

Bulletin

Local government budgets 2026/27



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
June 2026



Contents

Key facts	3
Key messages	5
Commission expectations	7
Introduction	8
1. Scottish Government funding to councils	10
2. Council budgets	15
3. Consulting with communities	31
Appendix 1	35
Appendix 2	36



Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Key facts

Local government budgets 2026/27:



£15.7 billion	total funding from the Scottish Government
1 per cent	real terms increase in funding (revenue and capital) to councils in 2026/27 compared to 2025/26
2 per cent	real terms increase in revenue funding to councils in 2026/27 compared to 2025/26
15 per cent	real terms reduction in capital funding to councils in 2026/27 compared to 2025/26
£18.9 billion	councils' approved net revenue budgets
£5 billion	councils' approved capital budgets (General Fund £3.5 billion; Housing Revenue Account £1.5 billion)
7.7 per cent	average council tax increase (varies between four and ten per cent across councils)
£529 million	revenue budget gap identified by councils at time of setting 2026/27 budgets (around three per cent of councils' General Fund revenue budgets)
£4.3 billion	councils' revenue contributions to Integration Joint Boards (IJBs), (around 24 per cent of councils' General Fund revenue budgets) a real terms increase of £220 million compared to 2025/26

Budget actions:

- £221 million** increase to council tax
 - £17 million** increase to income (including fees and charges)
 - £168 million** agreed savings (recurring)
 - £12 million** agreed savings (non-recurring)
 - £122 million** use of reserves
-

30 the number of councils that carried out a budget consultation to inform 2026/27 budget-setting

31 the number of councils that carried out equality impact assessments as part of budget-setting



Key messages

- 1** Despite a small real terms increase in Scottish Government funding for 2026/27, councils still face major risks to their financial sustainability as funding fails to keep pace with rising demand and increasing costs. Much of the recently baselined General Revenue Grant funding is still effectively directed towards specific existing commitments, restricting flexibility. Councils identified a combined budget gap of around £529 million for 2026/27, representing a gap of around three per cent of total General Fund revenue budgets across Scotland.
- 2** A 15 per cent decrease in capital funding is limiting councils' capacity to sustain and develop infrastructure, resulting in greater dependence on borrowing and heightened long-term financial risk. Nevertheless, overall, councils are expanding their capital budgets for housing, with all councils committing to investment in new housing for 2026/27.
- 3** To achieve a balanced budget in 2026/27, councils are implementing a range of local measures, including planned savings of one per cent of the combined net revenue budget across services and the use of reserves. All councils increased council tax for a second consecutive year by an average of 7.7 per cent and collectively expect to raise more than £1.2 billion through fees and charges for local services.

- 4 Projected reductions in Scottish Government funding over the medium term are expected to intensify financial pressures and increase the risk of councils becoming financially unsustainable, unless they stop, reduce or significantly redesign services. Funding for social care, mainly through Integration Joint Boards (IJBs), represents a high proportion of council spend, with increasing demand for these services, putting pressure on council budgets. Councils continue to forecast short-term budget gaps to 2028/29 and are considering a wide range of measures to achieve balanced budgets in future years. As savings options increasingly focus on changes that impact on services offered to people, effective and consistent consultation with communities will be essential.
-

Commission expectations

This is our third bulletin on council budgets. Within our previous bulletins we acknowledged variation in how budgets are presented and set out a range of expectations relating to the transparency of council budget papers.

There has been good progress against most of the expectations set out in [Local government budgets 2025/26 \(Appendix 2\)](#). However, further improvements could be made in the transparency of budget papers and the financial monitoring provided to elected members, and how communities are consulted about budget decisions.

With financial pressures forecast to remain, and the continued need to identify savings through stopping, reducing and redesigning services to address these, it is more important than ever for budget-setting to be clear and well managed.

The decisions taken by councils when setting their budgets impact us all. Without clear and transparent reporting, however, it is difficult for elected members and communities to fully engage and participate in making these decisions.

We have therefore set out the commission's expectations for councils' annual budget-setting as a checklist ([Supplement](#)) for elected members in order to assist them when making decisions on setting budgets.

Introduction

1. Audit Scotland has prepared this budget bulletin on behalf of the Accounts Commission to summarise key issues arising from our analysis of the 2026/27 budgets recently agreed by Scotland's 32 councils.

2. Councils are legally required to set a balanced budget for each upcoming financial year. This means that a council's funding and income must cover their anticipated expenditure. Councils might identify a budget gap as they are preparing their budgets. This is the difference between their anticipated expenditure for the year and the funding and income they expect to receive. Councils will identify and agree actions, including savings measures or using reserves, to allow them to set a balanced budget.

3. 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 due to differing approaches to budgeting. We have added caveats to the exhibits and text where caution is required.

4. This report is in three parts:

- Part 1 outlines the Scottish Government's 2026/27 funding allocation to councils and highlights trends in revenue and capital settlements compared with previous years.
- Part 2 assesses how councils have balanced their 2026/27 budgets, including the use of reserves and other measures. This is based on data returns submitted to us by all councils in March and April 2026, shortly after agreeing their 2026/27 budgets. We welcomed the positive engagement from councils and auditors in completing and returning their data return.
- Part 3 reviews how councils engaged with stakeholders and considered equality impacts when making budget decisions.

5. As part of the data return, we asked councils to identify the assumptions they made when calculating projected revenue budget gaps over the short term. As expected, these assumptions varied across the country and across a range of factors although there are no identified outliers.

6. This year's budget bulletin provides increased emphasis on:

- the impact that challenging capital settlements have on councils' ability to invest in local infrastructure
- the level of savings required by Integration Joint Boards (IJBs) in setting their 2026/27 budgets, including the proportion that relates specifically to social care services and the impact this has on council budgets
- the share of council's capital budgets that sits within the Housing Revenue Account (if applicable), where that money comes from, and planned expenditure.

7. When looking at trends, we convert some financial data into real terms, adjusting it for inflation to make trend information comparable. We have used the March 2026 deflators published by HM Treasury to adjust financial information from past or future years into 2026/27 prices.

8. The report is part of a series of overview outputs produced for the Accounts Commission. These reports provide an independent overview of the financial and operational performance of Scotland's local government sector. The next reports will be our annual financial bulletins on councils, and IJBs, assessing their financial performance in the most recently audited financial year.

1. Scottish Government funding to councils

Overall Scottish Government funding to councils is increasing slightly, in real terms, in 2026/27 compared to last year. However, rising demand and a significantly lower capital allocation in 2026/27 will continue to challenge councils' financial sustainability if they continue to operate under the current model of service delivery.

Total Scottish Government funding to councils is increasing slightly in 2026/27

9. The Scottish Government will provide a total of £15.7 billion of funding (revenue and capital) to local government in 2026/27 ([Exhibit 1](#)), a one per cent real terms increase compared to 2025/26.

10. The funding going to councils will likely change throughout the year as the Scottish Government reprioritises resources from other portfolios to local government or additional funding becomes available. For example, councils received £177 million of additional funding during 2025/26, confirmed through the autumn and spring **budget revisions**. It is therefore likely that the 2026/27 budget to local government will also change.

The Scottish Government adjusts its budget during the year. This generally takes place during the annual autumn and spring **budget revisions** which are approved by the Scottish Parliament and may include allocating additional funding for specific purposes, as well as in-year transfers between spending portfolios.

Exhibit 1.

Scottish Budget initial local government settlement 2024/25 to 2026/27

Overall Scottish Government funding to local government is increasing in 2026/27 despite a reduction in the capital settlement.

	Cash terms (£ million)			Real terms (£ million)		
	2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
Total local government funding	13,913	15,165	15,687	14,652	15,469	15,687
Total revenue funding	13,257	14,397	15,018	13,961	14,686	15,018
Total capital funding	656	767	669	691	783	669

Note: Real terms funding has been adjusted into 2026/27 prices using March 2026 GDP deflators.

Source: Analysis of Scottish Government Finance Circulars

Revenue funding to all councils is increasing in 2026/27

11. The finance circular outlines the revenue and capital funding that councils will receive from the Scottish Government in 2026/27. Revenue funding contributes to the day-to-day costs incurred by councils, such as employing staff. The Scottish Government is allocating £15 billion of revenue funding to local government in 2026/27, a real terms increase of £331 million (two per cent) from last year ([Exhibit 2, page 12](#)). All councils will receive a real and cash terms increase in revenue funding from the Scottish Government in 2026/27.

12. The settlement differs from the figures presented in the draft Scottish Budget due to changes made prior to it receiving parliamentary approval. For example, the Scottish Government provided councils with £20 million of additional funding to support the Real Living Wage across adult and children's social care and early learning and childcare.

