News release on behalf of the Accounts Commission

Embargoed until 00:01 hours, 22 May 2025

Communities face growing expectation gap

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

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

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

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

Derek Yule, Member of the Accounts Commission said:

'There's a growing expectation gap. Councils don't have enough money to meet current demand, at a time when local communities are being asked to contribute more through increases in council tax and charges for some services. Councils need to provide clearer budget information and work with communities to determine how services will be delivered in the future. These conversations won't be easy.

'With public finances tightening, however, not all cost increases faced by councils can be met by government funding. Local action is needed now to find solutions to immediate and future financial challenges. This means difficult decisions on what services can be delivered and making major changes in how they are delivered."

For further information contact Joanna Mansell Tel: 07970331858
jmansell@audit-scotland.gov.uk or media@audit-scotland.gov.uk

Notes to Editor:

1. The Scottish Government allocated £14.4 billion of revenue funding to local government in 2025/26, an annual real terms increase of £789 million (6 per cent).

2. Capital funding. This funding is used to buy, maintain or improve assets such as buildings, general infrastructure and equipment. The Scottish Government allocated £779.7 million of capital funding to local government, a 16 per cent increase compared to last year. But the majority of money councils have to invest in new building projects is from borrowing.

3. The Accounts Commission published a briefing in January 2024 on the finances of local government during 2023/24.

4. All reports by the Accounts Commission and Auditor General published since 2000 are available at www.audit.scot

- The Accounts Commission is the public spending watchdog for local government. It holds councils and various joint boards and committees in Scotland to account and help them improve. It operates impartially and independently of councils and of the Scottish Government, and meets and reports in public.
- Audit Scotland is a statutory body set up in April 2000, under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission for Scotland.

ENDS