Local government in Scotland

Financial bulletin 2024/25

ACCOUNTS COMMISSION

Prepared by Audit Scotland
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Contents

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Key facts

	Funding and budgets
1%	Annual real-terms increase in funding from the Scottish Government to all 32 councils in 2024/25
24%	Proportion of Scottish Government revenue funding that was ring-fenced or directed towards national policy commitments in 2024/25, up from 21 per cent in 2023/24
£542m	Budget gap identified by our sample of 28 councils at the start of 2024/25. The 2023/24 comparator for those councils was £744 million
£647m	2025/26 budget gap forecast by all 32 of Scotland's councils
	Financial performance
1%	Real-terms increase in 29 councils' total revenue funding and income in 2024/25 compared to 2023/24
12 out of 29	Councils that reported overspends against their agreed General Fund revenue budgets
28 out of 30	Councils that reported underspends against their agreed General Fund capital budgets
23 out of 25	Councils that reported underspends against their agreed HRA capital budgets
	Financial position
£21.9bn	Councils' net debt in 2024/25, a 13.5 per cent increase since 2023/24. Councils' long-term external debt includes £14.9 billion borrowed directly from the Public Works Loan Board
7%	Annual decrease in usable reserves between 2023/24 and 2024/25
16 out of 30	Councils that made unplanned use of reserves in 2024/25
85%	Proportion of the General Fund that is committed, a two percentage point increase from 2023/24

Key messages

Despite increased funding in 2024/25, the financial outlook for Scotland's councils presents substantial challenges. The costs of delivering services continues to rise, debt is increasing, reserve levels are falling and there is continued reliance on non-recurring measures to close significant budget gaps. This all raises concerns around councils' medium-term financial sustainability.

1. In 2024/25, councils' total revenue funding and income increased by 1.3 per cent. Despite this, councils faced a £542 million budget gap and remained reliant on reserves and savings to balance their budgets. Councils identified around £200 million of predominantly recurring savings to help manage overall financial pressures.

2. Despite being largely successful in implementing the actions agreed to manage budgets, with around 90 per cent of savings targets delivered, the sector reported a collective overspend against their agreed revenue budgets for the first time in six years. Around a third of councils reported that they overspent against their agreed revenue budgets and many struggled to deliver recurring savings, instead taking one-off measures to manage their in-year spending.

3. In 2024/25, most councils spent less than planned on capital projects but invested around £3.5 billion in both existing and new public assets. Reduced capital funding meant councils continued to rely on borrowing to finance increasingly expensive projects and, alongside changes to how they account for leases, have seen their total debt increase by over £2.5 billion in a year. Councils now spend around £1.2 billion a year servicing these debts, with future borrowing requirements also increasing.

4 There are increasing indications that councils are struggling financially, with a collective budget gap of £647 million identified when budgets were set for 2025/26. Costs continue to outpace funding increases, and there remain significant commitments on funding to fulfil both statutory duties and national policy commitments. There is also continued reliance on non-recurring measures, such as using reserves, to address budget gaps which is simply not sustainable. Technical changes have contributed to rising debt, but there is also a need to recognise that borrowing is forecast to increase, and this comes with associated costs. Councils need to take urgent action to address the sustained and recurring cost pressures associated with delivering services. This will mean carefully considering where services need to be reduced; how service delivery can be fundamentally reconfigured; who is eligible to receive services; and policies on fees and charges.

Recommendations

In 2026, councils should take action to progress significant outstanding recommendations from previous years around the transparency of financial reporting:

- councils must continue to improve the clarity and comprehensiveness of their reporting on savings performance within their management commentaries, including the provision of comparisons to targets agreed during budget-setting, and whether savings made were recurring or non-recurring (paragraph 35)
- councils should clearly explain within their management commentaries, and within reports to elected members, how future revenue budgets will be impacted by investment decisions and capital underspends (paragraph 39).

In addition, councils should:

- ensure that their longer-term capital investment plan, and the impact that capital underspending, programme slippage and changes to overall indebtedness arising from accounting changes have had on their overall financial position, is reported clearly and in a timely manner to elected members (paragraph 44)
- ensure that reserves policies are current and remain fit for purpose, and that where agreed minimum reserves levels are breached, or forecast to be breached, there is a clear and time-bound plan for recovery (paragraph 53)
- continue to work with their appointed auditors to ensure that they produce annual financial statements in a timely manner, as the sector continues its recovery to meet statutory reporting deadlines (paragraph 59)
- ensure that long-term financial plans (over five years), that adequately consider risks to financial sustainability and include detailed scenario planning, are in place (paragraph 66)
- ensure that assessments of medium- and longer-term financial sustainability, including reference to specific indicators, are a central focus of reporting to elected members (paragraphs 80–83).

We note progress against all the recommendations from our Financial bulletin 2023/24 in the Appendix.

Introduction

1. This report is part of a series of overview outputs produced by the Accounts Commission which together provide an independent overview of financial and operational performance of Scotland's local government sector.

2. The report examines council's financial performance in 2024/25. The bulletin sets out:

- councils' funding, income and budget-setting
- councils' financial management and performance
- councils' financial position at the end of 2024/25 and the financial outlook.

3. We will shortly publish a brief supplement analysing the recently published 2026/27 Scottish Budget and levels of funding to councils. In spring 2026, we will publish our annual detailed briefing examining the 2026/27 budgets set by councils, including analysis of anticipated budget gaps, actions to address these, and the decisions made by councils when setting their budgets.

4. We are also reintroducing checklists for elected members to our regular annual financial reports. It is increasingly important that elected members understand the financial pressures facing their own councils, and the impact these may have on future priorities and service delivery. The checklist includes a range of questions to consider that are linked to the content of this report and is designed to support councillors in both decision-making and the scrutiny of decision-making.

Methodology

5. The primary sources of information for this report are councils' 2024/25 accounts and annual audit reports, a data request issued to councils in October 2025 and Scottish budget documents.

6. Our findings are based primarily on:

- The 2024/25 annual accounts for 29 councils (15 audited and 14 unaudited). At our December deadline, 2024/25 accounts were unavailable for three councils (Clackmannanshire, East Dunbartonshire and Stirling). These councils are not included in our 2024/25 analysis (or comparisons to previous years for analysis based primarily on accounts).

- Supplementary information from 30 councils collected via a data return issued to council directors of finance and reviewed by appointed auditors. At our November deadline, a data return was unavailable for Inverclyde and Stirling councils. We also utilised elements of data returns previously submitted to us in support of our Local government budgets 2024/25 briefing and other more recent reports. Where we use these previous returns, we have adjusted our sample to reflect the 28 councils that we have comparable data for across both 2023/24 and 2024/25.
- Our analysis of Scottish Government funding sets out the position for all 32 of Scotland's councils. Within this report, we analyse Scottish Government budget documents up to and including the 2025/26 Autumn Budget Revision (published in October 2025). Due to the timing of the 2026/27 Scottish Budget, this analysis will be updated and extended to include the 2026/27 Budget information within a complementary supplement to this report.
- This year we have also worked to develop our use of balance sheet information, wider intelligence and indicators developed by CIPFA directors of finance to better analyse the financial sustainability of the sector and highlighted specific areas that councillors may wish to consider when setting their own council's budget for 2026/27.

7. When looking at trends, we convert some figures to real terms. This adjusts financial information from past and future years to prices for the year under review (ie, 2024/25). This is to take account of inflation so that trend information is comparable. To adjust for inflation, we use gross domestic product (GDP) deflators, which are published quarterly by HM Treasury. GDP deflators are the standard approach adopted by both the UK Government and Scottish Government when analysing public expenditure.

8. Financial trend data (both capital and revenue) relating to funding, income or expenditure will generally be shown in real terms. Financial information from the councils' accounts' balance sheets remains unadjusted. This includes trend analysis on reserves, sources of capital finance, borrowing and debt. These are not adjusted to real terms as they are already subject to revaluations within councils' accounts to reflect current prices.

9. Throughout the report we refer to timescales in the short term as 1–2 years, medium term as 3–5 years and long term as over five years.

1. Council funding and financial performance

Total funding and income increased in 2024/25, but councils again had to apply a series of measures to bridge budget gaps.

The Scottish Government increased funding to councils in 2024/25 and 2025/26

10. Councils are reliant on direct funding from the Scottish Government which represents around two-thirds of their overall income. Typically, councils receive a draft single-year funding allocation announced alongside the **Scottish budget**, normally in December each year. An initial settlement is then agreed once the Scottish budget has been formally approved by the Scottish Parliament. Throughout the year, this initial settlement is subject to revision, with substantial in-year transfers provided during the autumn and spring budget revisions.

The Scottish budget

The Scottish Government normally publishes its draft budget in December, outlining provisional allocations to local government. For 2026/27, this was delayed to January 2026 due to the timing of the UK Government's Budget.

The Accounts Commission will publish a supplement to this report in February 2026 analysing the initial 2026/27 funding allocation to local government.

Within the Scottish Government budget, funding for councils is shown as part of the Finance and Local Government portfolio. Councils, however, also receive funding from other portfolios, for example the Health and Social Care and Education and Lifelong Learning portfolios. The local government settlement shows the totality of this funding.

Transfers from other portfolios are then formally accounted for at a Scottish Government level during the autumn and spring budget revisions.

Initial funding is also subject to changes as additional funding may become available to the Scottish Government throughout the year, which may be allocated to councils. Scottish Ministers may also reprioritise funding from other portfolios to councils during the year.

11. In 2024/25, the Scottish Government initially provided councils with £12.5 billion of revenue and capital funding at the draft budget stage within its Finance and Local Government portfolio. Councils received £1.5 billion of additional funding and internal transfers (as outlined within the original local government settlement) at the 2024/25 autumn budget revision. This included funding to support agreed pay deals for teachers and social care staff and for councils that agreed to freeze council tax rates. A further £0.3 billion was then provided to councils as part of the spring budget revision. The 2024/25 final outturn allocation meant that funding ultimately increased by one per cent in real terms compared to the total year-end funding provided in 2023/24.

12. The 2025/26 draft budget saw a further increase within the local government budget, taking funding to councils to £13.6 billion in cash terms (£13.2 billion in 2024/25 prices). The 2025/26 autumn budget revision provided councils with £1.5 billion in additional funding and planned in-year transfers, meaning total 2025/26 Scottish Government funding to councils increased by five per cent in real terms from the same point in the prior year (Exhibit 1, page 11).