While baselining additional funding into the GRG is intended to enhance councils' financial flexibility and align with national commitments to reduce ring-fencing, much of this funding remains directed towards specific policies and priorities

13. In recent years, there has been a significant increase in the **General Revenue Grant** (GRG) provided to councils, reflecting the Scottish Government's decision to baseline several, previously ring-fenced, grants. Our [Supplement to the Financial bulletin 2024/25](#) sets out the funds baselined into the GRG. Between 2024/25 and 2026/27, the GRG has increased in real terms by £869 million (eight per cent). There has been a modest increase in GRG funding to councils over the last year, with a real terms increase of £89 million (0.8 per cent). Over the same period, specific revenue grants, which are ring-fenced by the Scottish Government, have reduced by over 20 per cent (£56 million).

14. The Scottish Government states that increasing GRG funding supports the goals of the Verity House Agreement to lessen ring-fenced funds. However, much of the new funding is required to meet existing commitments, such as £244 million of the total £770 million in 2026/27 allocated for teacher pay increases. Councils must continue using GRG funding for these obligations, limiting flexibility in spending plans.

The **General Revenue Grant** (GRG) is funding provided by the Scottish Government to help councils finance their general services. Unlike specific revenue grants, GRG is typically not ring-fenced for specific purposes, providing councils with a degree of flexibility over how to allocate this funding. However, the Scottish Government directs councils to spend some GRG funding on national policy initiatives, and those expectations are generally agreed with the Convention of Scottish Local Authorities (COSLA). Though not formally ring-fenced, the Scottish Government provides this funding with an expectation that councils will spend it on specific services.

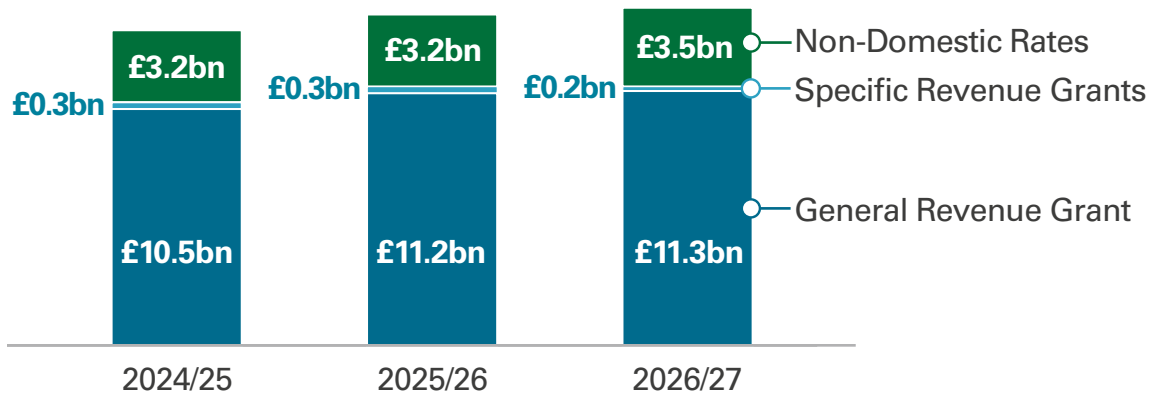
The GRG allocation to councils is based on factors such as deprivation, levels of rurality and population size. It is also based on individual funding formulas assigned to a particular local service area. The formula used to determine the funding allocation depends on the specific circumstances for that service area. This allows the Scottish Government to calculate each council's share of the GRG. The Scottish Government jointly agrees the methodology of distributing funding to councils with COSLA which requires regular review.

Scottish Government adjusts the allocation to each council as part of the agreed funding methodology to recognise that the indicators used, for example, population size, may lead to significant annual reductions or increases for some. The floor restricts the scale of any grant increase or reduction within a set parameter to reduce the impact in any one financial year.

Exhibit 2.

Scottish Government revenue allocation to local government in real terms 2024/25 to 2026/27

All councils are receiving an increase in their revenue allocation in 2026/27.



Note: Prior years have been adjusted into 2026/27 prices using the March 2026 GDP deflators.

Source: Analysis of Scottish Government Finance Circulars

Recent property revaluations are driving a significant increase in councils' non-domestic rates income

15. An increase in **non-domestic rates** (NDR) income is driving the overall increase in revenue funding in 2026/27. Funding to councils arising from non-domestic rates income is increasing in real terms by £298 million (nine per cent) between 2025/26 and 2026/27. This partly reflects the impact of the new non-domestic property revaluation taking effect from 1 April 2026, which is expected to result in a higher aggregate NDR yield in the first year of the revaluation cycle.

16. The Scottish Government takes account of the estimated income that councils expect to receive in council tax and NDR income when determining the final GRG allocation to councils.

A significantly reduced capital settlement from the Scottish Government is making it harder for councils to invest in local infrastructure

17. Councils use capital funding to buy, maintain or improve assets such as buildings, general infrastructure and equipment. The Scottish Government is allocating £669 million of capital funding to local government in 2026/27, a 15 per cent (£114 million) real terms reduction compared to last year ([Exhibit 3, page 13](#)).

Non-domestic rates

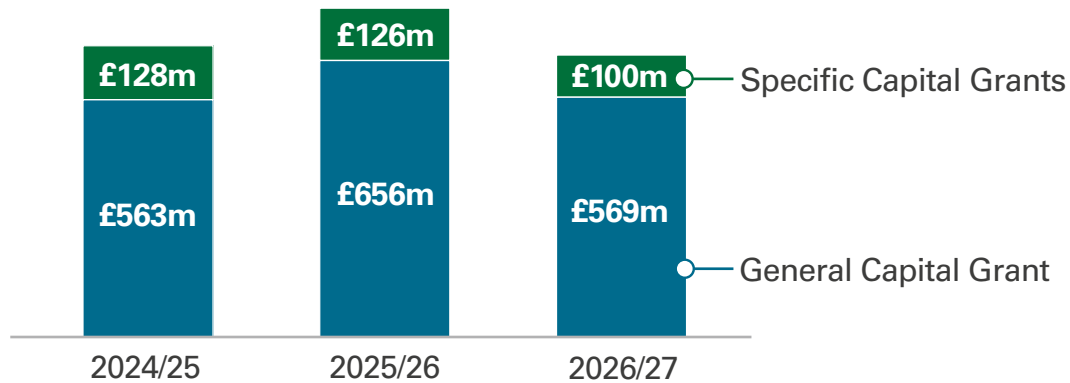
(NDR) are a tax on businesses and other non-domestic properties which helps to fund local services. The Scottish Government sets the rate of tax, councils collect the money, and the Scottish Government redistributes it as part of its funding allocations to councils.

The independent Scottish Assessors calculate the rateable value of every non-domestic property every three years. The 2026 revaluation increased the rateable value on a significant number of non-domestic properties, including council-owned buildings. The Scottish Government has announced a package of support to help those affected by increases in NDR.

Exhibit 3.

Scottish Budget local government capital settlement in real terms 2024/25 to 2026/27

Councils are receiving a lower capital allocation from the Scottish Government in 2026/27 compared to the last two years.



Note: Prior years have been adjusted into 2026/27 prices using the March 2026 GDP deflators.

Source: Analysis of Scottish Government Finance Circulars

18. Twenty-eight councils are receiving a lower capital allocation in 2026/27 compared to the previous year. This impacts on their ability to invest in local infrastructure, including increasing the pressures on future revenue budgets ([paragraph 57](#)).

19. The Scottish Government and COSLA also use a needs-based formula to distribute the capital allocation to councils, which is more variable year-to-year than revenue funding. The General Capital Grant is distributed based largely on population size and road-length with councils choosing which projects to fund. Specific Capital Grants are intended to fund specific national policy priorities.

20. A reduction in the core capital allocation increases the financial sustainability pressures facing councils and the need for greater and more focused capital planning, including:

- Councils increasing their borrowing to fund capital projects. Borrowing costs, like interest payments, must be met from councils' revenue budgets, increasing the pressures further.
- Councils delaying vital investment in local assets. This means local assets deteriorate further or councils are forced to close them completely.

- A lack of investment in key local infrastructure impacting on wider outcomes, such as community health and wellbeing.
- A requirement to review existing capital plans to ensure their affordability under existing pressures.

Further reductions in Scottish Government funding over the medium term will heighten the risk of councils becoming financially unsustainable

21. Alongside the draft 2026/27 budget, the Scottish Government published the [Scottish Spending Review](#), which sets out indicative multi-year spending plans from 2026/27 to 2028/29 (and to 2029/30 for capital). This is a projected level of spend rather than a final settlement and does not provide a council-level breakdown of funding. As such, there is a lack of information which could provide councils with sufficient information to assist in effective medium-term financial planning.

