Briefing

Local government budgets 2025/26

ACCOUNTS COMMISSION

Prepared by Audit Scotland
May 2025

Contents

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Key facts

Local government budgets 2025/26:

£15.2 billion	funding from the Scottish Government
£18 billion	councils' approved net revenue budgets
£4.7 billion	councils' approved capital budgets
9.6 per cent	average council tax increase
£647 million	identified revenue budget gap

Actions to bridge the gap:

£275 million	increase to council tax
£24 million	increase to income (including fees and charges)
£192 million	agreed savings (recurring)
£12 million	agreed savings (non-recurring)
£1 million	unidentified savings
£113 million	use of reserves
£30 million	other measures (recurring)

30	the number of councils that carried out budget consultations to inform 2025/26 budget-setting
31	the number of councils that carried out equality-impact assessments as part of budget-setting

Key messages

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

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

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

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

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

Commission expectations

We published our first briefing on council budgets last year.

Within this, we acknowledged that variation in how budgets are presented. We also set out a range of expectations related to the transparency of council budget papers.

The return of greater freedom in setting council tax rates, with residents in all areas of Scotland being asked to contribute more, means that there is greater expectation on the performance of local services.

With financial pressures forecast to remain, and the continued need to identify savings and transform services to address these, it is more important than ever that communities are actively involved in decision-making.

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.

There has been good progress against most of the expectations set out in Local government budgets 2024/25 (set out in Appendix 2). However, further improvements could be made in the transparency of budget gaps and associated savings.

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

- budgets should link back to the council's corporate plan to allow elected members to make spending choices better informed by, and based upon, the council's priorities

- fundamental information, such as the forecast budget gap, is clearly presented as part of the consultation process with residents

- estimated costings of how specific proposals will contribute to managing the budget gap are made available to residents, including the potential contribution of any proposed increase to council tax and the anticipated impact on levels of service delivery

- general public consultations are supplemented by targeted consultations with groups most impacted by changes to specific services and that consideration is given to how to encourage participation

- the ongoing impact of budget decisions are fully assessed, including through Equality Impact Assessments, to enable elected members to make informed decisions.

Introduction

Purpose and methodology

1. Audit Scotland has prepared this budget briefing on behalf of the Accounts Commission to summarise key issues arising from our analysis of the 2025/26 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 saving measures or using reserves, to allow them to set a balanced budget.

3. This briefing brings together data from all 32 councils to provide an indicative national picture of budgets set for 2025/26. It considers how Scottish councils are addressing the challenges faced in achieving a balanced budget and long-term financial sustainability. It also considers how councils have consulted with communities on their budget priorities including the measures agreed to achieve financial savings.

4. 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. We have added caveats to the exhibits where caution is required.

5. 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. In the next 12 months, we intend to publish a spotlight report, highlighting overall and specific service performance, and then our annual financial bulletin which assesses the financial performance and position of Scotland's councils in the most recently audited financial year.

Methodology

6. Councils completed a data return and submitted these to us in March and April 2025, shortly after agreeing their 2025/26 budgets. 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.

7. 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 in relation to general inflation, pay awards and the Scottish Government finance settlement in future years.

8. 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 2025 deflators published by HM Treasury to adjust financial information from past or future years into 2025/26 prices.

1. Scottish Government funding to councils

Initial funding to councils is higher than last year, with revenue and capital funding both increasing in real terms, but additional costs and inflationary pressures will remain challenging to manage.

Scottish Government core funding to local government is increasing in 2025/26

9. The Scottish Government publishes a draft budget every year, usually in December, which is subject to parliamentary scrutiny and approval. The final Scottish Budget, generally agreed in February, is accompanied by the Local Government Finance settlement, which outlines the funding each council will receive. The Scottish Government will provide £15.2 billion to local government in 2025/26 (Exhibit 1).

10. The level of funding allocated to local government is expected to change throughout the year as additional funding is made available to councils. For example, the 2024/25 local government budget increased in real terms to £14.7 billion by the spring **Budget revision**. It is therefore likely that the 2025/26 local government budget will change.

The Scottish Government adjusts its budget during the year. This generally takes place during the annual autumn and spring **Budget revisions** and includes allocating additional funding to, as well as in-year transfers between, spending portfolios.

Exhibit 1.
Scottish Budget initial government settlement 2023/24 to 2025/26
Scottish Government core funding to local government is increasing in 2025/26.

	Cash terms			Real terms		
	2023/24 £ million	2024/25 £ million	2025/26 £ million	2023/24 £ million	2024/25 £ million	2025/26 £ million
Total local government funding	**13,481**	**13,913**	**15,177**	**14,363**	**14,281**	**15,177**
Total revenue funding	12,652	13,257	14,397	13,480	13,608	14,397
Total capital funding	829	656	780	883	673	780

Note: Real terms funding has been adjusted into 2025/26 prices using March 2025 GDP deflators.

Source: Analysis of Scottish Government Finance Circulars

All councils are receiving an annual increase in their initial revenue funding allocations

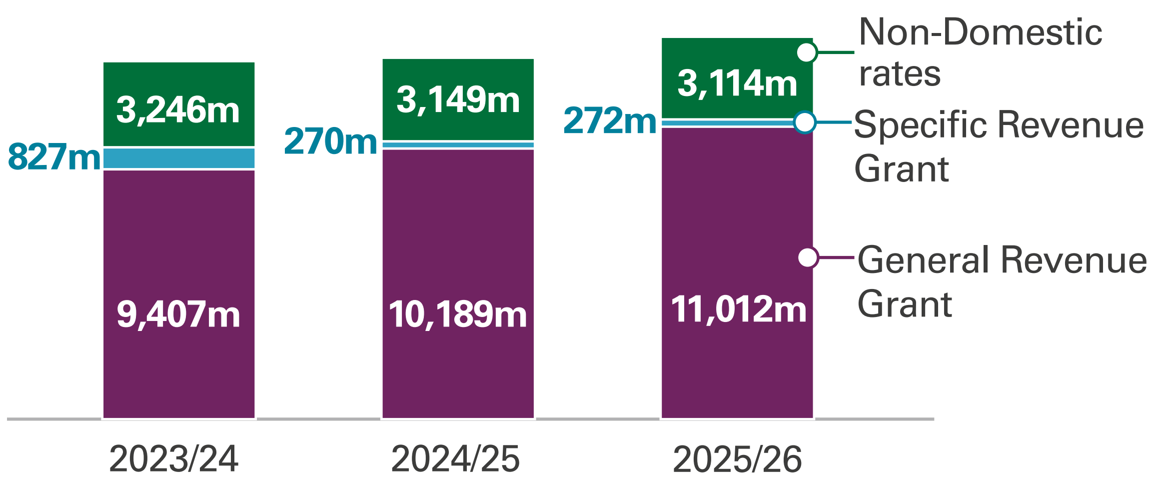
11. The finance settlement outlines both the revenue and capital funding allocations that individual councils receive from the Scottish Government. Revenue funding can be used to meet day-to-day costs of providing services including staff costs. The Scottish Government allocated £14.4 billion of revenue funding to local government in 2025/26, an annual real terms increase of £789 million (six per cent) (Exhibit 2).