13. The Scottish Government published its 2026/27 draft budget in January 2026, estimating that there is a two per cent real terms increase in the total funding it is providing to councils. We intend to report on a further analysis of the draft 2026/27 budget within a supplement to this report which will publish in February 2026.

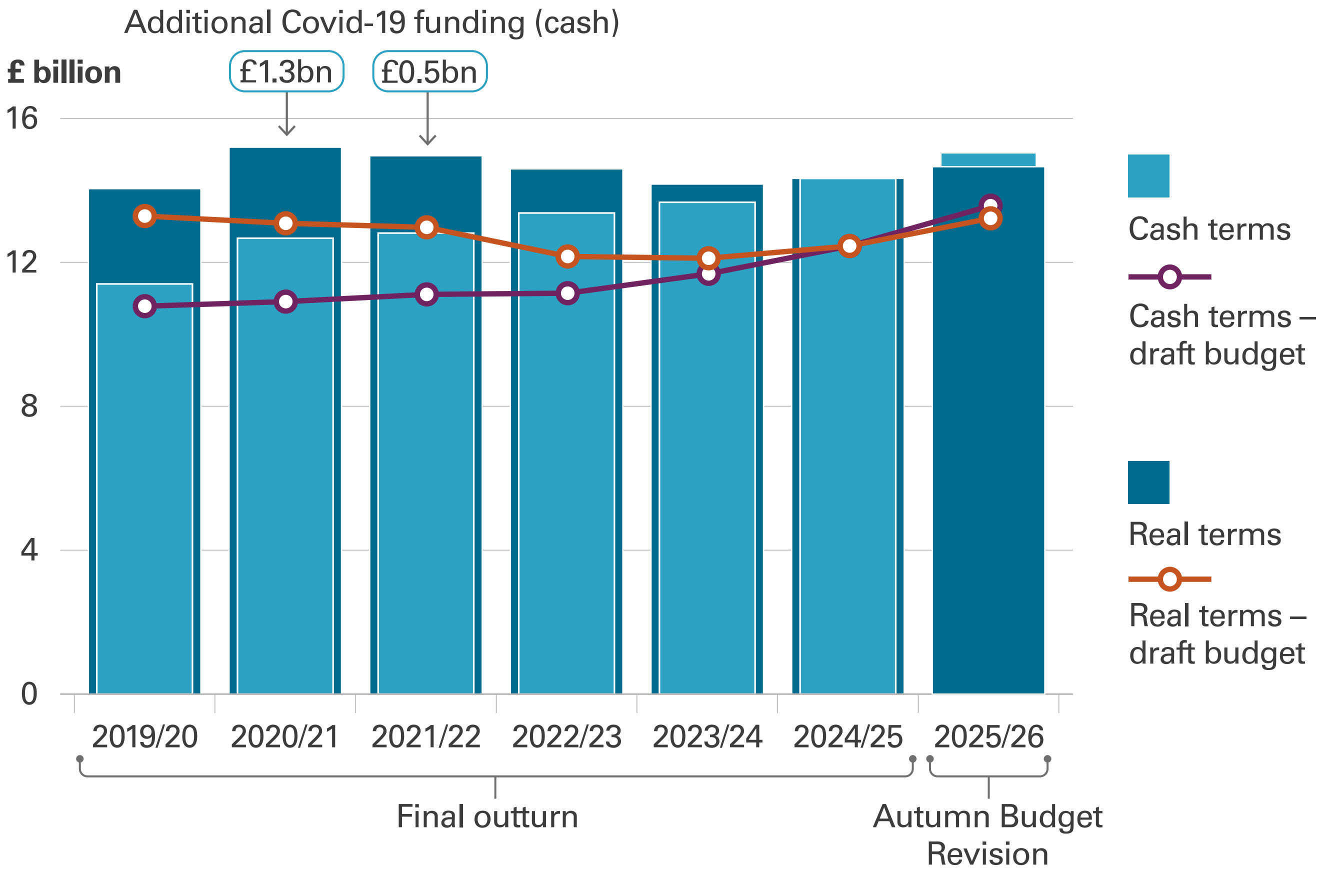
The 2026/27 budget process will reflect the recently agreed Draft Fiscal Framework for Local Government

14. The Verity House Agreement included a commitment to reduce the level of ring-fenced funding, with the aim to provide councils more flexibility in how to allocate resources. Councils also receive funding from the Scottish Government that, although not formally ring-fenced, is provided with the expectation that it is directed for specific purposes.

15. In 2024/25, the Scottish Government 'baselined' several ring-fenced specific grants into the general revenue grant, including the full £522 million of the specific revenue grant for early learning and childcare expansion. While the Scottish Government has fulfilled its commitment under the Verity House Agreement to reducing ring-fenced funding, councils still need to direct spending towards specific national policies and statutory duties, and this limits the discretion councils have over how to use elements of the GRG. Ring-fenced and directed funding amounted to £3.2 billion in 2024/25 (24 per cent of the total revenue funding to councils). This is higher than the 21 per cent of funding that was directed in 2023/24.

Exhibit 1.
Scottish Government funding to councils since 2019/20 in real and cash terms

The Scottish Government has increased funding to councils by four per cent in real terms between 2019/20 and 2025/26, although funding was higher during the pandemic due to specific additional funding allocations.



Notes:
1. Real-terms analysis, with financial information adjusted to 2024/25 prices. The draft budget allocations above do not include transfers from other portfolios outlined within the local government settlement as they are formally accounted for in the autumn and spring budget revisions.
2. Data for 2025/26 remains provisional and will be subject to further adjustment to show final outturn.

Source: Scottish Government budget documents

16. The Scottish Government and COSLA published the draft Fiscal Framework between Scottish Government and Local Government in October 2025. This reflects a commitment within the Verity House Agreement to establish a new funding relationship between the Scottish Government and councils. Key principles underlining the framework include:

- **Simplified funding settlement** – Streamline the funding relationship between the Scottish Government and councils, with earlier engagement in the budget process to support better planning.

- **Baselining of specific grants** – Further incorporation of ring-fenced revenue grants into the General Revenue Grant, providing councils with greater flexibility over local spending priorities.
- **Exploration of greater revenue-raising powers** – Encourage further consideration of new ways that councils can generate additional income to help address financial challenges.
- **Multi-year funding settlements** – When possible, councils will receive multi-year funding settlements to support wider strategic planning.

17. The fiscal framework will formally apply to the 2026/27 Scottish Government Budget, and we intend to report on how these commitments have been met within our upcoming supplementary work on the Scottish budget that will accompany this report.

Total revenue funding and income increased by 1.3 per cent in 2024/25, but income generated from both council tax and business rates fell in real terms

18. In addition to direct revenue funding from the Scottish Government, councils receive funding and generate income to support their day-to-day spending from a variety of other sources. These include council tax and non-domestic rates (NDR, commonly referred to as business rates), but also fees and charges for using services and council house rents.

19. Overall, our analysis of 29 councils where 2023/24 and 2024/25 accounts were available shows that revenue funding and income increased by £0.3 billion in real terms (1.3 per cent). Due to the 'baselining' of specific funding into the GRG (paragraph 15), there was a large annual increase in this funding of around £1 billion (12 per cent), but this was partially offset by a commensurate reduction in other grants of around £0.6 billion (16 per cent) (Exhibit 2, page 13).

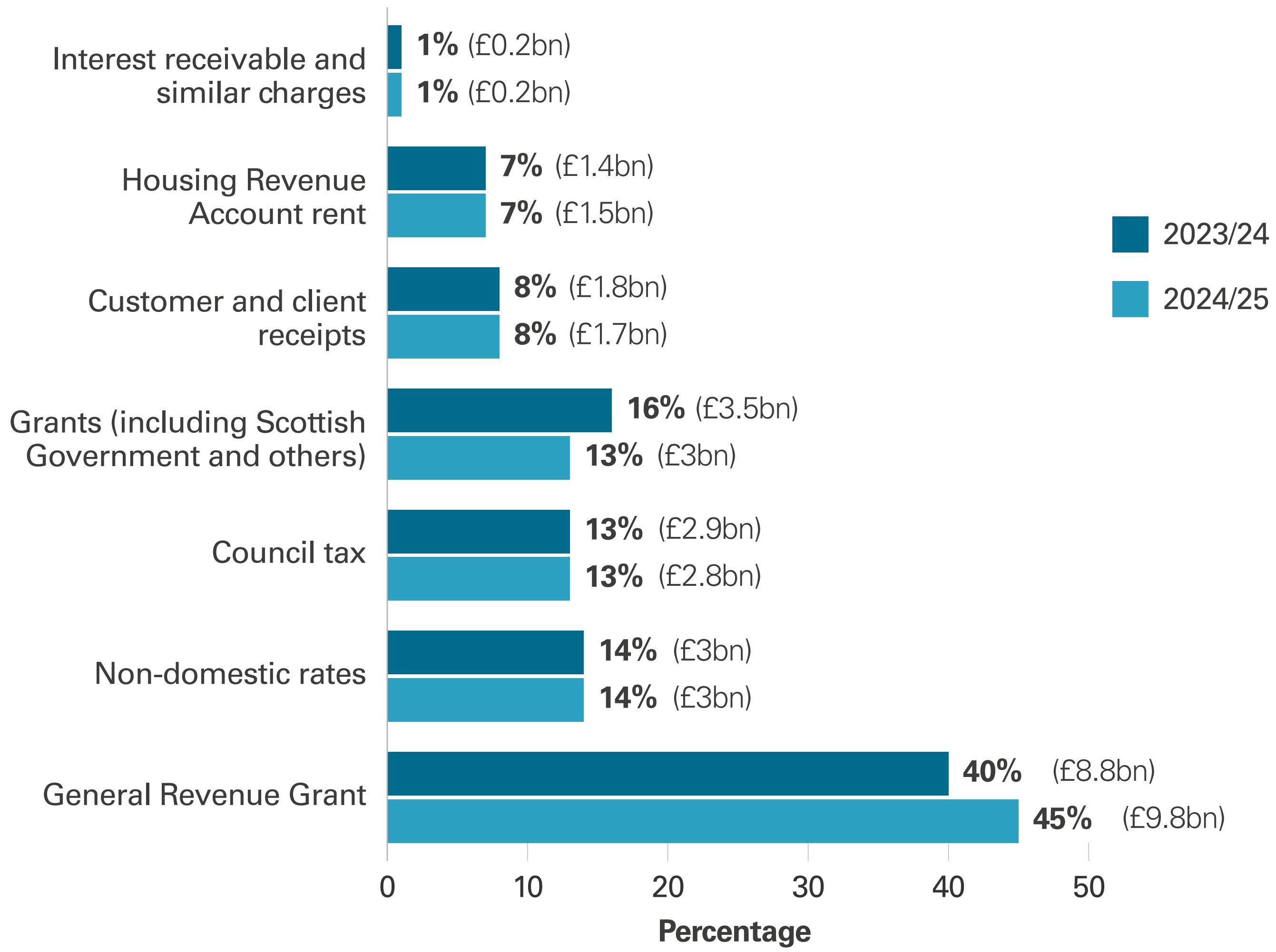
20. The Scottish Government elected not to make changes to NDR rates or reliefs in 2024/25. Alongside this, councils agreed to freeze council tax rates in return for funding from the Scottish Government, with the Scottish Government estimating this additional funding was equivalent to a five per cent increase in council tax. These decisions contributed to the income directly generated from both council tax and NDR failing to keep pace with inflation and falling in real terms by one per cent and three per cent respectively.