22. The Scottish Spending Review projects that revenue funding for councils will decline in real terms by £528 million (four per cent) between 2026/27 and 2028/29. Councils will therefore continue to face significant challenges including where to stop, reduce or significantly redesign services in order to remain financially sustainable, as demand rises and costs increase while projected funding falls, as set out in our [Local government in Scotland: Financial bulletin 2024/25](#).

23. The Scottish Spending Review also shows that the capital pressures facing councils are set to continue. Capital funding from the Scottish Government to councils is expected to decrease in real terms by £28 million (four per cent) from 2026/27 to 2029/30. This reduction will impact on councils' ability to invest in infrastructure projects, such as building new schools. Councils will need to assess how the projected reduction in their capital settlement, together with cost increases, will affect their longer-term infrastructure strategies.

2. Council budgets

Rising demand and increasing costs mean that councils are continuing to face growing financial challenges. Councils are using reserves, savings, borrowing and increases in council tax to manage shortfalls.

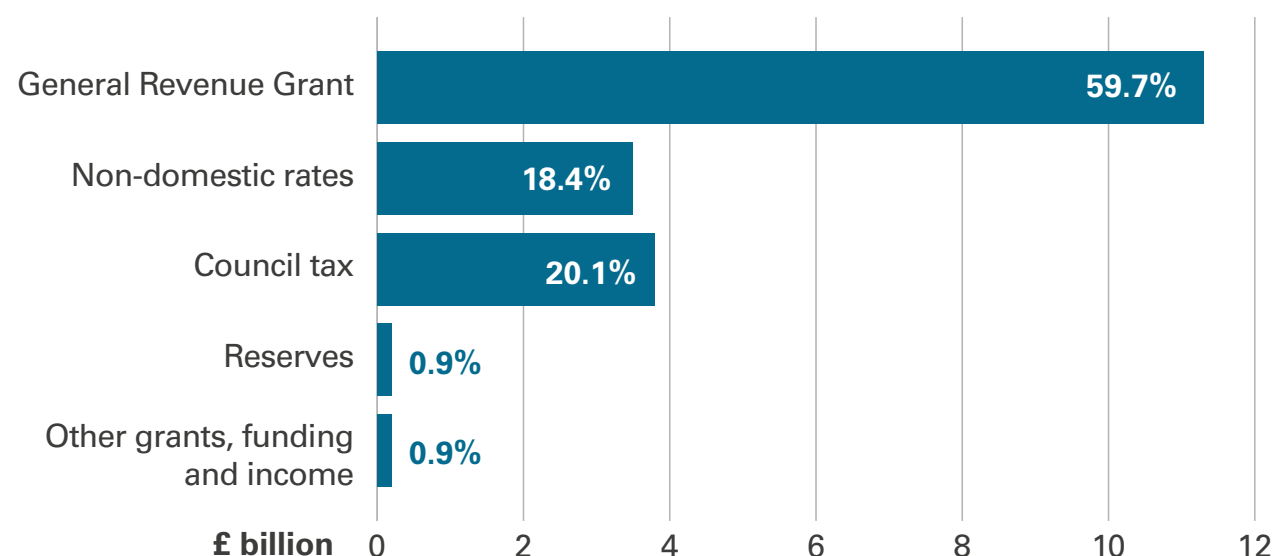
Councils' General Fund revenue budget for 2026/27 has increased since 2025/26

24. Each year, councils set a revenue budget to cover the costs of providing services and other expenses for the upcoming year. They are required to ensure that this revenue budget is balanced annually. For 2026/27, councils reported a General Fund revenue budget of around £18.9 billion, increasing from around £18.3 billion in 2025/26 (in real terms). While this is an increase in available budget for councils in the coming year, this sits alongside the challenging context of Scotland's public finances. There is a rising demand for services provided by councils, increased costs and inflation putting pressure on budgets despite the increase in funding.

25. Most General Fund revenue funding comes from the Scottish Government, with 60 per cent from the GRG. The remaining revenue funding for councils comes from a number of sources including NDR, council tax, use of reserves and other grants and funding from the Scottish and UK governments ([Exhibit 4](#)).

Exhibit 4.

Sources of funding for councils' 2026/27 General Fund revenue budgets



Source: Council data returns

IJB funding is a major pressure on councils' revenue budgets

26. IJBs receive annual funding from their council and NHS board partners to deliver local health and social care services. Councils are allocating £4.3 billion of revenue funding to IJBs in 2026/27. This represents around 24 per cent of the combined 2026/27 revenue budgets for all councils (excluding Highland who currently operates a lead agency model) and a £220 million real terms increase since last year. Three councils are allocating 30 per cent or more of their revenue budgets to IJBs in 2026/27.

27. The Accounts Commission's [Integration Joint Boards: Financial bulletin 2024/25](#) highlights the critical financial pressures facing IJBs. Twenty councils were able to provide information on savings required by IJBs in 2026/27, showing that the financial pressures are continuing. Overall, those IJBs are expected to deliver £179 million of savings in 2026/27, £103 million within social care services (57 per cent of all savings required by IJBs).

28. The [Integration Joint Boards: Financial bulletin 2024/25](#) also highlights that reserve levels continue to fall across IJBs, with the total level of reserves held by IJBs now lower than the budget gap forecast for the year ahead. While several councils have sought to address health and social care pressures through additional uplifts to the IJB, they are acknowledging this only provides short-term stability. Councils are largely recognising that if IJBs cannot contain financial pressures, then additional funding may be sought from partners during the financial year, which could lead to councils making further saving measures.

29. Individual IJBs are acting in response to the significant financial pressures accumulating from rising demand and constrained funding settlements, for example:

- Perth and Kinross IJB approved a Financial Recovery Plan for 2025/26 to manage in-year pressures, mainly through the use of council reserves. While some measures continue, the 2026/27 plan focuses on sustainable service redesign. This comes alongside significant savings already delivered and ongoing financial pressures, with recognition that further measures may risk reduced access to care.
- North Ayrshire Council has moved to a 'critical only' threshold for funded adult social care support, meaning only those at critical risk will receive support. The change follows severe financial pressures, with rising demand and increasing care delivery costs not matched by available funding.

At the time of setting their 2026/27 budget, almost all councils reported a budget gap

30. Where councils are reporting that their spending across the year will be greater than their available income, we refer to this as a budget gap. The budget gap is the difference between anticipated income (not including income drawn from council reserves) and anticipated expenditure (taking into account any savings approved before the 2026/27 budget process began).

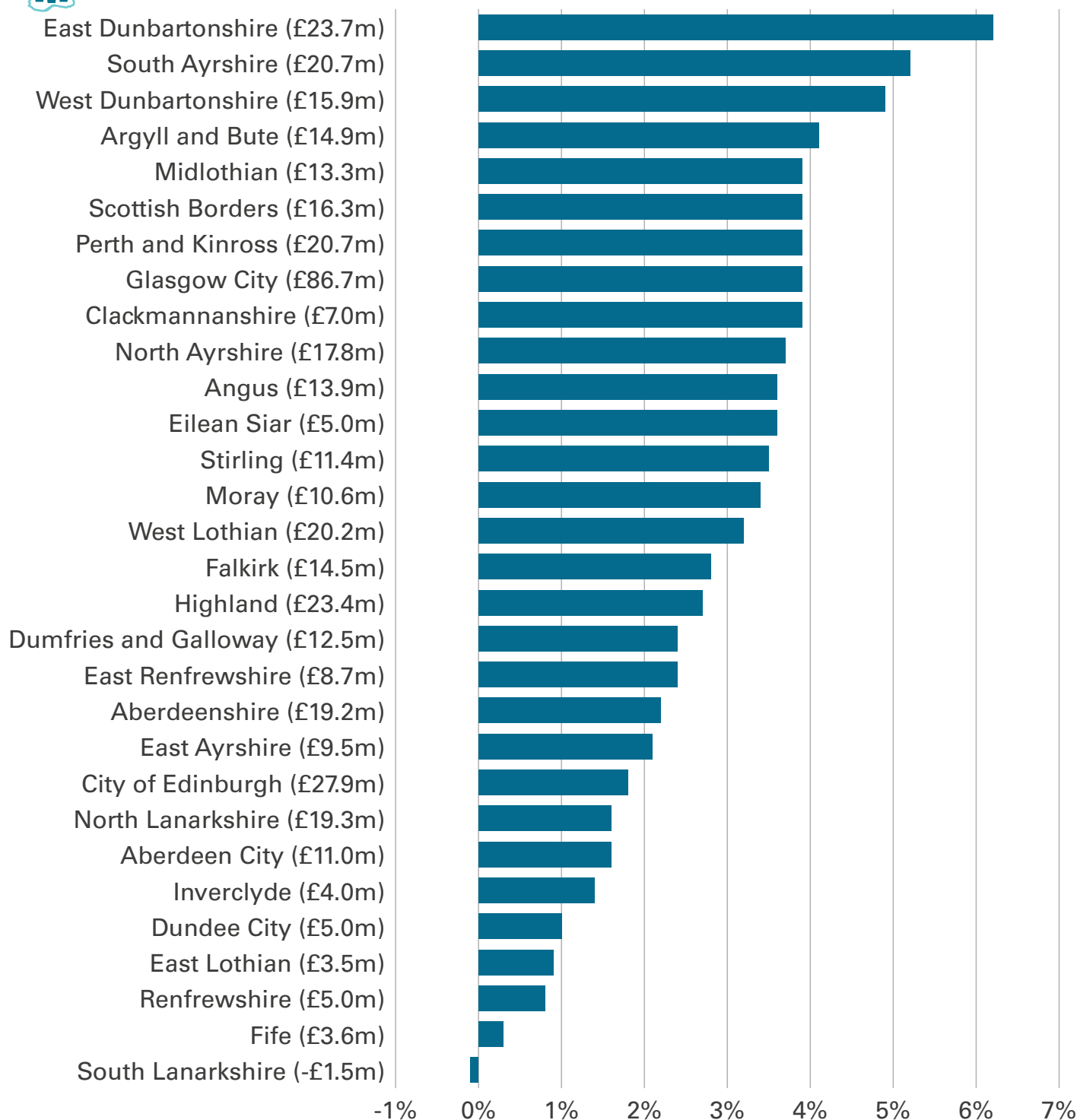
31. At the time of setting their budgets, councils identified a combined budget gap of £528.6 million, representing a gap of around three per cent of councils' total combined General Fund revenue budgets for 2026/27. This proportion has remained broadly consistent over the last seven years. [Exhibit 5, \(page 18\)](#) sets out the budget gaps for individual councils as a percentage of their individual revenue budgets.