12. This settlement differs from the figures presented in the draft Scottish Budget published in full in December, due to changes made to the budget prior to receiving parliamentary approval. All councils are receiving an increased revenue allocation in 2025/26, in both cash and real terms.

Exhibit 2.

Scottish Budget 2025/26 local government revenue settlement in real terms 2023/24 to 2025/26

All councils are receiving an increase in their revenue allocation in 2025/26.



Note: Prior years have been adjusted into 2025/26 prices using the March 2025 GDP deflators.

Source: Analysis of Scottish Government Finance Circulars

13. The increase in total revenue funding to councils is driven by an eight per cent annual real terms increase in the **General Revenue Grant (GRG)** to £11 billion. GRG has increased due to additional funding, but also because the Scottish Government moved previously ring-fenced funding into the general grant. Similarly, some elements of funding that were previously transferred from other portfolios during the year have now been included within initial allocations.

14. An increase in GRG is in-line with the commitments made as part of the **Verity House Agreement** to reduce ring-fenced funding. The Convention of Scottish Local Authorities (COSLA), however, contends that the increase in GRG does not provide councils with greater autonomy or discretion when setting their own budgets. This is because much of the increase is to support previously announced commitments that have been carried forward into 2025/26 and 'baselined' into GRG. For example, increasing GRG to fund previously agreed pay awards.

15. In 2025/26, the increase in GRG includes baselining of funding for non-teaching staff pay awards and teacher pension contribution increases, as well as the following:

- £125 million of Living Wage funding
- £43 million of 2024 pay awards to teachers
- £10 million free personal and nursing care funding.

16. The 2025/26 finance settlement also outlines an additional £152 million of revenue funding, including £144 million of additional funding to partly compensate for the increase in employer's National Insurance contributions. Prior to this funding being confirmed, COSLA estimated that councils would need to identify £240 million to meet additional costs related to directly employed council staff (paragraphs 29–31).

Capital funding is increasing for 2025/26, but it is still lower than in 2023/24

17. Capital funding is used to buy, maintain or improve assets such as buildings, general infrastructure and equipment. The Scottish Government is allocating £779.7 million of capital funding to local government,[1] a 16 per cent increase compared to last year (Exhibit 3, page 13).

18. Again, the final settlement slightly differs from the figures presented in the draft Scottish Budget, due primarily to around £60 million of Specific Capital Grant moving into the General Capital Grant. Twenty-six councils are receiving less capital funding in 2025/26 than in 2023/24,

The **General Revenue Grant (GRG)** is funding provided by the Scottish Government to councils to help them finance their general services. Most of this grant is typically not ring-fenced for specific purposes and this provides councils flexibility to allocate based on local needs and priorities. However, some funding received by councils through the GRG is directed for national policy initiatives. Though not formally ring-fenced, this funding is provided with the expectation that it will be spent on specific services.

The **Verity House Agreement** aims to increase collaboration on shared priorities between the Scottish Government and councils. It outlines a shared vision around tackling poverty, transitioning to net zero and delivering sustainable public services. It also includes commitments on agreeing a new fiscal framework and an accountability and assurance framework, aiming to reduce ring-fenced funding.

[1] This includes £12.4 million of funding to Strathclyde Partnership for Transport and £89.5 million of undistributed funding in 2025/26.

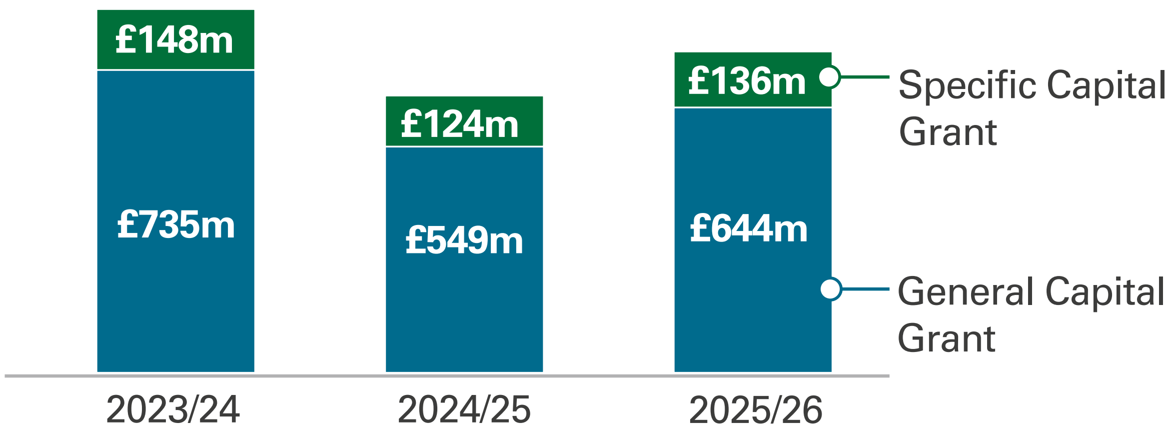
and three councils are receiving less funding (in both cash and real terms) than in 2024/25. In two of these councils, East Lothian and Stirling, reductions in capital funding have been enough to offset increases in revenue funding resulting in a real-terms reduction in their total funding.

19. Our Local government budgets 2024/25 briefing explained how the significant reduction in capital funding between 2023/24 and 2024/25 was largely because of the decision to move general capital to the general revenue grant to fund prior year local government pay awards (alongside additional funding also provided for that purpose).

Exhibit 3.

Scottish Budget 2025/26 local government capital settlement in real terms 2023/24 to 2025/26

Capital funding is increasing in 2025/26 from the previous year but it is lower compared to 2023/24.



Note: Funding allocation directly to Strathclyde Partnership for Transport is included within Specific Capital Grants (2025/26: £12.4 million). Prior years have been adjusted into 2025/26 prices using the March 2025 GDP deflators.

Source: Analysis of Scottish Government Finance Circulars

2. Council budgets

Councils continue to identify savings, use reserves and review how they deliver services to manage financial pressures.

Councils' combined revenue budgets for 2025/26 have increased from 2024/25

20. Councils' revenue budgets need to cover the cost of delivering services each year as well as certain other expenses. Councils need to set a balanced revenue budget every year.

