected gap for 2026/27 falls to £387 million.

32. The cumulative gap over the two years to 2026/27 is £780 million, meaning that councils need to identify and deliver recurring measures such as savings or increased income of five per cent of their overall revenue budget to be financially sustainable.

33. The largest cumulative gap is in Glasgow (£110 million), followed by Aberdeenshire (£58 million). However, when looking at the cumulative budget gap as a proportion of councils' revenue budget Shetland (22 per cent) and Clackmannanshire (12 per cent) are highest.

Exhibit 5.

Councils' projected budget gaps to 2026/27

 Councils	Budget gap for 2025/26 £ million	Budget gap for 2026/27 £ million	Cumulative gap to 2026/27 £ million	Cumulative gap as % of 2024/25 net revenue budget
Shetland Islands	15.9	19.1	35.0	22%
Clackmannanshire	13.0	5.8	18.8	12%
Midlothian	10.2	14.2	24.4	9%
South Ayrshire	6.7	22.1	28.8	9%
Aberdeenshire	29.8	28.6	58.4	8%
East Ayrshire	17.0	15.0	32.0	8%
East Lothian	17.7	6.1	23.8	8%
Aberdeen City	28.4	17.4	45.8	8%
Highland	25.8	21.6	47.4	7%
West Dunbartonshire	8.3	9.1	17.4	7%
Stirling	9.1	7.8	16.9	6%
Eilean Siar	4.2	3.2	7.4	6%
Glasgow City	35.5	74.7	110.2	6%
South Lanarkshire	21.9	22.5	44.4	5%
Angus	7.2	8.8	16.0	5%
North Ayrshire	10.7	8.7	19.4	5%
Orkney Islands	2.3	2.5	4.8	5%
Dumfries and Galloway	10.0	10.3	20.3	4%
Inverclyde	3.0	7.2	10.2	4%
Argyll and Bute	6.6	5.6	12.1	4%
Falkirk	8.1	8.3	16.4	4%
City of Edinburgh	29.8	18.4	48.2	4%
Fife	16.2	18.2	34.3	4%
East Renfrewshire	8.3	2.2	10.5	3%
Dundee City	9.7	3.0	12.7	3%
North Lanarkshire	14.5	12.9	27.3	3%
West Lothian	7.8	5.1	12.9	2%
Renfrewshire	6.2	5.7	12.0	2%
Moray	4.7	0.6	5.3	2%
Scottish Borders	4.1	2.8	6.9	2%
Total	392.7	387.3	780.0	5%

Note. Perth and Kinross set balanced budgets for 2025/26 and 2026/27 and do not report a budget gap. Their budget papers show the savings they will need to deliver to achieve this. Information is not available in this format for East Dunbartonshire. See [Appendix](#) for details on assumptions that councils made when calculating their projected budget gaps.

Source: Auditor data return

Capital budgets

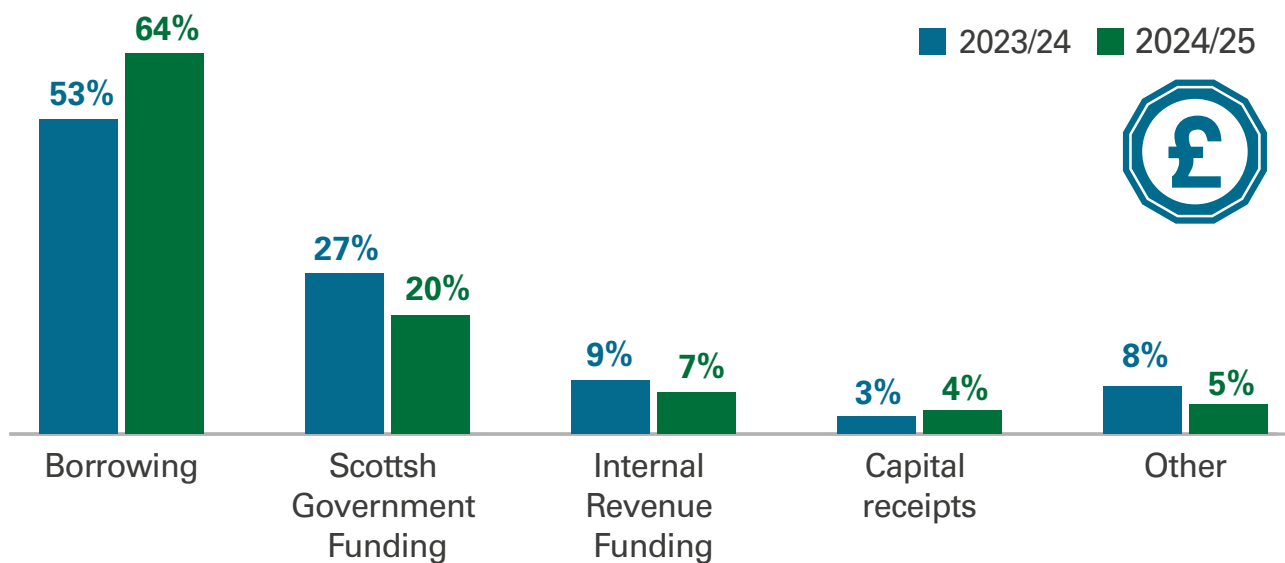
34. Thirty-one councils provided information on their capital budgets for 2024/25. These councils reported a combined total capital budget for 2024/25 of £3.1 billion, compared to £3.0 billion in 2023/24. This is an overall cash terms increase of £87 million, or 2.9 per cent.