Exhibit 5.

2026/27 budget gap in each council, as a percentage of their General Fund revenue budget (gap in £ millions shown in brackets)



Councils



Note: Shetland and Orkney hold significant reserves related to oil and gas harbour activity. They are excluded from this chart as they are outliers due to their planned use of reserves to balance the budget. At the time of setting its budget, South Lanarkshire reported a surplus position. There are differences in the way councils approach and present their budget and identify budget gaps, including when saving measures and other actions are agreed. This means that comparisons should be made with caution.

Source: Council data returns

Councils are taking various actions to close their 2026/27 budget gaps

32. Each council is required to set a balanced budget, so any identified budget gap must be addressed via a series of measures when the council agrees its budget. Councils can use a range of tools to help balance their budgets, either by generating additional income or by reducing expenditure. Actions include increasing council tax rates, increasing fees and charges, identifying new saving opportunities and drawing on council reserves ([Exhibit 6](#)).

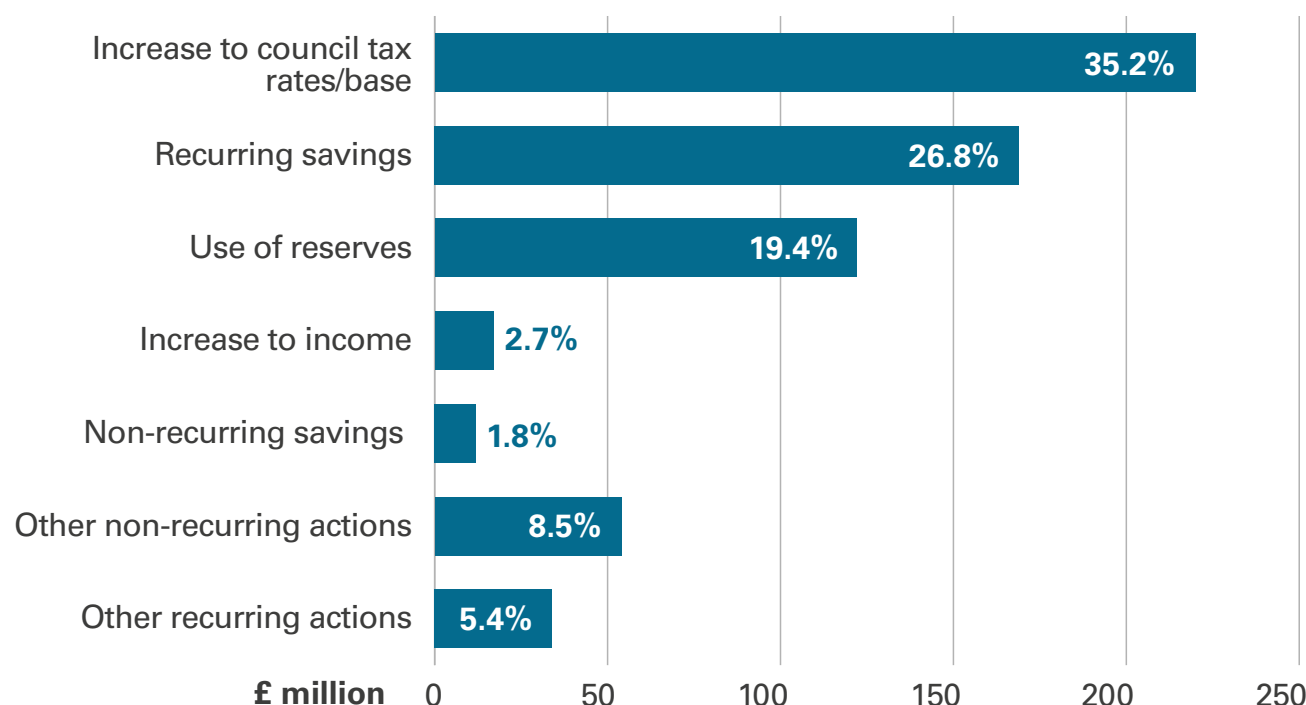
33. Budgets may also include measures to fund additional investment or to increase reserves. At the time of setting their budgets, councils approved measures of around £626.4 million to meet the £528.6 million budget gap and to fund £97.8 million of revenue investment.

34. Councils should prioritise recurring measures that deliver long-term savings, such as redesigning services or increasing annual income through changes to council tax. Non-recurring measures, such as delaying expenditure or leaving posts temporarily vacant, are short term and cannot sustainably close a budget gap. Any gap covered by these one-off actions will reappear in future years, and therefore should be addressed through recurring measures.

Exhibit 6.

Councils' bridging actions in their 2026/27 budgets

Councils are taking various actions to close their 2026/27 budget gap and fund additional investment.



Note: Other non-recurring actions mainly relate to measures being taken by Glasgow City Council to address homelessness pressures. Percentages do not sum to 100 per cent due to rounding.

Source: Council data returns

Councils continue to rely on identified savings across different service areas to address financial challenges

35. All councils have identified the service areas where they expect to make savings when setting their 2026/27 budgets, where previously some councils had savings that were unidentified. Although this represents appropriate financial planning at the time of setting the budget, councils may still need to identify further saving measures if unforeseen in-year pressures arise.

36. Councils are planning £179.6 million worth of saving measures through 2026/27 budgets, representing one per cent of the General Fund revenue budget for all councils. Around £168.1 million are recurring savings with £11.5 million of non-recurring savings identified. Increasing the share of recurring savings is important for ongoing financial management as it provides a more reliable financial base going forward.

37. At the time of budget-setting, South Ayrshire Council planned the largest level of savings as a proportion of its 2026/27 total General Fund revenue budget. The council plans to deliver recurring savings of £9.4 million in 2026/27, representing around 2.4 per cent of its 2026/27 General Fund revenue budget. Most of these savings are within corporate functions and environmental services, particularly through changes to waste management services.

38. Statutory services, like education and social work services, limits councils' ability to reduce spending in these areas, with savings more common within non-statutory services. Corporate services have the most individual saving measures across all councils, amounting to around £66.7 million, representing over a third of the total value of all 2026/27 saving measures. Around 74 individual saving measures are within culture and leisure, economic development and environmental services. This represents around £46.6 million of saving measures.

39. Our recently published report [Delivering for the future – Transformation: How councils are redesigning and delivering more efficient services](#) set out the need for sustainable change through transformation of services, presenting a mixed picture of how well councils are doing this.

All councils increased their council tax rates in 2026/27

40. Councils had full flexibility in 2026/27 to determine their council tax levels. All councils increased their council tax rates in 2026/27, with increases ranging from four per cent in City of Edinburgh Council to ten per cent in Aberdeenshire and Moray councils ([Exhibit 7, page 21](#)).