21. Most of councils' revenue funding comes from the Scottish Government with around 61 per cent coming through the General Revenue Grant. The revenue budget available for the year also includes funding from other sources, including council tax, other grants, non-domestic rates (NDR, commonly referred to as business rates) and income raised through fees and charges:

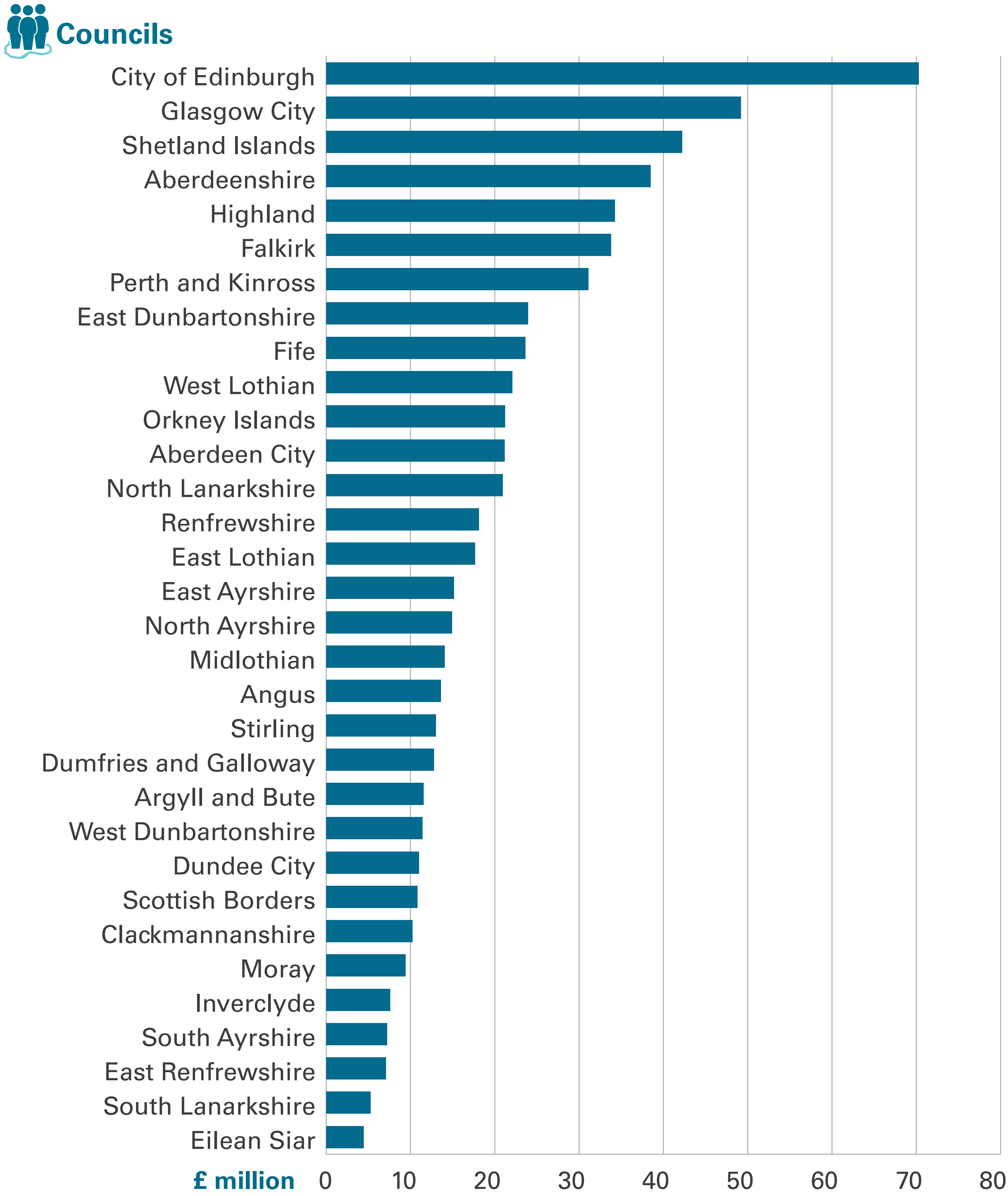
- £11 billion of funding from the Scottish Government mainly through the GRG.
- £3 billion of funding from non-domestic rates.
- £3 billion of funding from council tax.
- £1 billion from other income and fees that councils set.

22. In 2025/26, councils reported a combined revenue budget of around £18 billion, increasing from £16.7 billion in 2024/25 (around seven per cent). Councils have again reported budget gaps in 2025/26. Where councils are forecasting that their in-year spending will be greater than their available income, we refer to this as a budget gap. The budget gap is the difference between anticipated income (excluding income drawn from reserves) and expenditure (reduced only for savings approved by elected members).

23. At the time of setting their 2025/26 budgets, councils identified a combined revenue budget gap of around £647 million. This represents a budget gap in the range of 3.4 per cent of councils' total combined revenue budgets for 2025/26. Compared to 2024/25, the total budget gap identified by councils has increased by £52 million. Paragraph 25 sets out some of the pressures on councils which may account for this increase in the budget gap.

24. At a council level, budget gaps ranged from £70.3 million in the City of Edinburgh Council to £4.4 million in Eilean Siar. This represents five per cent and three per cent of their respective total revenue budgets (Exhibit 4, page 15 and Exhibit 5, page 16). Appendix 1 sets out further selected information on individual council budgets for 2025/26 where available.