35. Capital budgets between 2023/24 and 2024/25 varied significantly, with:

- 18 councils increasing their capital budget, ranging from 1 per cent in Renfrewshire to 163 per cent in Glasgow.
- 13 councils reducing their capital budget, ranging from 9 per cent in Fife to 58 per cent in Orkney.

36. There have been changes to the way in which capital budgets are being met, with more reliance on borrowing and a smaller proportion being met through Scottish Government funding ([Exhibit 6](#)). As we stated in our recent [Financial Bulletin 2022/23](#), greater reliance on borrowing places further pressure on revenue budgets over the longer term, essentially ring-fencing a portion of the revenue budget to pay loan charges.

Exhibit 6. Sources of capital finance, 2024/25 compared to 2023/24



Note: Examples of Other include developer contributions and other external contributions.

Source: Auditor data return

37. The 2024/25 Scottish Budget allocated capital funding of £638 million to local government compared to £827 million in 2023/24. This £189 million reduction represents a 22.8 per cent decrease in cash terms and 23.6 per cent in real terms.

38. This reduction in capital funding is largely explained by a move of £121 million from the general capital grant to the general revenue grant to fund prior years local government pay awards and a £40 million lower investment in the expansion of free school meals compared to 2023/24.

Impact and involvement of residents

39. The Commission has for many years highlighted the importance of councils consulting communities as part of their budget setting processes, including seeking the views of local citizens on priority areas for investment or disinvestment. Councils are trying hard to engage with local citizens.

40. In preparing their 2024/25 budget, 24 of the 32 councils informed or consulted residents about the financial pressures it faces. Of those, 20 consulted all residents and four consulted only specific groups within their communities. Six councils (Midlothian, City of Edinburgh, Dumfries and Galloway, Eilean Siar, East Renfrewshire and Fife) did not consult residents this year and a further two (Highland and East Dunbartonshire) did not provide information within the auditor data return.

41. The way in which individual councils approached this process of engaging with citizens and community groups varied significantly. Examples of budget consultation undertaken include public consultation events, online surveys, consultation with tenants on rent increases, direct and targeted engagement with affected groups, employee engagement questionnaires and engagement with trade unions. An assessment of the quality or impact of these exercises has not been undertaken as part of our work.

Equality impact assessments

42. At a time of financial pressure when difficult choices need to be made about budget allocations, and in some cases budget and service reductions, it is all the more important that councils consider what, if any, equality impacts their budget choices will have on different groups and communities, especially those with protected characteristics under the Equality Act 2010.

43. Twenty-eight councils carried out Equality Impact Assessments (EIAs) as part of their budget setting process. Two councils stated that EIAs were not carried out as proposals did not change existing policies or practices. Two councils (East Lothian and City of Edinburgh) did not carry out EIAs on their budget proposals, although both plan to do so on those savings proposals passed.

Issues

Budget setting process

44. We identified issues relating to the budget setting process that made it difficult, in some cases, to collect and analyse the data upon which this briefing is based. These mostly related to timing.

45. For example, some councils set their budget before the relevant financial circular from the Scottish Government was available. As a result, some changes to the budget were required upon receipt of the circular to reflect the updated settlement information. Further to this, it was not always easy to track the changes from budget proposal to sign off and approval at some councils, and the implications of these changes on key spending decisions. The late announcement of the council tax freeze also had a significant impact, with councils having limited time to react and update budget plans and proposals. There are also longer-term implications for councils to consider as future increases to council tax will start from a reduced position, with the freeze effectively suppressing the growth of the council tax base.

Transparency and clarity of budget papers

46. All councils need to meet common standards of accuracy and reliability in their budget figures, but individual councils' approaches to budget setting also need to reflect local political priorities and differences in organisation structures. This makes it very difficult to easily compare one council's budget with another. This variability of budget presentation is entirely understandable and to be expected. However, even taking account of differences in approach, budget papers should present key information in a way that is easily accessible and understandable to the public.

47. Some local appointed auditors reported difficulty in easily identifying key aspects of councils' budgets (eg, the scale of budget gaps, likely impacts of budget reductions and/or how any planned savings to balance budgets were to be achieved). This raises important questions about how effectively council budget papers communicate to local elected members and local communities what the impact of different budget choices might mean and the overall financial health of their local council.

48. It has long been recognised that there is scope to improve the understandability of council accounts to the public. In many cases the same may be able to be said of council budget proposals.

Appendix

Methodology

Council auditors completed a data return in March and April 2024. The data return requested information on councils' revenue and capital budgets; the identified budget gaps and bridging actions; fees and charges; and savings and their anticipated impact.

As part of our data return, we asked auditors to identify the assumptions that councils made when calculating projected revenue budget gaps. As expected, these assumptions varied across the country. For example, councils have assumed pay awards ranging from 2-3 per cent/per year until 2026/27. Council tax increase assumptions also varied, with some councils assuming no change (ie, an extension of the freeze) and others an increase of up to eight per cent in 2025/26. Assumptions were also made in relation to general inflation and the Scottish Government settlement in future years.

When looking at trends, we convert some financial data to real terms using GDP deflators. This adjusts financial information from past or future years to prices for the year under review. This is to take account of inflation so that the trend information is comparable. For this paper, we used March 2024 deflators.

Briefing

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