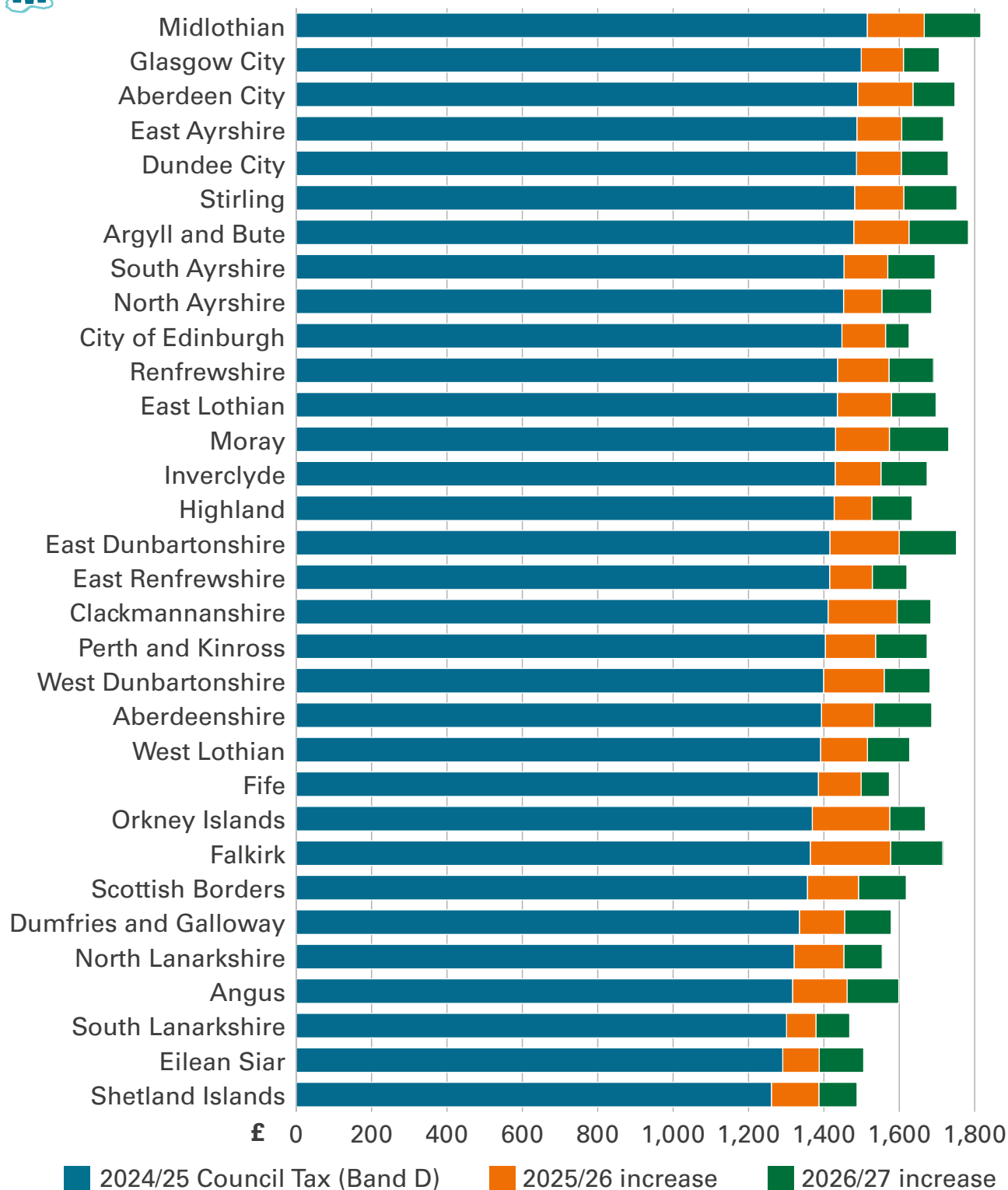
Exhibit 7.

Band D Council Tax rates in each council, 2024/25 – 2026/27

Council Tax rates increased between four and ten per cent in 2026/27.



Councils



Source: Council data returns and Scottish Government Council Tax documents

41. In total, councils expect to receive £248 million from increases to **council tax** in 2026/27. The income individual councils expect to raise from council tax depends on several local factors, such as the scale of the increase, the size of the council area, and the nature of the local housing stock, as well as local demand and priorities.

42. Councils have different council tax baselines, calculated using the number of homes in the area, converted to the equivalent number of homes in band D. For 2026/27, Aberdeen City Council agreed a 6.8 per cent increase, bringing its band D council tax charge to £1,747, while Aberdeenshire Council approved a ten per cent increase, resulting in a band D charge of £1,686. Councils such as Aberdeen City, with a higher value baseline, will therefore raise more income for each one per cent increase. Overall, there is a 23.7 per cent difference between the lowest (£1,468) and highest (£1,816) band D rates in Scotland.

43. The Council Tax Reduction (CTR) scheme provides support to a range of claimants, recognising that council tax increases disproportionately impact lower income households. Among the council areas with the highest levels of deprivation, Glasgow City Council applied one of the lowest council tax increases in 2026/27, at 5.9 per cent. Increases in Dundee City, West Dunbartonshire and Inverclyde councils were close to the national average increase of 7.7 per cent. North Ayrshire exceeded the average, with an increase of 8.5 per cent.

44. Our [2025/26 budget bulletin](#) reported significant increases in local council tax rates. Overall, percentage increases were lower in 2026/27 than in 2025/26, but cumulative two-year increases across Scotland range from 12.3 per cent in City of Edinburgh Council to 25.8 per cent in Falkirk Council. The average cumulative council tax increase over the last two years is 18 per cent. There is no clear link between council size and the level of council tax increase. For example, Glasgow City Council, with the largest population, has approved a cumulative increase of 13.8 per cent, while Shetland Islands Council, which has one of the smallest populations and the second lowest Band D rate ([Exhibit 7, page 21](#)), has approved an 18 per cent increase, reflecting the national average.

45. Councils also now have the power to set the amount of an additional premium on the council tax rate for empty properties and second homes. Several councils plan to make use of the new power in 2026/27.

Councils anticipate raising over £1 billion in 2026/27 from charging to access certain local services

46. Councils also generate income from the fees and charges they set for using certain services. For example, councils will charge for accessing local leisure facilities, like swimming pools, or collecting certain household waste.

Council tax makes up a relatively small proportion of a council's total revenue budget, representing around 20 per cent of overall council income in 2026/27. A percentage increase in council tax does not result in an equivalent percentage increase in a council's total budget. For example, if council tax represents 20 per cent of a council's income, a ten per cent increase in council tax results in only a two per cent increase in the council's overall funding. This is often referred to as the council tax gearing effect.

47. Thirty-one councils provided information about the income they expect to receive from fees and charges in 2026/27. Councils expect to receive £1.2 billion from fees and charges in 2026/27, representing around 6.7 per cent of the combined revenue budgets. Income from fees and charges in 2026/27 is largely equivalent to the estimated income received by councils from fees and charges in 2025/26.

48. All councils will increase fees and charges in 2026/27, with the largest percentage rises concentrated in environmental services. The Accounts Commission's [spotlight report on culture and leisure services](#) highlights councils' increasing reliance on charging individuals to access services. It also highlights inconsistencies in how these charges impact different groups.

49. Seventeen councils are introducing new fees and charges in 2026/27. These are mostly within environmental services and economic development and planning. Three councils are removing certain fees and charges in 2026/27.

50. During the 2026/27 budget cycle, six councils approved tighter eligibility criteria for certain services, including introducing different charging policies for certain users of services. For example, in one council non-residents will face higher charges for accessing bereavement services compared to those living in the area.

51. Across a sample of budget consultations, there is evidence that some councils are clearly communicating that fees and charges may be increased or amended as part of addressing identified budget gaps. Consultations typically outline the need for savings, income generation and service changes, and invite residents to comment on proposed options before decisions are made.

Councils are continuing to use reserves to balance their budgets

52. As previously set out by the Accounts Commission ([Local government budgets 2025/26](#)), councils' continued use of reserves to balance budget pressures is not sustainable. At the end of 2025/26, councils estimated a total of £2.6 billion in their General Fund, a usable reserve, with £2 billion committed. Of this total amount held in the General Fund, £0.17 billion (seven per cent) was specifically earmarked for contingency.