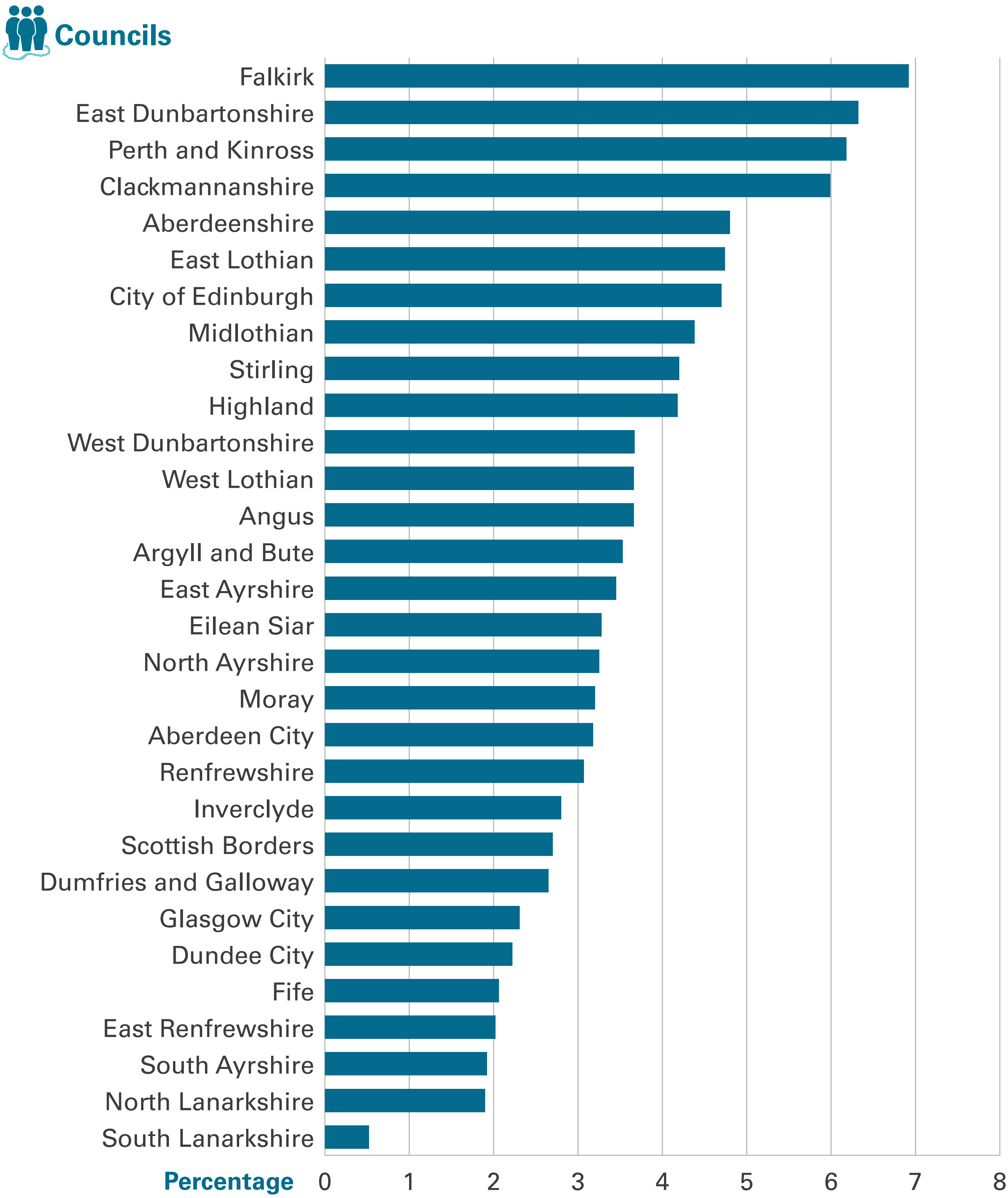
Exhibit 4.
Council budget gaps 2025/26



Note: There are differences in the way councils' approach and present their budget and identify budget gaps. This means that direct comparisons should be made with caution.

Source: Council data returns

Exhibit 5.
Budget gaps for 2025/26 as a percentage of their total revenue budget



Note: Shetland and Orkney hold significant reserves related to oil, gas and harbour activity. They are excluded from this chart as they are outliers due to their planned use of available reserves to balance their budgets. Their budget gaps as a percentage of revenue budget are 20 per cent and 18 per cent respectively.

Source: Council data returns

Councils are continuing to forecast budget gaps over the short term

25. Councils are anticipating that funding pressures will continue, citing several key assumptions that inform budgets in the medium term. Where the information was available:

- most councils report the pressures around annual pay settlements, with many expecting three per cent increases to 2027/28. This, alongside higher employer's National Insurance contributions, increasing overall workforce costs
- potential increases to employer pension contributions, following recent reductions in these (paragraph 35)
- a majority of councils also reference general inflationary pressures, including increasing costs of goods and services, making councils' operations more expensive
- several councils are also projecting flat cash funding settlements from the Scottish Government
- potential annual increases to council tax rates with a lack of consistency on the projected expected increase from individual councils.

Councils will need to carefully manage these financial pressures to maintain services whilst still addressing rising costs.

26. Based on 31 councils, the total projected revenue budget gap for 2026/27 is £528 million. The projected revenue gap for 2027/28 is £496 million, also across these 31 councils. If savings in 2025/26 are not delivered, or are made through non-recurring means, then there is potential that these gaps will widen further.

27. The largest cumulative revenue budget gap to 2027/28 is Glasgow (£116.8 million), followed by Shetland (£106.0 million). When evaluating the budget gap relative to the proportion of councils' revenue budgets, Shetland and Orkney rank as the highest (Exhibit 6, page 18).

28. While elements of these projections are either expected to be addressed or lessen in impact, councils are currently anticipating a cumulative revenue budget gap of £997 million over the next two years. This means that councils will need to increase their income levels, identify further saving measures or consider how they can continue to transform how (and what) they deliver to close these projected revenue budget gaps.

Exhibit 6.
Councils' projected budget gaps to 2027/28

Councils	Budget gap for 2026/27 £ million	Budget gap for 2027/28 £ million	Cumulative gap to 2027/28 £ million	Cumulative gap as % of 2025/26 net revenue budget
Shetland Islands	47.7	58.3	106.0	51%
East Dunbartonshire	40.1	43.0	83.1	22%
Orkney Islands	15.0	11.0	26.0	22%
East Lothian	21.0	15.8	36.8	10%
West Dunbartonshire	8.2	8.3	16.5	5%
Eilean Siar	6.7	3.7	10.4	8%
Highland	34.6	27.3	61.9	8%
Clackmannanshire	7.3	4.7	12.0	7%
South Ayrshire	17.5	8.2	25.8	7%
Scottish Borders	13.3	13.5	26.7	7%
Stirling	10.0	10.4	20.4	7%
Aberdeen City	29.0	40.8	40.8	6%
Aberdeenshire	11.1	13.4	24.5	3%
East Ayrshire	13.0	14.0	27.0	6%
Argyll and Bute	9.6	10.3	19.9	6%
Falkirk	20.1	9.0	29.1	6%
West Lothian	16.9	18.1	35.0	6%
Inverclyde	8.1	8.3	16.4	6%
Renfrewshire	15.6	17.9	33.0	6%
Glasgow City	72.9	43.9	116.8	5%
North Lanarkshire	32.3	25.3	57.7	5%
Dumfries and Galloway	10.7	11.9	22.6	5%
Dundee City	8.4	12.2	20.6	4%
Angus	6.0	8.6	14.6	4%
East Renfrewshire	5.0	5.0	10.0	3%
City of Edinburgh	19.9	19.3	39.2	3%
South Lanarkshire	11.7	13.8	25.5	3%
Midlothian	5.4	2.3	7.7	2%
North Ayrshire	3.6	7.4	11.0	2%
Fife	5.1	11.1	16.2	1%
Moray	1.9	1.1	3.0	1%
Total	**527.8**	**495.7**	**997.3**	

Note: Perth and Kinross Council did not report any projected budget gaps.

Source: Council data returns

Financial pressures in 2025/26 include increased costs related to National Insurance contributions

29. The UK Government announced in October 2024 that they would increase the rate of employers' National Insurance (NI) contributions, alongside a reduction in the threshold of when employers would also start paying the contribution.

30. All councils report facing increased costs from the changes in NI contributions for employers and in response to this, the Scottish Government announced £144 million in additional funding (paragraph 16). COSLA, however, estimated the additional cost could be up to £370 million: £240 million for directly employed staff and £130 million for indirectly employed staff (£85 million for staff working in Adult Social Care commissioned services, and up to £46 million for staff across other commissioned services and ALEOs).

31. Returns submitted to us by councils showed additional costs of around £235 million within approved 2025/26 budgets, as councils mainly adjusted budgets to recognise costs associated with direct employees. Councils need to meet these increased costs, and manage them within overall revenue budgets, potentially impacting the funding available for frontline services.

Councils, however, continue to benefit from reduced pension costs

32. LGPS employer contributions decreased (as a percentage of employee pay) in 2024/25, with councils using the results of the 2023 **triennial pension fund revaluation** as an opportunity to reduce contribution rates. From 2024/25, up until 2026/27, this allows councils to redirect the notional savings to other project or service areas.

33. The scale of reduction to required employer contributions varies. They are directly influenced by the funding position for each individual employer within each fund, considering historic contributions, and can therefore vary across councils even within the same fund.

34. Councils' financial plans and budgets for 2025/26 incorporated the reduction in pension contributions, allowing the reduced costs against 2023/24 rates to be redirected to other areas. Not all councils recognised this reduction as a saving in 2025/26, as the changes were implemented during 2024/25, but 12 councils directly referenced savings from reduced pension contributions when setting their 2025/26 budgets.