21. Similarly, despite increasing fees and charges in recent years, as outlined in Local government budgets 2024/25, Local government budgets 2025/26 and our recent Spotlight on culture and leisure services, the associated income generated has failed to keep pace with inflation and fell by over three per cent in real terms.

Exhibit 2.

Sources of council revenue funding and income in 2023/24 and 2024/25, in real terms

There was a large increase in GRG and a reduction in other grants in 2024/25, related to baselining of funding, but overall, the proportion of funding from different sources was similar to recent years.



Note: Figures subject to rounding

Source: Councils' annual accounts 2023/24 and 2024/25

Councils identified £542 million of budget gaps at the start of 2024/25, and agreed plans to close them

22. Councils set budgets in February and March for the financial year ahead, based on the initial settlement from the Scottish Government. At the time of setting their 2024/25 budgets, our sample of 28 councils identified a cumulative budget gap of around £542 million (£744 million in 2023/24). This gap represented approximately 3.1 per cent of the total net cost of services, which was a reduction from 2023/24 (4.6 per cent). Glasgow's 2024/25 budget gap was outlier. However, this is due to a multi-year approach to addressing and reporting on their budget gap. The council is focused on addressing their three-year cumulative budget gap to 2026/27 and, as part of their 2024/25 budget, approved savings of £94 million over the three years to 2026/27, of which £34.7 million relates to 2024/25 as part of this longer-term plan.

23. A range of actions were identified by these councils to close the budget gap totalling £553 million (£755 million in 2023/24). Approved bridging actions were higher than the budget gap due to some councils identifying actions not only to address gaps, but also to enable specific spending. Exhibit 3 explains how around three-quarters of bridging actions included identifying recurring/non-recurring savings, using reserves and making use of **financial flexibilities**. Exhibit 4 (page 15) shows the decisions taken by individual councils to address their budget gaps.

24. In 2023/24, councils indicated they would close 19 per cent of their collective budget gap by raising council tax. In 2024/25, no councils raised council tax, reflecting the additional funding made available by the Scottish Government to support a council tax freeze (paragraph 20).

25. Despite increasing funding and measures taken locally to generate additional income, councils continue to face increasing costs and continuing financial pressures. As outlined within Local government budgets 2025/26, at the start of the current financial year, Scotland's 32 councils identified budget gaps totalling £647 million. We consider the financial sustainability of the sector in greater detail within Part 2.

Between 2020 and 2024, the Scottish Government permitted councils to make use of a range of **financial flexibilities** to manage financial pressures. One of these related to service concessions, including Public Private Partnerships (PPPs), and allowed councils to reprofile debt repayments. This offered an immediate benefit of significant one-off increases to reserves but these are not cash backed, and debt payments will need to be made for longer, deferring costs to later years which has implications for future revenue budgets.

Exhibit 3.

The bridging actions 28 councils identified in their 2024/25 budgets

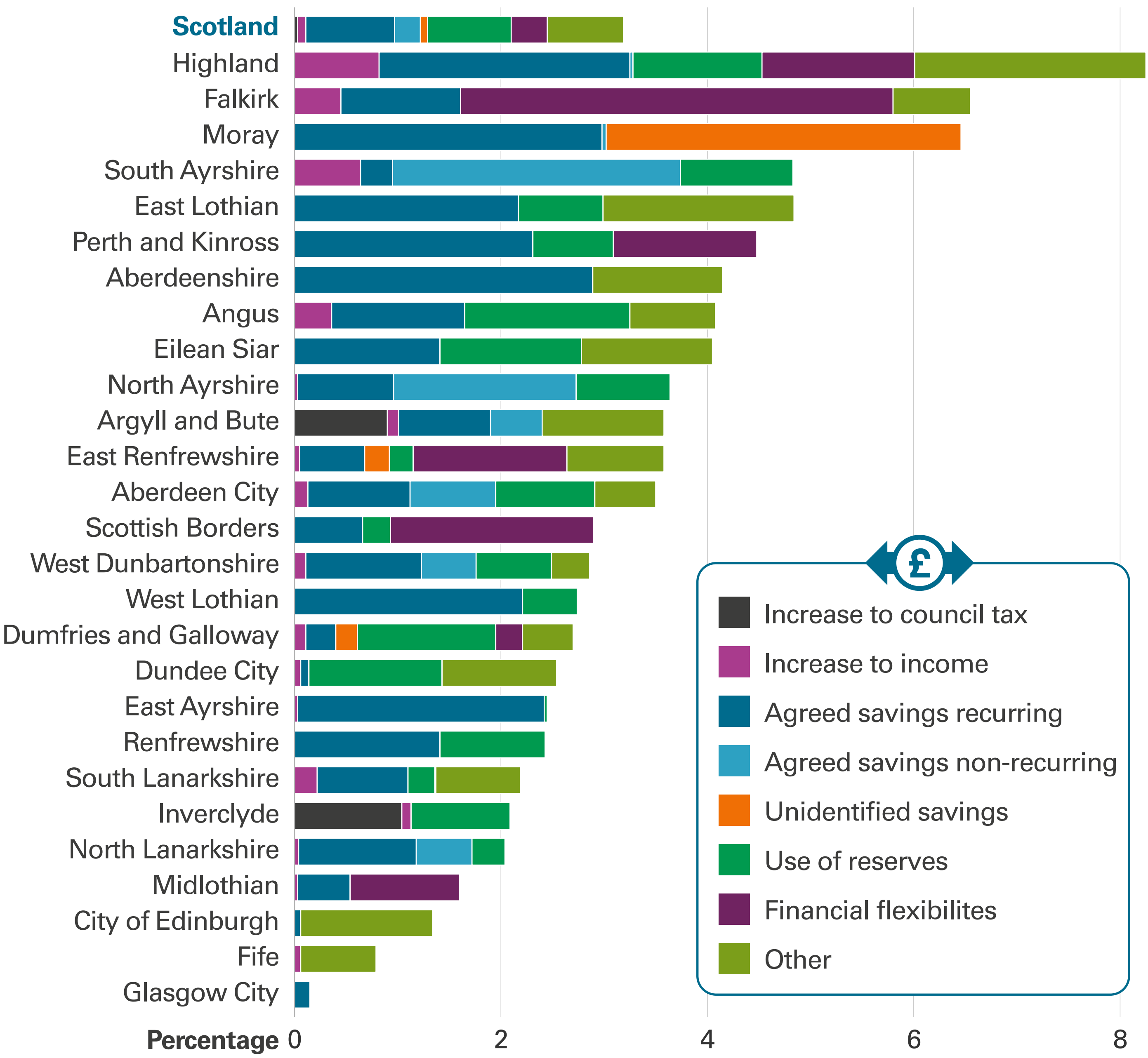
Over half of councils' planned bridging actions were recurring savings and the use of reserves.

Bridging action	2023/24 £755 million, of which:	2024/25 £553 million, of which:
Recurring savings	**£261 million** (35%)	**£172 million** (31%)
Using reserves	**£211 million** (28%)	**£141 million** (25%)
Non-recurring savings	**£25 million** (3%)	**£43 million** (8%)
Financial flexibilities	**£69 million** (9%)	**£60 million** (11%)
Other measures	**£189 million** (25%)	**£137 million** (25%)

Source: Council data returns for budget bulletins (2024 and 2025) and councils' annual accounts 2024/25 (audited and unaudited)

Exhibit 4.
The bridging actions councils identified within their 2024/25 budgets as a proportion of net cost of services

Over half of all bridging actions were made up of recurring savings and use of reserves across Scotland.



Note: In addition to three councils whose 2024/25 annual accounts or 2023/24 data return were unavailable, Shetland and Orkney are also excluded; both are outliers due to their high use of reserves to set their budgets, reflecting the councils' regular use of returns from significant investments and harbour income. Shetland's bridging actions made up 39 per cent of their net cost of services (79 per cent of which related to reserves use). Orkney's bridging actions made up 15 per cent of their net cost of services (all of which was use of reserves). Bridging actions were identified as councils set their 2024/25 budgets and plans, so may have been reduced to reflect previously approved decisions and can also be subject to in-year changes.

Source: Council data returns for budget bulletins (2024 and 2025) and councils' annual accounts 2024/25 (audited and unaudited)

Councils did not remain within their agreed revenue budgets in 2024/25, with more than a third of councils spending more than was planned

26. Councils set revenue budgets for General Fund services, which represent most council spending and include major services such as education and social care. The councils that own and maintain council housing also set a budget for their Housing Revenue Account (HRA). Councils generally set balanced HRA revenue budgets, with spending plans financed largely by rental income.

27. Based on information provided to us via supplementary data returns (detailed revenue data for 29 councils), councils managed net revenue budgets of around £16.1 billion in 2024/25, compared to £15.6 billion in 2023/24.