53. When setting 2026/27 budgets, councils approved the use of £0.19 billion of General Fund reserves. Councils are generally using reserves to manage short-term financial pressures rather than to support ongoing expenditure. For example, reserves are being used to fund specific non-recurring pressures, one-off investment, as well as planned use of service concession flexibility. Some councils have included the use of reserves as a short-term measure within their budget strategies to enable efficiency measures or transformational change.

54. While some councils are using reserves on a one-off basis to manage short-term financial pressures, all acknowledge that using reserves to fund budget gaps is not sustainable in the long term, and that reserves must be managed carefully to ensure minimum uncommitted reserve levels are maintained.

Reductions in Scottish Government capital funding are increasing council borrowing and risk exacerbating financial sustainability pressures

55. Councils use their capital budgets to fund local infrastructure projects, like building new schools. The significant capital pressures facing councils are making it difficult to invest in local infrastructure. The impact from reduced capital funding from the Scottish Government is exacerbated by the inflationary pressures making infrastructure projects more expensive. These pressures are set to continue as capital funding from the Scottish Government is expected to reduce further with high inflation continuing to impact on the cost of projects ([paragraph 23](#)).

56. The funding of capital budgets comes from a variety of sources ([Exhibit 8, page 26](#)). The total General Fund capital budget for all councils in 2026/27 is £3.5 billion, representing a real terms increase of £0.30 billion (9.3 per cent) over the last year. However, 14 councils are reducing their General Fund capital budgets in 2026/27.

57. Borrowing is the main way that councils fund capital projects, representing around 71 per cent of all General Fund capital funding in 2026/27. Councils intend to borrow £2.48 billion in 2026/27 to fund local infrastructure projects, a real terms increase of £0.41 billion from the previous year. The Accounts Commission's [2024/25 Financial bulletin on councils](#) explains how councils are relying more on borrowing to finance projects with debt repayment costs putting pressure on future revenue budgets.

58. Four councils say they are planning an innovative approach to fund local infrastructure projects in 2026/27, including:

- Angus Council set aside £0.75 million as part of its 2026/27 council tax increase to cover loan repayments and interest. This increases the council's ability to borrow money for capital investment with an additional £16 million of spending planned through an Angus Public Infrastructure Fund.
- South Lanarkshire Council is investing £2 million to cover the upfront costs of creating commercial spaces for local organisations. This funding allows the council to access more than £11 million of total investment in commercial properties, which will be paid for over time through rental income.

All councils that own housing are investing in new builds

59. Twenty-six councils own and maintain council housing. Councils are required to have a **Housing Revenue Account** (HRA) to record all income and expenditure for the direct provision of housing services. Councils are committing a combined £1.5 billion from their capital budgets to the HRA in 2026/27, a £20.8 million (1.4 per cent) real terms increase compared to the previous year. Despite this, nine councils are reducing capital funding to their HRA in 2026/27.

60. Borrowing is the major source of finance for councils' HRA capital budgets, accounting for around 74 per cent in 2026/27. This is a slightly higher proportion than in 2025/26. Higher borrowing increases the pressures on future HRA revenue budgets because councils must set aside funding to cover debt repayment costs.

61. HRA funding allows councils to progress their local housing priorities.

- All councils with an HRA are planning expenditure on new builds in 2026/27. Councils expect to spend £0.66 billion on new housing this year, a real terms increase of £74.5 million (12.8 per cent) compared to 2025/26.
- Councils are planning to increase spending in real terms on refurbishment and repair and maintenance costs by £23.1 million (3.1 per cent) between 2025/26 and 2026/27.
- Councils are also planning around £113 million in other areas of expenditure, such as buying back former council housing.

62. The Auditor General and Accounts Commission are undertaking a report on housing services across Scotland. This report is due for publication in early 2027.

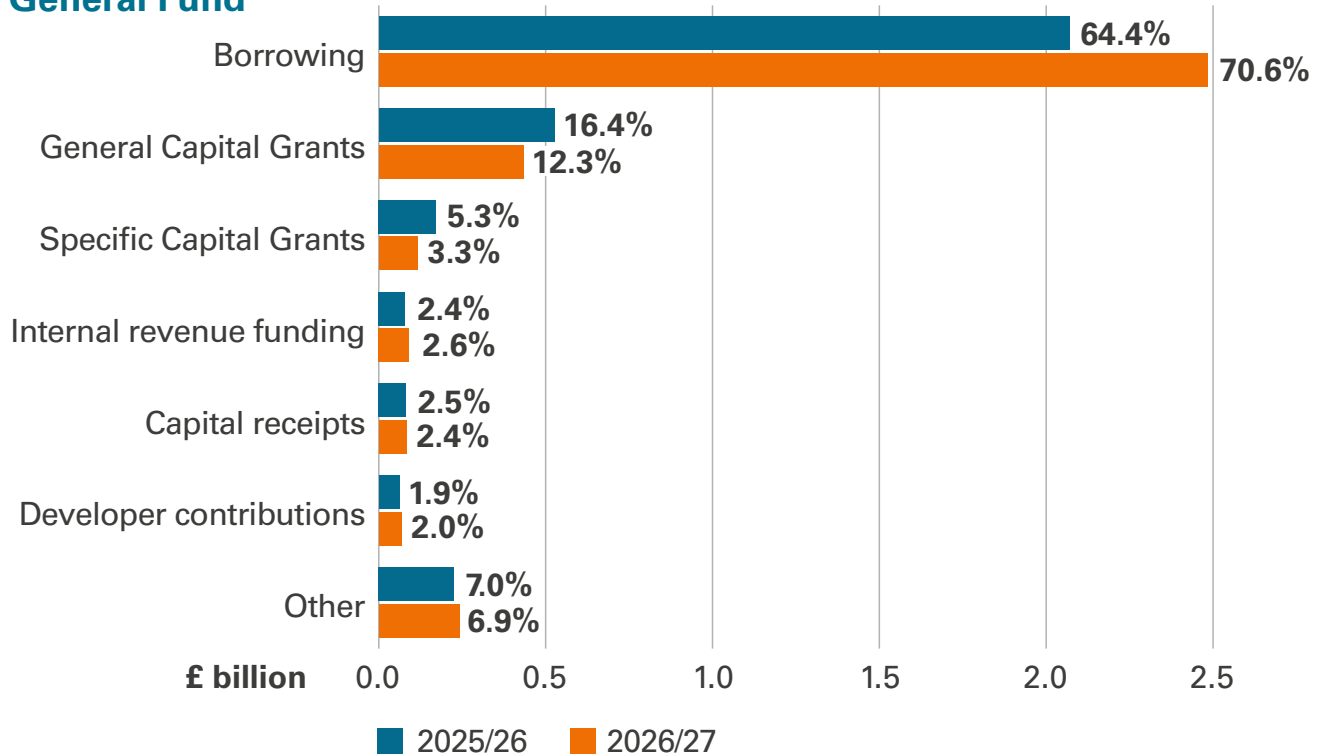
The **Housing Revenue Account** (HRA) is a ring-fenced account relating to local authority housing. The HRA is intended to record expenditure and income on running a council's own housing stock and closely related services or facilities, which are provided primarily for the benefit of the council's own tenants.

Exhibit 8.

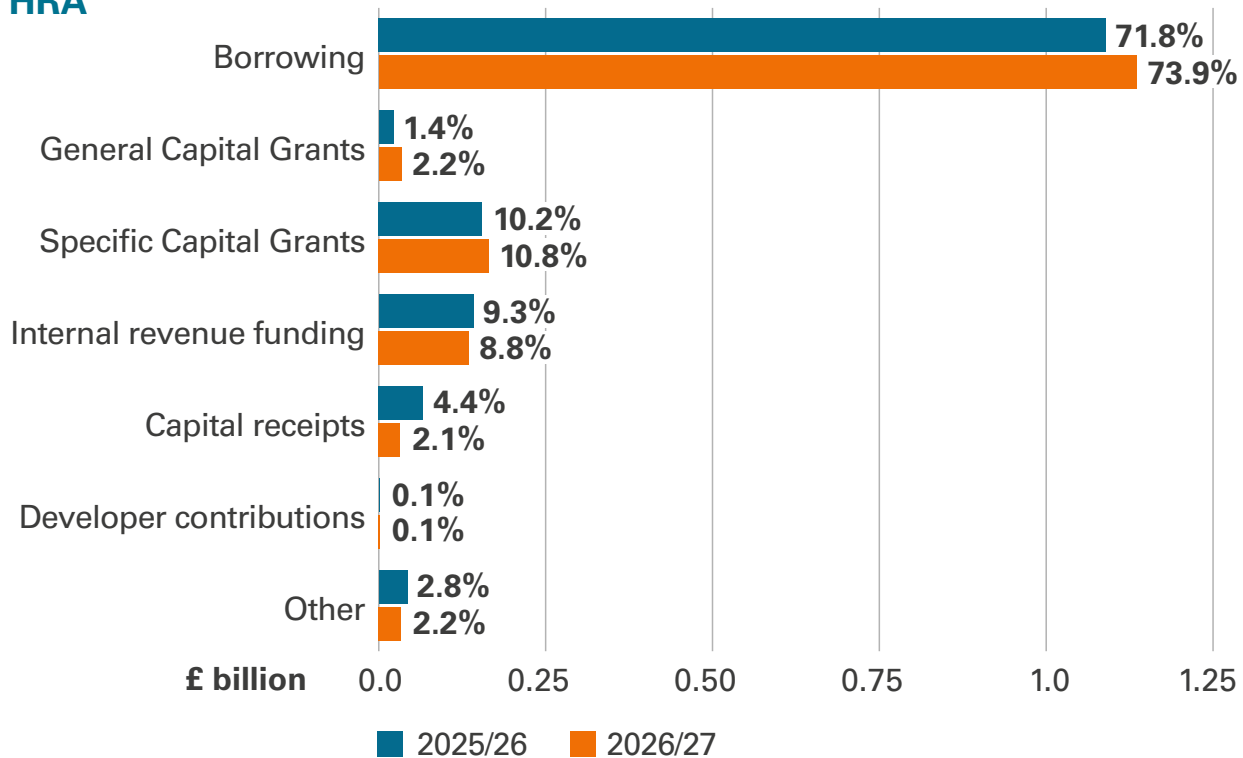
Sources of capital budgets for 2025/26 and 2026/27