35. Reduced pension contribution rates should only be seen as a temporary source of funding by council, with rates increasing in 2026/27. The level of reductions range from 13 per cent (for a two-year period) to one per cent. Councils who reported a 13 per cent reduction in

The **triennial revaluation** assesses the funding position of each of Scotland's 11 Local Government Pension Scheme (LGPS) Funds, looking at the investments held, and the forecast returns, against the projected future liabilities of each. The results from all LGPS funds in Scotland (31 March 2023) showed a significantly improved funding position, compared to 31 March 2020.

contribution rates are the 12 members of Strathclyde Pension Fund. They will see their contribution rates rise from 6.5 per cent in 2025/26 to 17.5 per cent in 2026/27. Further increases in future employer contribution rates across all councils will be subject to the outcome of the next triennial revaluation.

Councils are taking various actions to close their 2025/26 budget gaps

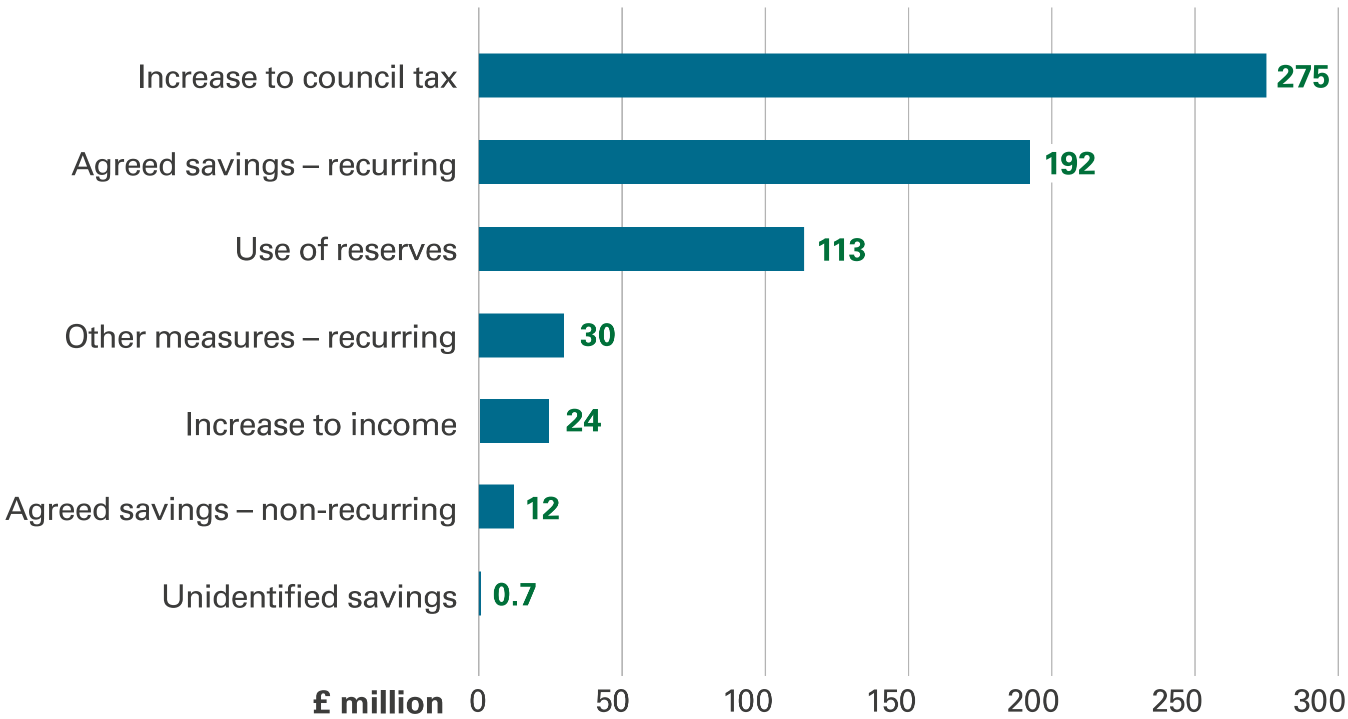
36. In order to set a balanced budget, councils must not operate with a budget gap. There are various tools available to councils to close a budget gap, either by generating additional income or by reducing their expenditure, and to balance their budgets (Exhibit 7).

37. Councils should use recurring measures to ensure cost savings take effect over multiple years, for example by transforming how they deliver services, by permanently reducing staff numbers or; taking decisions that will increase their annual income, for example by making changes to council tax rates (paragraph 45).

Exhibit 7.

Councils' bridging actions to set their 2025/26 budgets

Councils are taking various actions to close their 2025/26 budget gap.



Source: Council data returns

38. They can also identify non-recurring measures that are one-off or produce only temporary savings, for example delaying certain spending or temporarily leaving vacant posts unfilled. Relying on 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 and will not address a cumulative funding gap (paragraph 28).

Councils continue to make savings across a broad range of services to address financial challenges

39. Most councils have identified service areas where they are expecting to make savings in 2025/26. Reducing the level of unidentified savings supports sound financial planning by minimising the need to find additional budget reduction measures and unplanned reprioritisation of spending throughout the year.

40. All councils provided information on the service areas where they are planning financial savings in 2025/26. Councils are planning to deliver around £210 million of approved savings in 2025/26. Most of these saving measures are recurring, with only £12.2 million of non-recurring savings planned. The City of Edinburgh Council is proposing the highest service-level saving measures in 2025/26, totalling £28.4 million representing around two per cent of their total 2025/26 revenue budget. South Ayrshire Council projects the lowest level of service level saving measures of £0.7 million, around 0.2 per cent of the council's total 2025/26 total revenue budget.

41. Across all councils, most savings are planned within corporate services, followed by children's services. Councils plan to achieve £68 million of savings within corporate services and £58 million of savings in children's services. Actions to tackle climate have the lowest level of saving measures planned, with £0.4 million of savings planned in 2025/26.

42. Sixteen councils provided information on the services where they are planning significant reductions, exceeding five per cent of their overall service budgets. For example, Glasgow City Council is making savings of around £8 million in its financial services through policy changes, partly in providing relief to unoccupied non-domestic properties. Generally, councils provided limited information on their assessment of how these saving measures will impact on particular groups and communities. Councils have a responsibility to assess the impact budgetary decisions may have on groups with protected characteristics and will also have to consider the impact on their corporate priorities (paragraphs 62 and 63).

43. Councils are introducing new and innovative measures to reduce costs. For example, Renfrewshire Council's new digital advisor, Millie, provides 24/7 assistance to individuals who have routine or transactional requests. By December 2024, this service answered over 18,000 calls, of which 36 per cent were resolved, with no staff involvement. East Ayrshire Council is also progressing its £40 million Early Intervention Fund which supports projects that reduce dependency on council services.

44. Audit Scotland and appointed auditors are carrying out further work on transformation activities across all councils as part of the 2024/25 thematic Best Value work. These reports will be published throughout 2025/26, followed by a national report that outlines consistent themes later in 2027.