28. Eleven councils reported an overspend against their total revenue budgets, and overall, councils reported a revenue budget overspend of £16.8 million in 2024/25 (0.1 per cent):

- 12 councils overspent against their General Fund revenue budgets and, collectively, councils reported a £19.4 million (0.1 per cent) overspend against General Fund revenue budgets totalling £16.1 billion.
- Councils planned to spend £1.6 billion on housing services, including transfers to fund capital investment, and reported an overall overspend of £24.8 million (1.6 per cent). HRA income, however, was £27.4 million higher than budgeted, resulting in a net HRA revenue underspend of £2.6 million.

29. Of the 30 councils where there was available data, 15 reported an overspend on the social care services they deliver on behalf of Integration Joint Boards (IJBs) totalling around £49 million. This was due to increased demand for care packages, both home and residential, alongside an increasing cost for these services. At the same time, several councils reported service level underspends across a range of services (Exhibit 5, page 17). We will publish our annual IJB Financial bulletin 2024/25 in February 2026 which will set out in more detail the financial status of, and outlook for, IJBs.

30. This is the first time an overall overspend for the sector has been reported in the last six years. Between 2019/20 and 2023/24, councils reported an overall underspend; however, the size of the underspend had been decreasing in recent years, and was only 0.2 per cent in 2023/24.

Exhibit 5.
Councils' overspends and underspends at a service level and reasons for them
Almost all councils reported overspends in 2024/25, with less reporting underspends.

	Service area	Reasons for
Overspends	• Overspends were reported across a wide range of services, particularly within adult social care services, education, children and families, housing and properties and facilities.	• Service area overspends were mostly attributed to increased costs of providing services including inflationary pressures, and increasing demand for services. • For education services, staffing for teacher cover and an increase in additional support needs were identified by several councils as a reason for overspend.
Underspends	• Corporate support areas were the most prevalent areas of underspend. • Education also showed many areas of underspends including workforce vacancies and specific funding.	• Workforce issues, such as recruitment freezes, staff vacancies due to difficulty in recruiting, particularly in education. • Delays and slippages in projects were also a prevalent reason for underspends this year (which will have costs in future years).

Source: Council data returns

Councils achieved significant savings, with a third meeting their full savings target; but some councils continue to rely on one-off measures to make savings

31. From a sample of 30 councils, 29 set a savings target in 2024/25, totalling £376.2 million, and achieved £338.2 million of this (89.9 per cent). Similar to 2023/24, of those councils that set a savings target, ten met their full target and 17 achieved 70 per cent or more. Two councils (Aberdeenshire and Midlothian) achieved less than 70 per cent of their savings target in 2024/25; both reported a revenue budget overspend, but only one (Aberdeenshire) would have broken even if its savings target had been achieved.

32. There is, however, variation in both the scale and ambition of savings targets across individual councils. Based on the 28 councils in our sample that set savings targets and provided revenue budget data, savings achieved were equivalent to 2.2 per cent of total revenue budgets. Shetland Islands, however, achieved savings equivalent to 4.7 per cent of their revenue budget while Dumfries and Galloway achieved savings equivalent to only 0.6 per cent of their revenue budget.

33. Twenty-eight of the 29 councils that set saving targets split these targets into recurring and non-recurring savings. Where we have a breakdown of how savings were achieved, 86.3 per cent (£270 million) were achieved on a recurring basis and 13.7 per cent (£42.9 million) were non-recurring. This compares to 85.5 per cent recurring savings in 2023/24. The split of recurring and non-recurring saving, however, varied widely among councils, with seven councils relying heavily on one-off measures to make in-year savings (Exhibit 6, page 19). Using non-recurring savings to balance council budgets is not sustainable over the longer term.

34. In our 2023/24 Financial bulletin we recommended that councils should report on savings made within their management commentaries more comprehensively, including provision of comparisons to savings targets agreed during budget-setting, and whether they were recurring or non-recurring.

35. Councils are still not adequately reporting on savings within their management commentaries, and only two councils disclosed whether savings were of a recurring or non-recurring nature. While some councils report on progress against savings targets, the level of detail provided can be limited.

Councils spent almost £3.5 billion on capital investment in 2024/25, with increased spending supported largely by borrowing

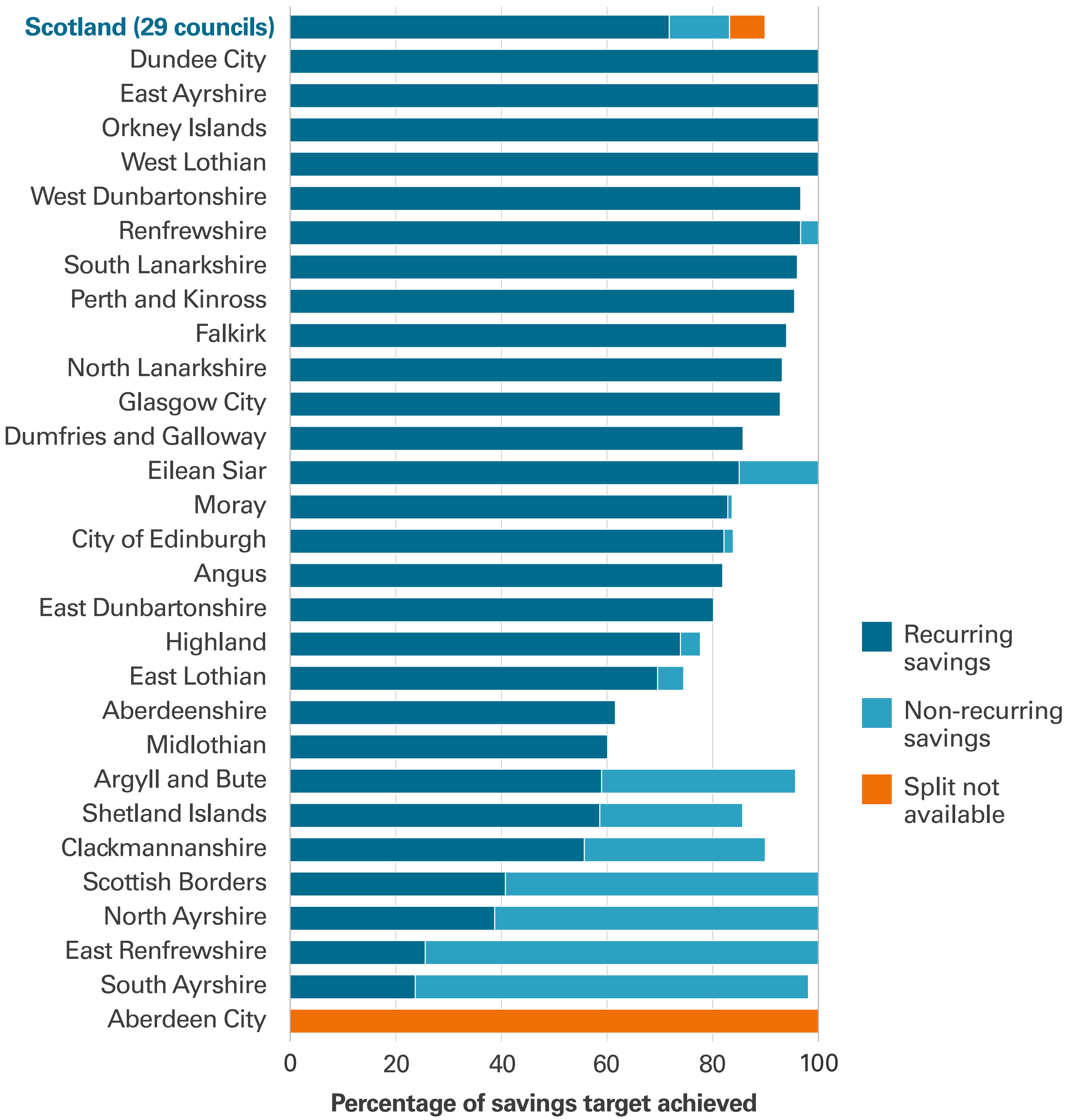
36. The value of councils' physical assets increased in 2024/25, with property, plant and equipment increasing by around £3.5 billion (to £53.7 billion). This increase in value reflects both ongoing investment and changes to how councils account for leased assets (International Financial Reporting Standard 16 (IFRS 16): Leases, page 23).

37. Councils remain reliant upon borrowing to finance their investment in new assets as capital grants reduce, with increased reliance also being placed upon using internal funds and transfers from revenue budgets. According to our sample of 30 councils providing information via the data return, overall capital expenditure was £3.4 billion in 2024/25, a 7.9 per cent annual increase. Of this, £2.2 billion was related to General Fund projects and £1.2 billion was spent on HRA housing projects.

Exhibit 6.

Percentage of revenue savings targets achieved in 2024/25, split by recurring and non-recurring savings

Some councils relied heavily on non-recurring, one-off measures to make in-year savings in 2024/25.



Note: Inverclyde and Stirling councils did not provide a data return and have been excluded from this exhibit. Ahead of setting its budget for 2024/25, Fife Council took steps to close its budget gap and therefore did not set an additional savings target for 2024/25.