Borrowing is the main way that councils fund capital projects.

General Fund



HRA



Note: Figures for 2025/26 have been adjusted into 2026/27 prices using the March 2026 GDP deflators. Capital receipts are income councils generate from selling existing assets.

Source: Council data returns

Councils are considering a range of issues to set balanced budgets in the future

63. Councils are anticipating that funding pressures will continue in the medium term, reflecting projected spending levels set out in the Scottish Spending Review ([paragraph 22](#)). In projecting future revenue budget gaps, councils have considered and made assumptions about a range of funding and cost pressures ([Exhibit 9, page 28](#)).

Exhibit 9.

Factors considered by councils when projecting future revenue budget gaps

Considerations	
Pay settlements 	All councils considered current and future pay settlements, with assumed increases ranging from two to 3.5 per cent. Around one third of councils assumed a pay increase of three per cent.
Pension contributions 	Fewer than half of councils considered potential changes to employer pension contributions. Where these were considered, most councils assumed no imminent change. The most recent Scottish Local Government Pension Scheme triennial valuation was undertaken in March 2026 and will set contribution rates from 1 April 2027 onwards.
Inflation 	Most councils took account of general and service specific inflationary pressures, particularly in relation to contracts and energy or wider utility costs.
Demand 	More than two-thirds of councils factored in service demand, with some assuming increased demand in future years. While the scale varied across councils, many highlighted growing pressures in social care, homelessness and Additional Support Needs.
Council Tax 	More than two-thirds of councils considered future changes to council tax rates. Of these, around half assumed increases ranging from two to ten per cent in 2027/28, and from one to seven per cent in 2028/29. Some anticipated higher council tax income due to an increase in the number of taxable properties.
Non-Domestic Rates 	Approximately one-third of councils considered potential changes to Non Domestic Rates (NDR). Some councils that did not factor in changes noted that NDR decisions are determined by the Scottish Government and are therefore outside local control.
Fees & charges 	More than two-thirds of councils considered changes to fees and charges. Some councils applied inflationary uplifts, typically between two and six per cent, while others assumed no increases.
Borrowing / debt 	Most councils considered the cost of borrowing and debt servicing, based on expected loan repayments, interest rate assumptions and agreed capital investment plans. These costs are generally incorporated within longer-term financial plans, with additional borrowing costs reflected in annual budgets.
Reserves 	More than two-thirds of councils considered their level and use of reserves. Some assumed little or no use of general fund reserves to balance budgets. Where reserves are used, councils typically draw on specific earmarked funds and apply controls, such as spreading the impact over time or restricting use to short-term pressures.
Savings 	More than half of councils considered the risk of savings plans not being fully delivered. While councils acknowledged that failure to achieve planned savings could affect services, most assumed that approved savings would be delivered in full, or that alternative measures would be identified where necessary.

Source: Council data returns

64. We reported in the [Local Government: Financial bulletin 2024/25](#) that a number of earlier Private Finance Initiative (PFI) contracts are now nearing expiry, with councils actively preparing for, or managing, complex contract exit arrangements. While councils have not generally made assumptions about PFI handback implications, a sample review indicates that councils are considering these risks during budget setting. This includes keeping money aside to cover unitary charges, and in some cases, setting aside funds to cover potential property repair and maintenance costs.

Councils are continuing to forecast budget gaps over the short term

65. Given the ongoing public sector financial pressures ([paragraph 22](#)), councils are projecting they will continue to have gaps in their revenue budgets; £486.9 million in 2027/28 and £476.6 million in 2028/29.

[Exhibit 10, \(page 30\)](#) sets out projected gaps across all councils. There are differences in the way councils' approach and present their budget and identify budget gaps including when saving measures are agreed so figures may not be directly comparable.

66. Although some pressures in these forecasts are expected to be resolved or reduce over time, councils still face a combined revenue gap of £964 million across the next two years. To bridge this shortfall, they will need to raise additional income, identify further savings, or rethink how – and what – services they deliver.

Exhibit 10.

Councils' projected budget gaps to 2027/28 and 2028/29

The cumulative projected budget gap to 2028/29 is almost £1 billion.

 Councils	Budget gap 2027/28 £ million	Budget gap 2028/29 £ million	Cumulative gap to 2028/29 £ million	Cumulative gap as % of 2026/27 General Fund revenue budget
Highland	4.8	0.8	5.7	0.7%
West Lothian	11.5	-	11.5	1.8%
South Lanarkshire	9.7	19.5	29.2	2.7%
City of Edinburgh	11.8	31.4	43.2	2.8%
Dundee City	7.8	7.1	15.0	2.9%
Fife	8.5	26.6	35.1	2.9%
Perth and Kinross	5.2	10.6	15.9	3.0%
Falkirk	9.4	5.9	15.3	3.0%
Renfrewshire	4.6	16.2	20.7	3.3%
Moray	2.9	7.4	10.3	3.3%
Angus	5.2	8.6	13.7	3.5%
East Renfrewshire	8.0	5.2	13.2	3.6%
North Ayrshire	9.0	9.2	18.3	3.8%
East Ayrshire	6.0	12.0	18.0	3.9%
South Ayrshire	9.9	6.4	16.3	4.1%
Inverclyde	5.2	6.2	11.5	4.2%
North Lanarkshire	26.0	25.4	51.3	4.3%
Argyll and Bute	10.2	5.6	15.8	4.4%
East Lothian	10.5	8.4	18.9	5.0%
Scottish Borders	11.9	9.8	21.7	5.2%
Dumfries and Galloway	13.9	14.1	28.0	5.4%
Stirling	8.1	10.2	18.3	5.7%
Midlothian	13.5	9.3	22.8	6.7%
Eilean Siar	3.6	6.0	9.6	6.8%
Aberdeen City	30.2	18.5	48.7	7.0%
Glasgow City	95.3	72.0	167.3	7.5%
Clackmannanshire	10.1	3.5	13.6	7.5%
West Dunbartonshire	10.9	14.3	25.2	7.7%
Aberdeenshire	42.4	28.3	70.6	8.2%
East Dunbartonshire	23.1	22.2	45.2	11.8%
Orkney Islands	21.0	23.1	44.1	28.7%
Shetland Islands	36.9	32.8	69.7	37.4%
Scotland	486.9	476.6	963.5	5.1%

Note: A detailed 2028/29 budget gap is not currently available for West Lothian Council. Shetland and Orkney hold significant reserves related to oil and gas harbour activity and are outliers due to their use of these reserves.

Source: Council data returns

3. Consulting with communities

As councils continue to make challenging budget decisions, they must ensure the communities affected are fairly and consistently consulted.

While the majority of councils consulted on their 2026/27 budgets, there is variation in how effectively they are consulting with communities

67. Councils must effectively consult with residents in helping to identify ways to address their funding pressures. As demand for services grows and resources become constrained, it is important that councils explain the difficult decisions they must make, including how public funds are used to maintain and improve services, and how they are protecting essential services.

68. Twenty-seven councils consulted with residents on their 2026/27 budget. Most councils consulted clearly with residents on the funding pressures they are facing and on possible actions to close their budget gap. Councils commonly sought views on priority areas and presented savings options and potential income-generation measures to address financial pressures.