All councils chose to increase council tax rates significantly in 2025/26

45. Councils had full flexibility over Council Tax decisions in 2025/26. All councils increased their council tax levels, ranging from a six per cent increase in South Lanarkshire Council to a 15.6 per cent rise in Falkirk Council (Exhibit 8, page 23). Exhibit 8 also demonstrates the variation in the 'baseline' of council tax levels for councils. For example, North Ayrshire council agreed a seven per cent rise in council tax taking their band D amount to £1,553.77, while North Lanarkshire agreed a higher increase of ten per cent, with the new band D rating of £1,452.86. Across councils, band D rates vary by 20 per cent between the highest and lowest.

46. Council tax only represents a small proportion of a council's overall revenue budget, making up around 19 per cent of total council income across Scotland, with the exact proportion varying across council areas. On this basis, for example, a ten per cent increase to council tax rates will not represent an overall ten per cent increase in council budgets; but only increase available funding by 1.9 per cent. This is often referred to as the council tax gearing effect.

47. Council tax increases can also disproportionately impact lower income households, although the Council Tax Reduction Scheme is in place to support a range of claimants. Analysis shows that councils with the highest deprivation (Dundee, Glasgow City, Inverclyde, North Ayrshire) were among those with the lowest council tax increase ranging from seven per cent to 8.5 per cent (West Dunbartonshire increased their council tax by 11.5 per cent). With the exception of North Lanarkshire Council (ten per cent increase), council areas with the highest local authority housing stock were also among those councils with the lowest council tax increases (ranging from six per cent to 8.2 per cent).

48. In total, councils expect to receive £284.3 million from the increase to council tax in 2025/26[2]. The amount of income that individual councils expect to receive from the increase in council tax is influenced by the scale of the increase, the size of the council and the nature of the local housing stock. Expected increases in income range from £1 million in Comhairle nan Eilean Siar to £31 million in the City of Edinburgh Council.

2 £275 million will be used to bridge the funding gap and the remaining is additional income.

Exhibit 8.

All councils increased their council tax in 2025/26

Councils increased council tax rates significantly in 2025/26.

Councils	Council Tax increase in 2025/26 %	Council Tax Band D 2025/26 £	Band D Annual Increase in 2025/26 £	Additional income from council tax increase in 2025/26 (£000)
Aberdeen City	9.85	1,636.3	146.7	13,790
Aberdeenshire	10	1,532.8	139.3	16,922
Angus	11	1,461.5	144.8	6,999
Argyll and Bute	9.9	1,625.6	146.4	6,275
City of Edinburgh	8	1,563.5	115.8	30,997
Clackmannanshire	13	1,594.4	183.4	3,321
Dumfries and Galloway	9	1,454.0	120.1	7,685
Dundee	8	1,605.3	118.9	6,311
East Ayrshire	8	1,606.4	119.0	6,388
East Dunbartonshire	13	1,599.0	183.3	9,440
East Lothian	10	1,579.2	143.6	9,456
East Renfrewshire	8	1,528.4	113.2	5,446
Eilean Siar	8	1,387.6	96.8	1,033
Falkirk	15.6	1,576.8	213.0	12,247
Fife	8.2	1,498.8	113.6	15,908
Glasgow	7.5	1,611.4	112.0	20,250
Highland	7	1,527.1	99.9	10,487
Inverclyde	8.5	1,551.3	121.5	2,975
Midlothian	10	1,666.2	151.5	6,600
Moray	10	1,573.8	143.1	5,516
North Ayrshire	7	1,553.8	101.7	5,008
North Lanarkshire	10	1,452.9	132.1	15,300
Orkney	15	1,574.6	205.4	1,446
Perth and Kinross	9.5	1,537.0	133.3	10,480
Renfrewshire	9.5	1,572.6	136.4	10,606
Scottish Borders	10	1,491.7	135.6	7,654
Shetland Islands	10	1,386.7	126.1	1,147
South Ayrshire	8	1,569.4	116.3	5,921
South Lanarkshire	6	1,378.9	78.1	9,480
Stirling	8.8	1,611.9	130.4	5,329
West Dunbartonshire	11.5	1,559.9	160.9	4,685
West Lothian	8.95	1,515.5	124.5	9,191

Note: Council tax figures have been rounded to one decimal place.

Source: Council data returns and Scottish Government Council Tax Documents

49. Increasing council tax allows councils to address some immediate financial pressures, but wider sustainability pressures remain. Some councils reported that council tax rate increases would have been higher had they not identified savings in 2025/26.

Councils continue to raise income by charging for certain local services

50. Councils also generate income from the fees and charges they set for using certain services. For example, councils may charge households for the collection of garden waste, although must collect food waste free of charge. Twenty-four councils provided information on their 2024/25 income from fees and charges. Those councils generated £966 million from fees and charges in 2024/25, representing around five per cent of their 2025/26 revenue budgets. Fourteen councils received more income from fees and charges in 2024/25 compared to initial projections.

51. In total, councils anticipate receiving £1.1 billion from fees and charges in 2025/26. This represents around six per cent of the combined 2025/26 approved revenue budgets for councils. Glasgow City Council expects to raise the most from fees and charges in 2025/26, with around £210.6 million projected to be raised, around ten per cent of their approved 2025/26 revenue budget.

52. Twenty-five councils provided information on the areas where they plan to significantly increase fees and charges in 2025/26. For example:

- Income from Glasgow City Council's Neighbourhood, Regeneration and Sustainability services is projected to increase by three per cent to £111 million, driven by the fees and charges in place for 2025/26.
- Midlothian Council are increasing the fees and charges in their leisure services on average by eight per cent. The council will now raise £5.9 million in total from fees and charges within leisure services.
- Falkirk Council is increasing fees and charges within leisure charges by five per cent for 2025/26. This is projected to contribute to a combined income of £5.6 million from the fees and charges in place within leisure services.

53. Thirteen councils are introducing new charges for services in 2025/26. For example:

- North Lanarkshire Council will start charging to collect garden waste. The council expects this to generate £1.5 million in additional income.
- South Lanarkshire Council forecasts generating £1.4 million from issuing garden waste permits.

- Highland Council is introducing charges for tourist visitor experiences. The councils expect this to raise £0.2 million in additional income.

Councils are also continuing to use reserves to balance their budgets

54. As set out in the Local government in Scotland: Financial bulletin 2023/24, councils' continuous use of reserves to balance budget pressures is not sustainable. Using reserves in one year means future years' services are at greater risk if they are directly used to support expenditure but are not invested to address underlying issues and transform service delivery. All councils have a reserves policy in place which sets out a minimum level of uncommitted reserves held. While it is for each council to set their own reserves policies, and the minimum level of uncommitted reserves they hold varies, two per cent of their net budgeted revenue expenditure is commonly regarded as a suitable benchmark.

55. At the end of 2024/25, 25 councils are estimating that they will be holding £1.8 billion in their General Fund, a usable reserve, with £1.3 billion of this committed. An estimated £0.14 billion has been identified by councils as formal contingency funding, with a further £0.4 billion of uncommitted reserves also available for that purpose if required. Combined, this represents a potential contingency of 2.9 per cent of net revenue expenditure. Councils approved the use of £0.19 billion of reserves in 2025/26 during budget-setting as a means of balancing budgets.