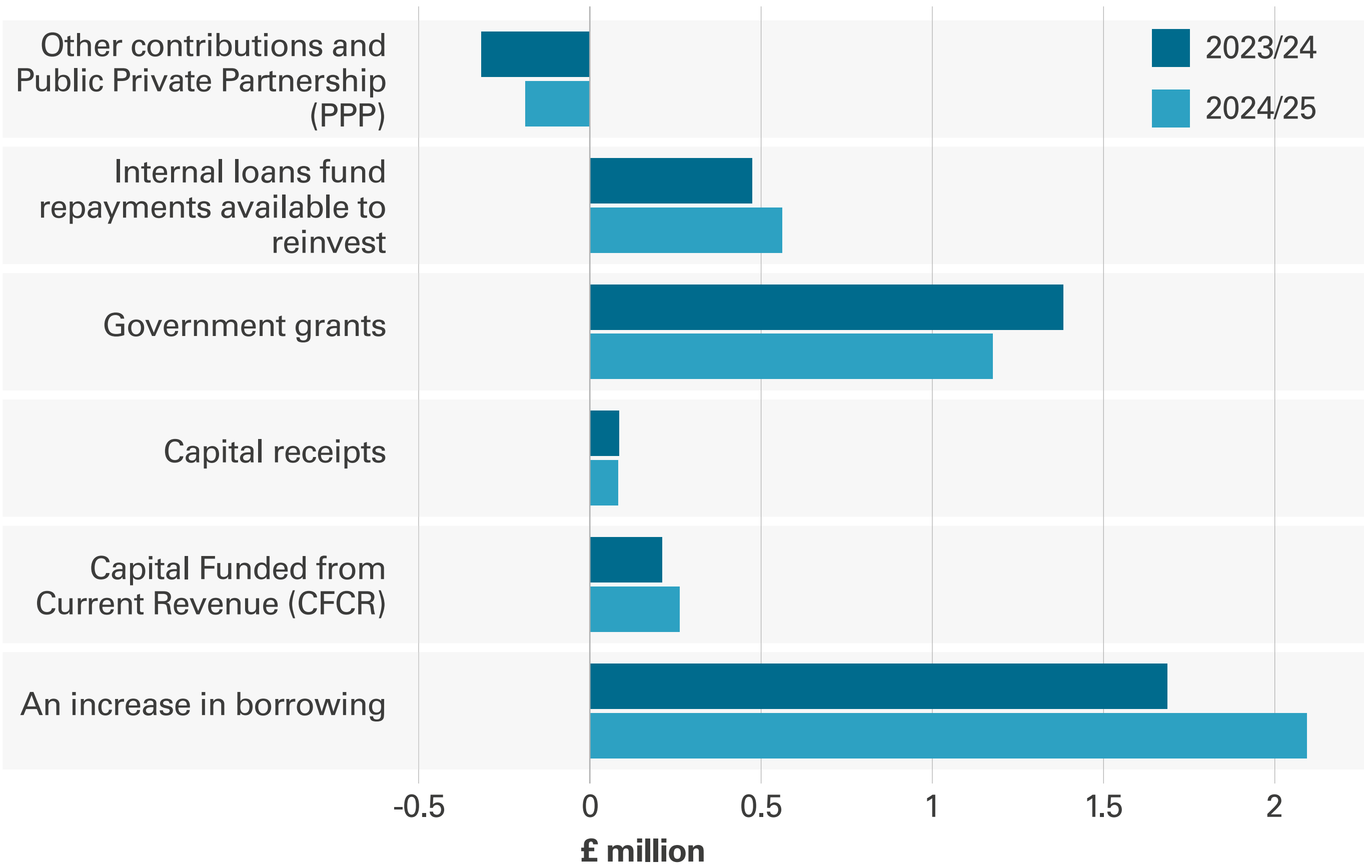
Source: Council data returns

38. There is also continued reliance upon funding released from the use of financial flexibilities relating to accounting for Public Private Partnerships (PPPs). By extending repayment periods for these contracts, councils reduced immediate debt costs and eased annual budget pressures. Recognising prior year overpayments further helped councils manage contract costs more flexibly in their financial planning. In turn, this meant councils increased their usable reserves, allowing these to be used to finance other investment, and reducing the annual impact of PPP payments on capital budgets (Exhibit 7).

Exhibit 7.

Capital expenditure split by sources of finance in cash terms, 2023/24 and 2024/25

Borrowing and grants remain the most significant sources of capital finance but borrowing again increased to offset further reductions in capital grants.



Note: Internal loans fund repayments are an annual charge that recognise capital costs in the revenue budget. Once repaid, they allow borrowed funds to be used elsewhere. Capital receipts are income councils generate from selling existing assets. Revenue transfers are capital expenditure funded from service revenue budgets.

Source: Councils' annual accounts 2023/24 and 2024/25

Despite this increased investment, councils again underspent on their capital budgets

39. Overall, councils reported a budget underspend of £704.4 million or 17.2 per cent of the capital budget in 2024/25. This is less than the underspend reported in 2023/24 (21.3 per cent) and in any of the previous three years. Underspends were reported for both General Fund (21.7 per cent) and HRA capital programmes (7.9 per cent).

40. Twenty-eight out of 30 councils underspent against their General Fund capital budgets in 2024/25 (Eilean Siar reported a balanced position, while Glasgow City reported a small overspend). Not all councils build, own and maintain council housing due to having previously transferred housing stock to housing associations. Of those councils that do have housing stock, and therefore operate an HRA, 23 out of 25 reported underspends against their HRA capital budgets in 2024/25 (City of Edinburgh and East Lothian were the only councils that reported overspends due to accelerated programmes of works).

41. The main reasons for these underspends were slippage in projects, due to capacity and supply chain issues, with capital spend reprofiled into future years. Time taken for procurement of projects was also a prevalent reason for underspends. A large number of the capital projects that slipped this year were within HRA and housing programmes, but school and large infrastructure projects also showed underspends largely due to delays.

42. The main challenges councils reported through the data return in delivering capital programmes over the next five years were:

- affordability – managing the rising costs due to inflation contributing to high and growing material and labour costs
- the risk of higher interest rates on borrowing for capital projects
- the reliance on funding which can come with limitations and uncertainty for the future
- a lack of workforce capacity to manage and run several capital projects.

43. Each year, we ask auditors to consider a specific Best Value theme as part of their annual audit work and then report nationally on the findings of this. For 2025/26 audits, which are scheduled to conclude and report later in 2026, we have asked auditors to consider councils' approaches to asset management and will report nationally on this in spring 2027.

44. All councils who provided a data return reported having a multi-year capital plan in place, with most plans spanning five or more years (25 out of 30 councils). Most councils include information on their capital plans within their management commentaries but, as with information on savings, the level of detail varies. Few provide comprehensive insights into anticipated expenditure, key projects and future challenges. This could hinder the ability of decision-makers to make informed choices on how best to manage finances. It is important that councils are open and transparent in their reporting to the public and wider stakeholders.

45. Further use of external borrowing, capital underspends and the impact of IFRS 16 implementation on councils' financial position underlines the importance of considering the impact of current decision-making on longer-term capital investment strategies and plans (International Financial Reporting Standard 16 (IFRS 16): Leases, page 23).

An update on the Learning Estate Improvement Programme (LEIP) and Public Private Partnership (PPP) contract management

46. Councils continue to progress investment in their school estates, via participation in the Scottish Government's Learning Estate Investment Programme (LEIP). The launch of Phase 3 of the programme confirmed that 47 schools will be eligible for funding under the programme, with construction or refurbishment costs being part funded by the Scottish Government using an outcomes-based 25-year funding model.

47. Fourteen projects have been completed and are now operational, with a further 16 under construction and 17 at the design stage. Procurement processes and construction times associated with such projects means that it is increasingly unlikely that the programme will be completed by the original planned date of 2027.

48. These delays also mean that there is a lack of certainty around overall construction costs, which councils must fund, as well as the allocation of ongoing Scottish Government outcomes-based funding for individual projects (which are not yet fully finalised as they are based upon project costs).

49. Alongside management of the LEIP programme, councils continue to manage the operational aspects of a variety of PPP contacts, including Public Finance Initiative (PFI) contracts. Earlier PFI contracts are now nearing their end, with eight set to expire by the end of 2030. Councils are actively preparing for, or managing, complex exit arrangements.

50. In the 2024/25 Annual Audit Reports we have reviewed (sample of 15), auditors did not raise any concerns around PFI contract expirations that are in process. However, all reports highlighted the application of IFRS 16 as a significant audit risk. Additional audit procedures were undertaken to mitigate this risk, and while some issues were identified, none were considered material.

International Financial Reporting Standard 16 (IFRS 16): Leases

Councils prepare their accounts under the Code of Practice on Local Authority Accounting, published annually by CIPFA/LASAAC. The Code is prepared under International Financial Reporting Standards (IFRS).

Implementation of IFRS 16 became mandatory for councils under the Code in 2024/25, changing how councils need to account for existing and new leases. Notably this includes Public Private Partnership (PPP) contracts.

For some leases (finance leases), including PPP contracts, councils already recognised an asset and corresponding lease liability on their balance sheets.

The main impact of the new requirements therefore is that, for arrangements previously accounted for as operating leases, a right-of-use asset and a lease liability must now be recognised on council's balance sheets.

What IFRS 16 means for councils

In a small number of cases, the application of IFRS 16 resulted in delays to draft accounts, or drafts accounts being issued where elements of the changes had yet to be applied.

As IFRS 16 has not been retrospectively applied, from our sample of 15 audited sets of accounts and 14 unaudited sets of accounts, 2024/25 has seen:

- the value of councils' assets increasing by £3.5 billion, with £0.4 billion of this due to recognising 'right of use assets' under IFRS 16
- an increase in total debt of £2.5 billion (£0.5 billion increase in long-term liabilities), with £0.8 billion of this overall movement due to recognising remeasured PPP liabilities under IFRS 16
- this recognition of both assets and liabilities impacting councils' Capital Financing Requirements (CFRs), with £0.9 billion of the annual increase of £2.1 billion attributable to IFRS 16 implementation.

2024/25 audit work on IFRS 16 implementation

In 2024/25, all appointed auditors recognised the implementation of IFRS 16 as a significant risk for councils and carried out additional audit testing and procedures as part of their work.

Auditors identified a range of issues in how IFRS 16 related changes were reflected within draft accounts. In all cases, however, corrections were either made by councils, or any uncorrected misstatements were not material to the accounts.

No auditors modified their audit opinions due to IFRS 16 implementation.

Overall, the conclusion from 2024/25 audit work reported to date is that councils appropriately reflected the impact of IFRS 16 in their final accounts.

It has, however, directly impacted debt levels which councils must consider alongside other key factors within both their capital and borrowing and treasury management strategies. It is therefore important that all councils consider the continued affordability of their longer-term capital investment strategies and plans.

2. Financial position and outlook

Councils face substantial challenges in maintaining their financial sustainability over the medium term. A decrease in usable reserves in 2024/25, most of which are committed for specific purposes, limits councils' flexibility in dealing with emerging pressures and increases overall financial risk.

Councils' usable reserves have decreased since 2023/24

51. Councils often use reserves as a way of managing their finances, for example helping to support service transformation to support future savings. Because reserves are a one-off resource, councils must plan their use carefully. As budgets come under greater pressure from cost pressures and increasing demand, it is critical that councils understand the risks of using reserves to manage short-term budget pressures.