69. There was some variation in how councils consulted on their 2026/27 budgets, but most did so through online public consultations and surveys. Some councils also used community engagement methods such as community meetings, roadshows or workshops. Some councils provided evidence of new ways they undertook engagement as part of their 2026/27 budget-setting process, examples include:

- South Lanarkshire Council consulted separately with children and young people on budget proposals. Recognising that the views of young people are often missed in normal budget consultation processes.
- Angus Council changed their approach to allow more open comments on specific services and budget areas, gathering more in-depth qualitative feedback than before. In addition, QR codes were added to posters to make it easier for people to access online surveys directly.

- Officers and elected members from Scottish Borders Council ran targeted consultation exercises with community groups and the public, including within schools, supermarkets and colleges. This allowed for more face-to-face engagement with people who may not normally complete online consultations. Facilitated sessions were also held with groups who are less frequently represented in formal consultation exercises to ensure their views were also included. These are often missed in standard consultations.

70. Councils should use a range of methods to engage and consult with stakeholders, as this helps ensure wider participation in ways that are accessible and meaningful, including people whose voices are under-represented, and reduces the risk that any groups or individuals are excluded. High levels of engagement and participation lead to better informed decision-making by ensuring a wide range of views and experiences are considered. Councils also need to ensure they are transparent, as part of their engagement, about why they have made decisions, especially when these decisions directly affect communities.

71. Councils should also consult with a wide range of stakeholders on their budget decisions, allowing them to better understand the impact decisions have on different groups. There was variation in how councils consulted with established groups on their 2026/27 budget proposals. Twenty-nine (of 31) councils engaged with their local IJBs as part of their budget setting process, and more than half (17) engaged with Community Planning Partnerships. Other stakeholder groups councils engaged with include:

- Staff, unions and communities – engagement most commonly focused on internal stakeholders and local communities, with 26 councils engaging with staff and trade unions, 23 involving tenants and residents' associations, and 22 engaging with community groups.
- Children, young people and families – most councils sought views from families and young people, with 19 councils engaging with children and young people (including school pupils) and 16 engaging with parent councils.
- Business and other stakeholders – 15 councils engaged with the business community and seven councils engaged with other users of services or stakeholders, including third-sector partners and charities such as Women's Aid.

72. A review of a sample of council budget consultation documents shows residents expressing strong support towards protecting frontline services. Residents highlight the importance of protecting education, social care, children and family services, and libraries, leisure, and wider community facilities.

73. Across budget consultations, councils explain that limited and often ring-fenced funding, especially for statutory services like education and social care, means that protecting these areas may lead to reductions, service changes, closures to non-statutory or discretionary services, or higher charges elsewhere.

74. Councils included budget proposals that would reduce access to key local facilities, such as leisure centres or libraries, or lowering educational or social care support. These proposals were developed during budget consultations and prior to final funding settlements, reflecting the range of savings options councils were considering at the time. As funding settlements were finalised and public consultations considered, there are examples of councils scaling back on proposals or abandoning them altogether:

- Stirling Council – rejected savings proposals that would have a greater impact on families and vulnerable groups.
- Inverclyde Council – withdrew plans for savings to libraries, swimming pools, and community safety teams after feedback from residents.
- Argyll and Bute Council – councillors rejected savings proposals that would have reduced library and leisure services.
- Fife Council – prioritised protecting vital services, supporting vulnerable residents, and investing in education and anti-poverty initiatives.

Councils are using Equality Impact Assessments to understand the effect budget decisions may have on their communities

75. Public bodies use Equality Impact Assessments (EIAs) to understand the potential impact from new policies or budget decisions on individuals with protected characteristics. EIAs help identify ways to advance equality and highlight potential discrimination. Public bodies must complete an EIA whenever introducing a new policy or making a strategic decision that impacts on different groups. Public bodies must do this early in the process to allow the findings to shape the decision-making process.

76. Councils must complete an EIA to understand how their budget decisions may affect groups and communities, particularly those with protected characteristics under the Equality Act 2010. This becomes even more important as councils continue to face significant financial pressures, including reducing services. Thirty-one (of 32) councils carried out EIAs. The Accounts Commission's [Spotlight on culture and leisure services](#) found the quality of EIAs varies when councils are making changes to services that impact on communities.

77. The Accounts Commission explained within last year's [budget bulletin](#) its expectations around councils fully and transparently explaining the impact budget decisions may have on those with a protected characteristic. This information, including the actions to mitigate potential discrimination, should be clearly accessible for everyone.

Appendix 1

Councils' 2026/27 revenue budgets, budget gaps, approved savings and other budget measures

 Councils	General Fund revenue budget 2026/27 £ million	Budget gap 2026/27 £ million	Approved savings 2026/27 £ million	Other measures 2026/27 £ million
Aberdeen City	697.2	11.0	3.5	11.1
Aberdeenshire	866.2	19.2	9.3	10.3
Angus	388.1	13.9	5.3	8.6
Argyll and Bute	362.0	14.9	6.1	8.8
City of Edinburgh	1,534.5	27.9	20.0	31.3
Clackmannanshire	181.2	7.0	3.6	3.4
Dumfries and Galloway	515.8	12.5	4.2	8.3
Dundee City	521.3	5.0	0.8	6.6
East Ayrshire	460.2	9.5	3.5	6.1
East Dunbartonshire	381.8	23.7	4.1	19.6
East Lothian	379.9	3.5	1.4	2.1
East Renfrewshire	363.1	8.7	3.2	5.5
Eilean Siar	140.8	5.0	0.4	4.6
Falkirk	508.4	14.5	10.2	7.1
Fife	1,205.3	3.6	0.1	14.1
Glasgow City	2,233.8	86.7	31.9	71.7
Highland	868.0	23.4	5.4	18.1
Inverclyde	276.6	4.0	0.6	3.5
Midlothian	340.7	13.3	0.6	12.7
Moray	311.7	10.6	4.2	6.3
North Ayrshire	486.1	17.8	0.2	17.5
North Lanarkshire	1,182.6	19.3	9.2	22.0
Orkney Islands	153.3	21.3	0.2	21.1
Perth and Kinross	533.8	20.7	8.8	12.4
Renfrewshire	630.9	5.0	2.4	10.7
Scottish Borders	418.0	16.3	7.6	8.7
Shetland Islands	186.5	43.7	0.0	43.7
South Ayrshire	398.1	20.7	9.4	11.3
South Lanarkshire	1,086.7	-1.5	4.2	11.5
Stirling	323.0	11.4	5.5	6.0
West Dunbartonshire	325.7	15.9	5.4	10.5
West Lothian	634.6	20.2	8.5	11.7
Scotland	18,895.8	528.6	179.6	446.8

Note: The approach councils take to budget setting, defining budget gaps and the measures taken to address these gaps varies across councils therefore caution should be taken when comparing councils. In each council, the sum of approved savings and other measures may be greater than the budget gap; budgets may also include measures to fund additional investment or increase reserves. Approved savings include both recurring and non-recurring savings. Other measures include increases to council tax, increases to income, use of reserves and other actions, as set out in Exhibit 6.

Appendix 2

Progress against the expectations in the Local Government Budgets 2025/26

Councils should:	Progress/ status
In future, we 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	Mixed progress There is mixed progress in how effectively councils are presenting key financial information in budgetary reports that are also publicly available.
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	Progress Thirty-one councils linked their 2026/27 budget back to its corporate plan. Linking key financial plans back to corporate plans ensures that resources are targeted towards key strategic priorities.
Fundamental information, such as the forecast budget gap, is clearly presented as part of the consultation process with residents	Progress A sample review of budget consultations indicates most councils clearly identify their budget gaps, with some also providing detail over multiple financial years.
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	Progress A sample review indicates that most councils make estimated costings available for proposed measures, including indicative savings or income from council tax increases, with high-level information on the anticipated impact on service delivery, though the level of detail can vary.
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	Mixed progress Thirty councils consulted to some extent on their 2026/27 budget. Most councils consulted with local IJBs and residents on budget proposals, but there is a mixed approach in how councils engaged with targeted groups.
The ongoing impact of budget decisions are fully assessed, including through Equality Impact Assessments, to enable elected members to make informed decisions.	Progress Thirty-one councils confirmed they carried out an EQIA on their 2026/27 budgets. EQIAs are a statutory requirement to ensure decision-makers are aware of the impact on groups with a protected characteristic.

Bulletin

Local government budgets 2026/27



Audit Scotland 4th Floor 102 West Port Edinburgh EH3 9DN

Phone: 0131 625 1500

www.audit.scot

ISBN 978 1 918486 10 0