Borrowing continues to be the primary funding source for capital projects

56. Councils' capital budgets are used for key capital projects such as constructing or upgrading public buildings, such as schools or libraries, or infrastructure such as roads. Capital projects across the public sector are now costing more, with the cost of delivering projects estimated to have been increasing at a greater rate than general inflation for a sustained period. The total capital budget for all councils in 2025/26 is £4.74 billion. This is an increase from £4.23 billion in 2024/25 across Scotland, however eleven councils are reducing their capital budgets.

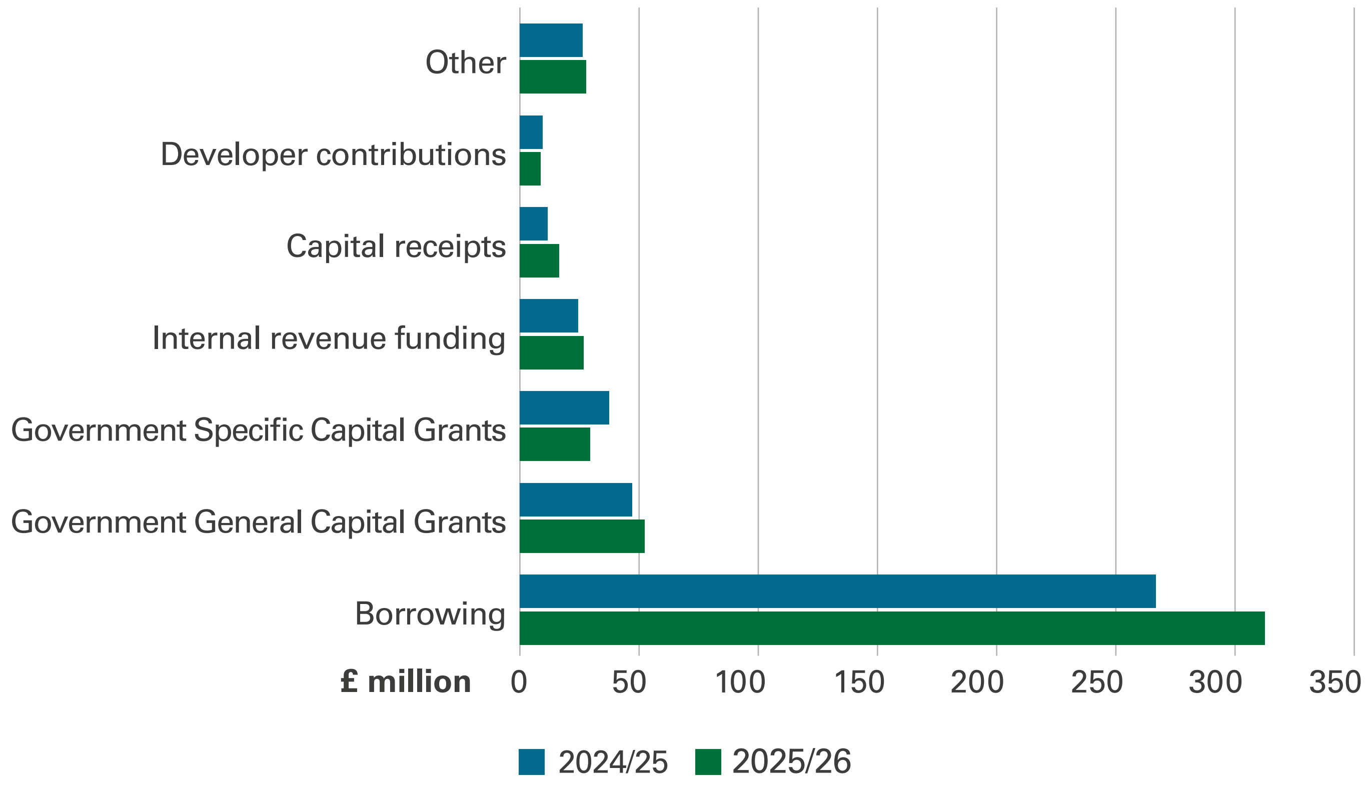
57. Borrowing is the main source for funding capital projects, and councils are intending to borrow £3.13 billion in 2025/26, an increase from 2024/25 (£2.67 billion). Exhibit 9 (page 26) shows a breakdown of the sources of capital finance for 2025/26 and compares them to 2024/25.

Councils are increasing the amount they intend to spend on building and maintaining social housing

58. Twenty-six councils own and maintain council housing, and all these councils provided information on how much of their capital budget is allocated to their **Housing Revenue Account (HRA)**. Councils are committing a combined £1.5 billion from their capital budgets to the

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. The main sources of income are from tenants in the form of rents and service charges.

Exhibit 9.
Source of capital budgets for 2024/25 and 2025/26
Borrowing continues to be the key funding source for capital projects.



Source: Council data returns

HRA in 2025/26, an increase of £186 million from the previous year. All councils are planning expenditure on new builds in 2025/26:

- Councils expect to spend £656 million from the HRA on new builds in 2025/26, an increase of £81 million from 2024/25. This represents the largest area of expenditure within the HRA. East Renfrewshire Council had the largest expenditure on new builds in 2024/25, although their 2025/26 forecast expenditure will be lower than all other councils. The council accelerated its new build programme during 2024/25, which involved utilising the grant support available for both 2024/25 and 2025/26. As a consequence, the council's new build plan for 2025/26 was reduced. However, this will be reviewed in light of revised grants available.

- Refurbishment costs are the second largest area of expenditure within the HRA, increasing by £142 million from 2024/25 to 2025/26. Councils expect to spend £521 million on refurbishing housing stock in 2025/26 compared to £379 million in 2024/25.
- Sixteen councils are planning programmes of maintenance work in 2025/26. They are expecting to utilise £289 million of funding for maintenance, an increase of £78 million from 2024/25.

Social care revenue budgets make up a high proportion of total revenue budgets for 2025/26

59. Of the £18 billion revenue budget in 2025/26, councils reported £4 billion related specifically to social care services. This equates to almost 23 per cent of councils' total revenue budget. Across councils, the social care budget ranges between 18 and 30 per cent of councils' total revenue budget for 2025/26. Most councils provide social care services through separate integrated joint boards (IJBs), with the exception of Highland who operate a different model. At the time of collecting the data, 21 IJBs had agreed their budgets with the remaining ten to be agreed.

60. The financial pressures and risks experienced by IJBs include reliance on non-recurring sources of income, such as reserves and one-off savings, and reserve levels falling below individually agreed minimum reserve policy levels. These have a strong impact on council budgets and collaborative working and planning is needed across IJB partners in the budget-setting process.

61. The Accounts Commission IJB Finance bulletin 2023/24 set out that the agreement of savings plans and NHS partner funding were the most common reasons for balanced budgets not being agreed at the start of the financial year. This misalignment in budget processes, however, presents a challenge as councils look to identify savings and transform how they deliver services, given the significant proportion of their budgets dedicated to providing social care services.

3. Consulting with communities

As councils continue to make difficult decisions, it is more important than ever that they involve communities in the decisions that impact their local services.

Most councils carried out an assessment to understand the impact budget decisions will have on different groups

62. Public bodies use Equality Impact Assessments (EIA) to understand how policies or budgetary decisions affect groups with a protected characteristic. These assessments identify ways to advance equality while highlighting potential discrimination. Public bodies must complete an EIA when introducing new policies or making strategic decisions that could affect different groups.