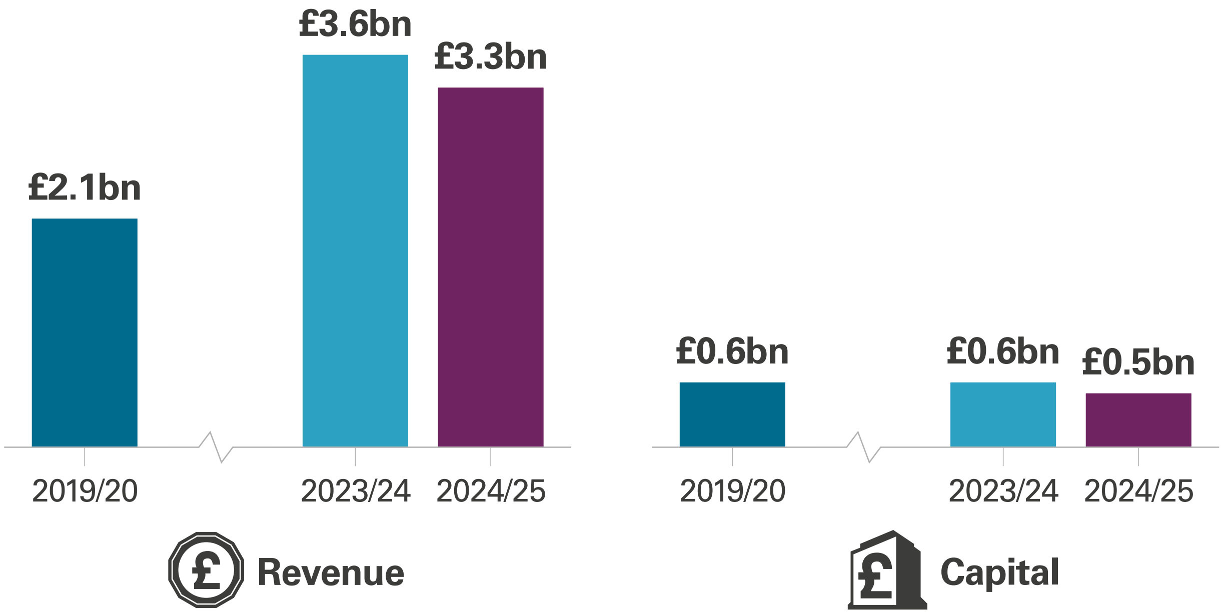
52. In 2024/25, usable reserves decreased from £4.1 billion in 2023/24 to £3.8 billion (Exhibit 8, page 25). This follows a period where usable reserves have been increasing, from £2.7 billion in 2019/20, that was attributable largely to increased funding and the use of financial flexibilities that were introduced in response to the Covid-19 pandemic. The annual decrease in usable reserves is due to a slight decrease in capital reserves and a larger (ten per cent) decrease in usable revenue reserves. The £3.8 billion of usable reserves held by councils at the end of 2024/25 equates to 22 per cent of their net cost of services.

53. Supplementary information provided to us via data returns shows that 25 out of 30 councils made planned use of their reserves in 2024/25 (around £325 million) to balance their budgets, meet statutory obligations and to fund one-off pressures. Sixteen councils also made unplanned use of reserves (around £78 million). This compares to 12 out of 30 councils in 2023/24. This unplanned use of reserves was mainly to mitigate service overspends or to address specific financial pressures.

Exhibit 8.

Councils' usable reserves, 2019/20, 2023/24 and 2024/25

Usable reserves remain higher than pre-pandemic but have seen a decline in the last year.



Note: Figures subject to rounding.

Source: Councils' annual accounts 2019/20 to 2024/25 (audited and unaudited)

Eighty-six per cent of General Fund reserves are committed for specific purposes, impacting the level of contingency funding available to manage emerging pressures

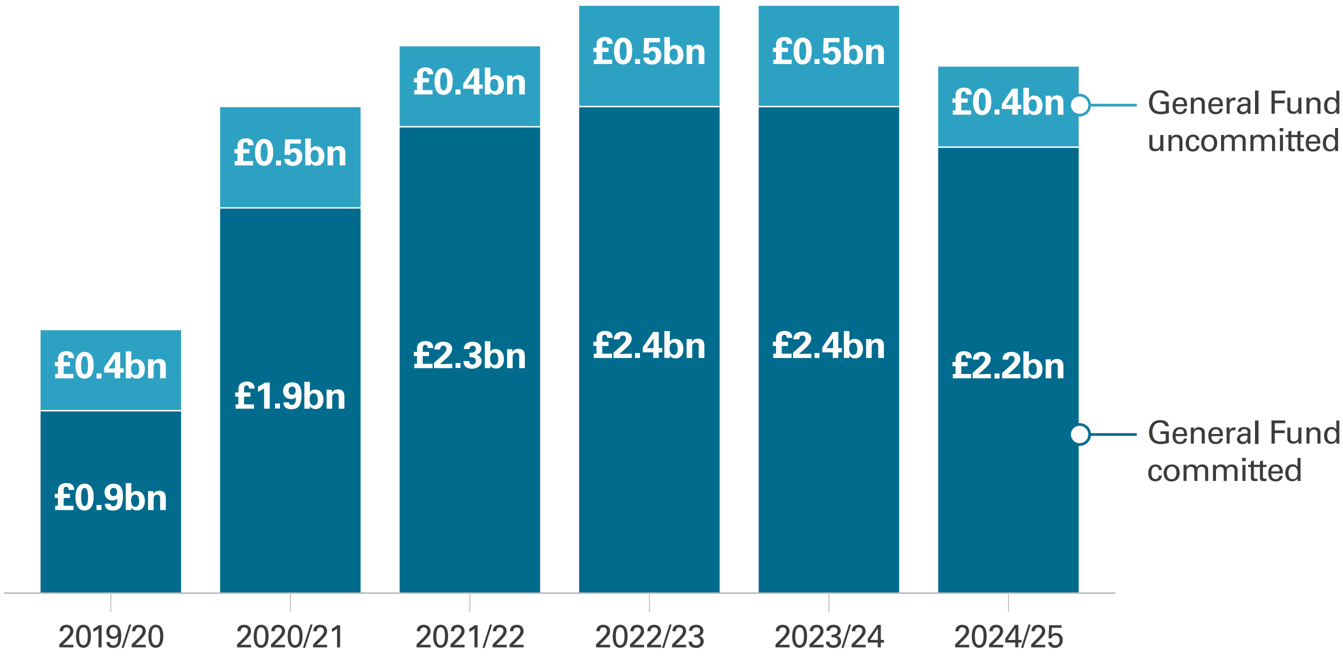
54. The General Fund is the principal usable revenue reserve held by councils. It can be used for a wide range of purposes, including bridging budget gaps by supporting both day-to-day service spending and elements of capital spending. It therefore represents the most readily available reserve for managing financial pressures.

55. Councils, however, also commit or earmark elements of the General Fund, identifying where it will be used for a specific purpose. Notably, the recent trend in General Fund increases since 2019/20 was driven almost exclusively by committed funds. This means that while, overall, the General Fund was increasing, uncommitted usable reserves have been decreasing as a proportion of spending (Exhibit 9, page 26).

Exhibit 9.

Councils' General Fund balance between 2019/20 and 2024/25, split by committed and uncommitted

General Fund reserves have declined with 86 per cent committed in 2024/25.



Source: Councils' annual accounts 2019/20 to 2024/25 (audited and unaudited)

Annual overspends, and a reliance on reserves, means that a number of councils are now in breach of their own reserves policies and are taking action to address this

56. Based on information provided to us via supplementary data returns, 28 out of 30 councils have reserve policies in place, with the majority (27) setting out a minimum level of uncommitted reserves ranging between 0.4 and three per cent of budgeted net revenue expenditure. Some councils base their minimum level on a set monetary value, rather than a percentage of expenditure; this includes three councils where the minimum level is less than two per cent of budgeted net revenue expenditure. Shetland Islands and Eilean Siar are the only councils in the sample that do not have a formally agreed reserves policy in place.

57. Five councils had uncommitted reserves below their locally agreed minimum in 2024/25 (Dundee City, City of Edinburgh, Glasgow City, South Ayrshire and West Dunbartonshire). These councils explained the reasons for this as in-year overspends, with City of Edinburgh, South Ayrshire and West Dunbartonshire indicating that they intend to bring the levels of uncommitted reserves back to target levels for 2025/26.

Minimum reserve levels are put in place to not only meet statutory duties but to ensure financial stability, ie ensuring that there is a buffer for unplanned spends. If councils breach their minimum reserves levels this could be a sign that they are reliant on using one-off reserves for recurring needs.

58. A review of councils' management commentaries shows that all councils clearly identify key reserve areas and explain their purpose. Most councils also specify their minimum reserve level, with those who do not set a minimum level providing justification for their approach.

Councils must improve the transparency of their financial reporting

59. As part of good financial management and governance, councils should report on their finances in a clear and timely manner. At the time of publishing this report, not all 2023/24 council audits are complete, with two (Clackmannanshire and East Dunbartonshire) remaining outstanding. This year, 15 councils met the statutory deadline of 30 September for preparing audited 2024/25 accounts. At this point, no 2024/25 annual accounts have been qualified or modified by appointed auditors. Four councils (Aberdeenshire, Clackmannanshire, East Dunbartonshire and Stirling), however, failed to meet the 1 July deadline to have their unaudited accounts available for public inspection.

60. Within the sample of 2024/25 Annual Audit Reports, most councils were judged to be open and transparent in their financial reporting. The auditor of one council identified that its financial reports did not support effective scrutiny, as they were highly technical and not sufficiently tailored for members without a financial background. A recommendation was subsequently made that the council should improve reporting to present key financial information such as budget reports, savings measures and borrowing in an understandable and consistent way, including summary information, to better inform decision-making and allow for scrutiny from elected members. The council agreed to take action to address this recommendation, with the underlying principle applicable to all councils.

61. Our review of management commentaries found these were generally clear and understandable, and consistent with the annual accounts. However, there was a general lack of clarity about who was involved in making judgements on financial sustainability. This is important to demonstrate good governance, transparency and accountability.

Councils are forecasting continuing financial pressures over the medium term which present risks to financial sustainability

62. Councils face significant risks to their financial sustainability which can be influenced by external pressures. These include demographic changes and rising demand for services (particularly within social care), ongoing workforce challenges (the subject of our August 2025 report Delivering for the future: Responding to the workforce challenge), and current immediate pressures such as homelessness. Additionally, the implementation of new and existing Scottish Government policies without sufficient further funding can add to existing challenges.

63. Within the supplementary data returns we issued, and publicly, councils reported a range of specific financial risks as possible challenges for their financial sustainability over the next five years. Common issues highlighted include:

- **Future funding:** all councils have highlighted single-year settlements, any potential reductions in government grant funding and ring-fencing of funds as major challenges. The draft 'Fiscal Framework between Scottish Government and Local Government' has a stated aim of addressing the uncertainty arising from single-year settlements (paragraph 16).
- Additionally, **future reductions in capital grants** could mean that already constrained capital programmes would need to be scaled back or redesigned, impacting the availability of assets essential for service delivery. This comes at a time when demand for services continues to rise.
- **Inflationary pressures:** councils are reporting existing inflation pressures as well as economic uncertainty over future inflation and interest levels as a main challenge. They are also facing pressures with increased service demand and the associated rising costs of goods and services, as well as a risk of rising borrowing and capital financing costs related to increased borrowing being needed to finance projects due to increasing costs and construction inflation.
- **Pay settlements/awards:** councils expressed concern about uncertainty of how future pay awards might be financed. They reported that a lack of certainty as they negotiate future pay awards creates a challenge for financial planning. This includes financial pressures arising from increased employer's National Insurance contributions from 2025/26 onwards.
- **Council tax:** a council tax freeze was implemented in 2024/25, and while there was no council tax freeze in 2025/26, councils have highlighted the uncertainty around future council tax rates as a significant challenge for medium-term financial planning. Councils also identified that this risk is heightened by their limited capacity to introduce new local taxes, leaving them reliant on council tax income.

- **Savings:** identifying and achieving additional recurring savings after implementing substantial savings in recent years was identified as a challenge by some councils.
- **Reserve levels:** two councils reported that low reserve levels and reliance on reserves to fund recurring expenditure, potentially reflecting difficulties in controlling their base costs.

64. In Local government budgets 2025/26, we reported that Scotland's 32 councils identified a budget gap of around £647 million at the time of setting their 2025/26 budgets, with a projected cumulative budget gap to 2027/28 of £997 million. With financial pressures forecast to continue, it is important that councils proactively seek to manage these financial pressures to maintain delivery of services.

Councils have medium-term financial plans in place, but must continue to prioritise service transformation to achieve financial sustainability

65. Having robust medium- and long-term financial plans in place is essential in order for councils to maintain a clear understanding of financial risks, implement robust risk management processes to monitor them, and develop indicative forecasts supported by detailed scenario planning.

66. All 30 councils that provided a data return reported having medium-term financial plans in place, with the majority spanning 3–5 years (a small number cover a similar period but are due to be refreshed). Most councils reported that these plans link to their approach to using reserves over the medium term. Eleven councils also reported having a long-term financial plan in place spanning over five years. All councils should consider putting in place longer-term plans to help mitigate financial sustainability risks.

67. All councils present their medium-term financial plans within their management commentaries although few councils provide insights into their longer-term financial outlook. This lack of transparency has the potential to undermine wider understanding of the challenges councils are now facing in terms of their financial sustainability. The majority of councils that did report significant risks to financial sustainability highlighted uncertainties regarding future funding, pay settlements, inflation, cost pressures and rising service demand.

68. Given their financial challenges, councils must focus on service transformation and allocate adequate resources to ensure sustainability. Within our data return sample, 24 councils identified they hold committed/earmarked reserves for transformation work. Glasgow City, Orkney Islands, Shetland Islands, South Lanarkshire and West Dunbartonshire did not separately identify transformation funds within their reserves but councils may have other funds to progress transformation. The total value held is around £269 million, which is around 12 per cent of the total General Fund committed balance and 1.5 per cent of the total net cost of services. The value held varies across councils, ranging from 0.4 per cent (Aberdeen City) to 9.7 per cent (Argyll and Bute) as a percentage of their net cost of services.

69. Most councils report on transformational change programmes in their management commentaries although the level of detail is varied. Some councils provide detail on specific projects within their programme plans and the progress against these. As part of their 2024/25 audit work, we asked auditors to consider the specific Best Value theme of Transformation as part of their annual audit work, following up on our October 2024 report Transformation in councils. We will report nationally on the findings of this work in spring 2026.

Councils' net debt has increased significantly, with an annual increase of £2.5 billion, partly driven by changes in how they account for leases, but also reflecting ongoing investment

70. In 2024/25, within the 29 sets of council accounts available, total debt increased to £23 billion (an annual increase of £2.5 billion). Accounting for investments, this means that councils' net debt now stands at £21.9 billion (2023/24: £19.3 billion). The changes associated with IFRS 16 implementation, with a need to recognise lease liabilities, has contributed to this increased indebtedness (International Financial Reporting Standard 16 (IFRS 16): Leases, page 23). Councils again, however, increased the amount of money they borrowed to invest in new assets. Long-term external borrowing now sits at £15.5 billion (an annual increase of £1.2 billion).

71. Councils' external debt comprises borrowing from a variety of sources. Temporary borrowing is often undertaken to manage cash flow, but longer-term borrowing and debt is associated largely with capital investment and the main sources of this are:

- The Public Works Loan Board (PWLB) – a UK Government agency that provides long-term borrowing with relatively stable interest rates, linked to UK Government bonds.
- Market loans – borrowing directly from the banks or other financial institutions, often undertaken at historical points where they were cheaper than PWLB loans.
- Lender options/borrower options loans (LOBOs) – historic loans where the lender can periodically adjust the interest rates (lender option), providing councils with the choice to accept the new rate or repay the loan early (borrowing option).

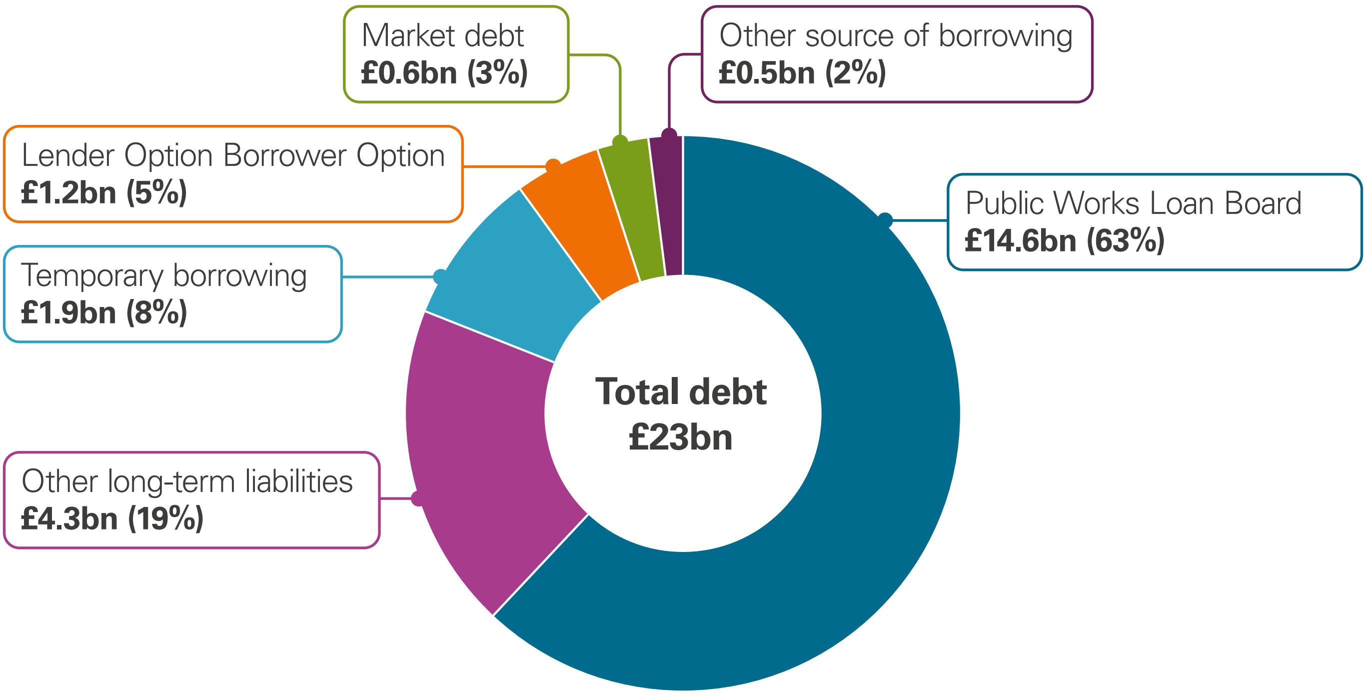
72. As well as direct borrowing, councils also recognise a range of long-term liabilities associated with PPPs and other longer-term investment contracts which represent committed future repayments, with 2024/25 figures also now including adjustments related to changes in how leases, including PPPs, are accounted for.

73. Council debt is reported on their balance sheets at a carrying value equivalent to the outstanding principal plus any accrued interest. This means that the amounts reported can vary from the actual amount borrowed. We asked councils to provide supplementary information about the value of funds borrowed, as well as the sources of this funding. Alongside their reported long-term liabilities which are presented to show the discounted values of future payments (including outstanding payments under PPP contracts), this has allowed us to present the sources of debt for 30 councils (Exhibit 10).

Exhibit 10.

The types of debt held by councils in 2024/25

The vast majority of council debt related to PWLB loans undertaken to invest in physical assets and infrastructure.



Note: This exhibit is based upon 30 council data returns (excluding Inverclyde and Stirling councils). The gross and net debt figures in paragraph 70 are based on 29 sets of accounts (excluding East Dunbartonshire, Clackmannanshire and Stirling Councils).

Source: Council data returns

Most council debt relates to loans from the PWLB that will need to be repaid when they end

74. In 2024/25, Scotland's 32 councils had outstanding PWLB loans with a principal value of £14.9 billion, an increase of £1.9 billion in the amount they had borrowed from the previous year. The vast majority of outstanding PWLB loans, around £12.8 billion, were taken out on fixed-rate maturity terms. This means that over the length of the loan, councils pay defined interest payments every six months but, at the end of the loan, must then repay the principal amount they borrowed (Exhibit 11, page 33).

75. In practice this means that councils often borrow from the PWLB to repay earlier loans. Councils are scheduled to repay around £760 million of PWLB maturity loans in 2025/26, with a further £2.6 billion expected to be repaid over the next five years. At the same time, the interest rates on PWLB borrowing have been increasing, reaching the highest point in a decade. Alongside forecast increases in total borrowing, this is likely to result in increased interest and debt servicing costs, even if the current interest rates available are lower than the rates on loans that are maturing.