63. Councils must consider the impact their budget choices will have on different groups and communities, especially those with protected characteristics under the Equality Act 2010. This is even more important when councils face difficult choices about their budget allocations at a time of financial pressure. For example, an EIA should highlight the consequences of a council closing a community centre, particularly for potential disabled or elderly residents who rely on it for essential local services.

64. Thirty-one councils completed an EIA as part of their 2025/26 budget process. Shetland Islands Council carried out an informal assessment which assessed an EIA as not necessary, as there had been no major changes to existing policies or practices and limited impact on services contained within their budget proposals. With financial pressures forecast to continue (paragraphs 25 and 26) it is increasingly important that councils continue to assess how the financial decisions they are taking impact their local populations, including vulnerable or marginalised communities.

Councils must consult with groups in addressing financial challenges

65. A March 2025 blog, outlines the Accounts Commission's expectation on councils engaging with communities in responding to the challenging financial environment. Councils should engage with residents to increase their understanding of the challenging financial environment, the options available to manage these challenges and how council tax rises can support local services. For example, residents' expectations on the quality and provision of local service may grow and councils need to be able to demonstrate how it is using funds to maintain services and improve performance.

Most councils consulted with residents on their 2025/26 budgets

66. Thirty councils provided evidence to us of how they engaged with residents, while identifying saving measures and wider proposals within their 2025/26 budgets. However, the approaches taken varied.

67. There was variance in the form and level in how councils engaged with their communities while setting their 2025/26 budgets:

- Some councils held focus groups with residents to discuss budget proposals whereas others directly consulted with groups that will be impacted by service-saving measures.
- There was a mixed approach in how councils monitored the response rate to any consultation exercise. Most councils recorded consultation responses based on the population of the local authority area, whereas others based on it on a street survey response rate.
- Some councils used innovative ways to consult with stakeholders. For example, Stirling Council ran a dedicated survey for young people on the impact that proposed reductions to library services would have on their learning and education. Shetland Islands Council created animations which were shown in the local cinema to inform the public on the council's finances.
- Comhairle nan Eilean Siar's consultation results did not influence this year's budget-setting decision as the measures taken to achieve the savings required did not impact significantly on service delivery. They will however feed into the 2026/27 budget-setting process.

68. Councils provided examples of how their engagement activities influenced budgetary decisions:

- East Ayrshire Council agreed to various initiatives which were all raised during the consultation process. This included services around free school meals, road improvement projects and the Community Safety Fund.

Work remains to make councils' budgets accessible, transparent and more easily understood

69. As highlighted in last year's report, budget-setting processes vary across councils, partly reflecting differences in organisational structures and local priorities. By issuing a standardised data return we have looked to make information as comparable as possible. However, it continues to be challenging to compare information across the sector.

70. Within individual councils, the way in which budget papers are presented could also be improved. A lack of transparency in the presentation of financial and budget information is a recurring theme across our programme of Best Value audits of individual councils, and within annual audit reports produced by our appointed auditors.

71. This 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. More transparent reporting of agreed budgets, the budget gaps they are facing and how they intend to make use of reserves (including previously agreed actions), councils can inform and better include their local communities in making the choices still needed to address ongoing financial challenges.

72. Appendix 2 sets out, at a high level, how councils have progressed against the expectations related to these issues that we set out in our Local government budgets 2024/25 briefing published in May 2024.

The Accounts Commission's forthcoming work will assess how key council services are performing

73. The Accounts Commission produces a series of overview reports which provide an independent assessment of the financial and operational performance of Scotland's local government sector. This report follows the Local government in Scotland: Financial bulletin 2023/24, published in January 2025.

74. For the next report in this series, the Accounts Commission will publish a service spotlight. This new report, due to be published in October 2025, will provide an overview of council performance as set out by the Local Government Benchmarking Framework (LGBF) and other key metrics. For 2025, the spotlight will have a particular focus on culture and leisure services that councils provide.

Appendix 1. Selected 2025/26 budget information

All councils' 2025/26 revenue budget, budget gaps, approved savings and other bridging to close budget gap.

Councils	Revenue budget 2025/26 £ million	Budget gap 2025/26 £ million	Approved savings 2025/26 £ million	Other bridging actions 2025/26 £ million
Aberdeen City	665	21.2	4.0	17.1
Aberdeenshire	802	38.5	15.8	22.7
Angus	372	13.6	2.1	11.5
Argyll and Bute	327	11.5	3.0	8.5
City of Edinburgh	1,496	70.3	28.4	41.9
Clackmannanshire	171	10.2	3.8	6.4
Dumfries and Galloway	482	12.8	3.5	9.3
Dundee City	496	11.0	4.9	6.1
East Ayrshire	439	15.1	8.6	6.5
East Dunbartonshire	379	24.0	3.6	20.4
East Lothian	372	17.7	2.3	15.3
East Renfrewshire	350	7.1	1.2	5.8
Eilean Siar	135	4.4	1.4	3.0
Falkirk	488	33.8	10.0	23.8
Fife	1,148	15.6	7.1	8.5
Glasgow City	2,127	49.2	26.2	23.0
Highland	818	34.2	6.6	27.6
Inverclyde	272	7.6	3.1	4.5
Midlothian	321	14.1	2.0	12.1
Moray	294	9.4	7.9	1.5
North Ayrshire	459	14.9	3.6	11.3
North Lanarkshire	1,103	20.9	0.0	20.9
Orkney Islands	119	21.2	0.7	20.5
Perth and Kinross	503	31.1	7.6	23.5
Renfrewshire	589	18.1	6.4	11.7
Scottish Borders	400	10.8	1.9	8.9
Shetland Islands	207	42.2	8.3	33.9
South Ayrshire	377	7.2	0.7	6.5
South Lanarkshire	1,019	5.3	4.7	0.5
Stirling	310	13.0	7.7	5.3
West Dunbartonshire	311	11.4	5.2	6.2
West Lothian	603	22.1	11.9	10.1

Note: How councils present their budgets, and budget gaps, can vary and is often influenced by specific local arrangements. The information is taken from council budget documents, as supplied to us by councils. Other bridging actions are set out as part of Exhibit 7 and include increase to income, increase to council tax and use of reserves. Figures may not exactly sum due to rounding.

Appendix 2. Progress since 2024/25

Progress against the expectations in Local Government Budget Briefing 2024/25.

Councils should:	Progress/ status
The Commission expects councils to present some fundamental information within publicly available budget papers. 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.	**Substantial progress** We reviewed around a third of 2025/26 budget papers to assess progress, and found that ten of the 11 reviewed provided links or copies of the required budget documents. Of the ten councils providing information seven met all five of the expectations, with three councils meeting three or four. The main area not documented was the split between recurring and non-recurring savings. The information from two councils in relation to one or more of the following areas, could have been demonstrably clearer: • 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. • Projected revenue budget gaps, both annual and cumulative.

Briefing

Local government budgets 2025/26

AUDIT SCOTLAND

Audit Scotland 4th Floor 102 West Port Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit.scot
www.audit.scot

ISBN 978 1 915839 70 1