Increased borrowing and interest rates mean that councils are now spending more to service their debt

76. Changing interest rates are having an impact on financing costs and councils' financial position more widely. Councils paid £1.2 billion in interest in 2024/25, an increase from £1 billion the previous year.

77. Councils use Local Government Benchmarking Framework (LGBF) data to assess their financial sustainability (paragraph 80). Data for 2024/25 shows there has been an increase in the proportion of councils' revenue budgets allocated to servicing debt in the General Fund, rising from 5.4 per cent to six per cent in the last three years. For the HRA, the proportion of the budget servicing debts cost is currently at 21 per cent, an increase of one percentage point over the last year.

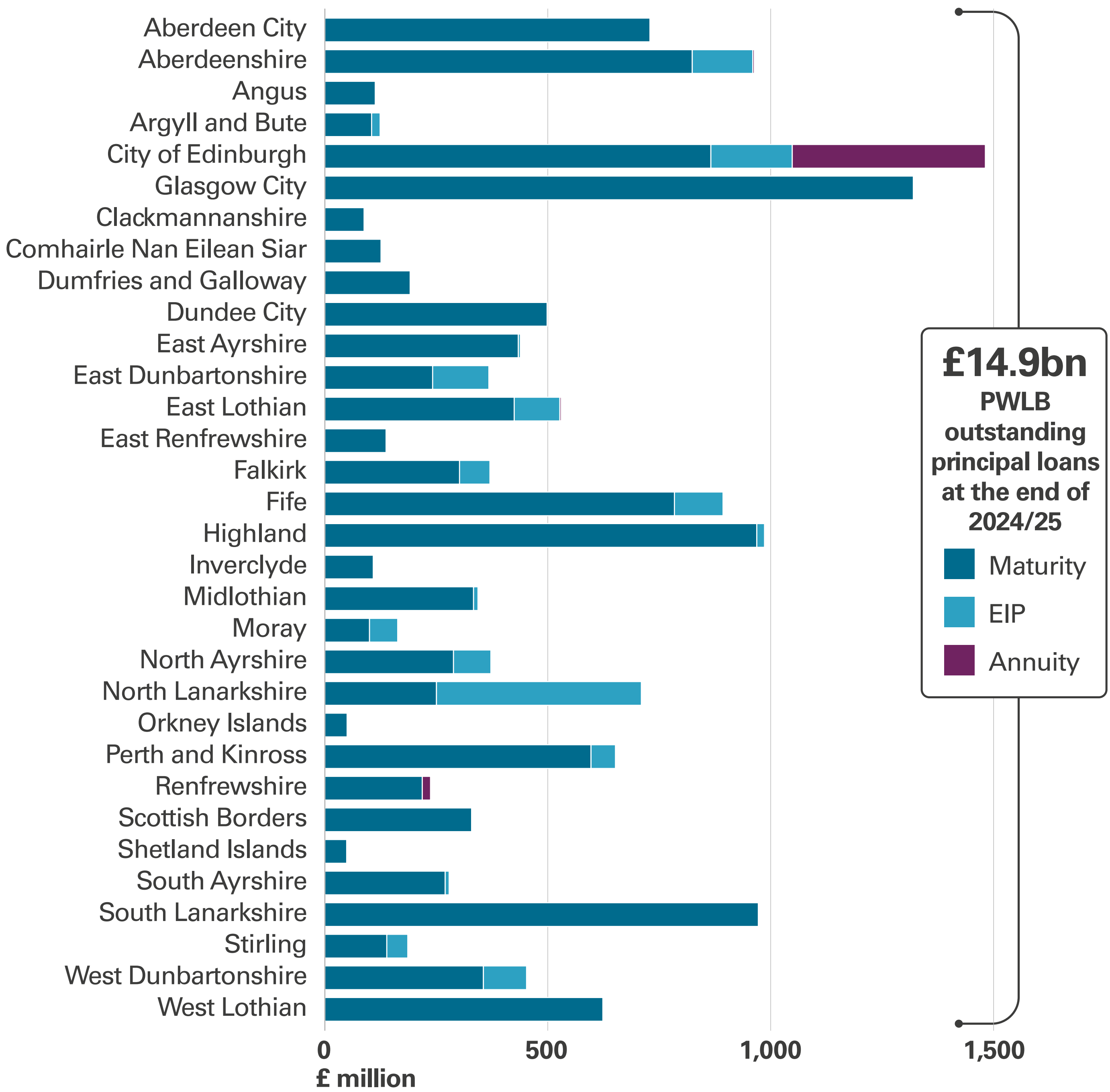
Significant borrowing is still required to finance past capital investment and to deliver planned capital investment

78. The capital finance requirement (CFR) is a measure of the cumulative amount of money a council needs to borrow to finance its capital expenditure. This means it usefully expresses the maximum potential amount of borrowing that a council may still have to undertake. In 2024/25 the cumulative CFR stood at £25.9 billion, an increase of £2.3 billion from 2023/24.

Exhibit 11.

Scotland's 32 councils had outstanding PWLB loans of £14.9 billion at the end of 2024/25

Loans of over £12.8 billion, around 86 per cent, were taken out on a maturity basis, meaning the amount borrowed will need repaid at the end of each loan.



Note: This exhibit presents the PWLB principal outstanding balance for each council. EIP means the borrower makes fixed repayments towards the principal each period, while the interest element changes over the duration of the loan, reducing the overall repayments each period. Annuity means the borrower makes fixed total repayments on both the principal and interest element of the loan over the loan period. The level of regular repayment towards the principal element of the loan will increase over the duration of the loan as the interest element decreases.

Source: Analysis of PWLB annual data as at 31 March 2025

79. Around £19.6 billion (76 per cent) of councils' combined CFR at the end of 2024/25 related to the General Fund, with the remaining £6.3 billion attributable to HRAs. This means there was a slight annual increase in the proportion of the overall CFR relating to the HRA in comparison to the General Fund of 0.6 percentage points.

Councils are assessing their own financial sustainability, and benchmarking against others to inform financial planning

80. Regular monitoring of their own financial sustainability allows councils to plan more effectively and manage their resources responsibly. To do this, councils make use of a range of indicators to assess their own financial sustainability. Based on data returns provided by 30 councils, the extent to which councils make use of both external and internal indicators varies, as they have discretion in how they monitor and assess their own financial sustainability:

- All 32 councils submit data to the **Local Government Benchmarking Framework (LGBF)** and 25 councils actively make use of the LGBF financial sustainability indicators to some extent. Data for 2024/25 shows that both usable reserves and those uncommitted reserves available for immediate use have decreased over the last year.
- Twenty-one councils use the CIPFA level of reserves measure. This compares the current level of reserves to the council's net revenue expenditure.
- Six use the CIPFA reserves sustainability measure. This assesses how long it will take for a council to use all their reserves if they continue to allocate as they have.
- Eight use the CIPFA change in reserves sustainability measure. This monitors the change in a council's reserves over a three-year period.

81. Most councils are reporting on their use of financial sustainability indicators within management commentaries. There is clear evidence that councils are actively assessing and monitoring their financial sustainability through practices such as budget monitoring and managing debt and borrowing.

82. All councils that submitted a data return confirmed that elected members were provided with a summary of medium- to long-term financial sustainability during 2024/25, with most presenting this within budget papers. Some councils also provide updates, varying between quarterly and annual reporting. Our review of management commentaries further shows that elected members are sighted on financial sustainability through budget papers, financial plans, and review of strategic risk registers, though the level of detail on what is included can be limited.

The **Local Government Benchmarking Framework (LGBF)** includes six financial sustainability indicators:

- The level of usable reserves as a percentage of the initially approved annual revenue budget.
- The uncommitted General Fund balance as a proportion of the initially approved net revenue budget.
- The share of a council's General Fund **net revenue stream** (GRG, NDR and council tax income) budget spent on debt and financing costs.
- The share of a council's Housing Revenue Account rental income spent on debt and financing costs.
- Revenue outturn compared to final budgeted revenue budget (General Fund and HRA, where applicable).
- Approved use of reserves to address budget gaps as a percentage of net expenditure (new for December 2025).

83. All councils provided details to us via supplementary returns about who is responsible for assessing financial sustainability. The chief finance officer (or equivalent) is responsible for monitoring the council's financial position and regularly reporting back to elected members, strategic leadership teams, and finance officers. But this is not always clearly reported within management commentaries (paragraph 61).

There are increasing signs that sustained pressures have impacted the financial position of councils, and there are risks to financial sustainability in the medium term

84. Councils' **net revenue streams** have generally increased in line with their net costs of services. Councils, however, have been making significant savings to reduce costs, and funding changes largely reflect increased baselining of funding into the GRG. Our analysis of 2024/25 accounts and related information suggests that, over a range of measures, the financial position of Scotland's councils is worsening:

- General funding has been increasing but more of it is directed, reducing the flexibility councils need to address cost pressures (paragraphs 11–12).
- Councils have not generated other income at a rate that has kept pace with inflation (paragraphs 18–21).
- Identifying recurring savings can become progressively more difficult over time and, while councils have largely been successful in delivering savings, many are reliant on non-recurring savings which do not address underlying issues (paragraph 31).
- Usable reserves are now decreasing and, notably, uncommitted General Fund reserves are decreasing (Exhibit 8, page 25 and Exhibit 9, page 26).

85. At the same time, capital projects are becoming increasingly expensive. Councils have been borrowing more, and the financing of ongoing investment is increasingly expensive. External debt is increasing (paragraph 70) and a number of councils are spending more servicing their debt, across both their General Fund and services and HRA (paragraph 77). Projected borrowing as measured by the CFR is also increasing (paragraph 79).

86. Against this backdrop, councils again forecast significant budget gaps when setting their 2025/26 budgets, with further savings required to address them, alongside the continued planned use of reserves, despite ongoing transformation programmes. Without sustained and recurring financial pressures being addressed, across a range of indicators there are signs that councils will become financially unsustainable over the medium term, despite ongoing transformation and identification of efficiencies.

Upcoming work

87. How councils plan to use their reserves, make savings and transform their services needs to become more transparent as financial sustainability issues are addressed. In our next budget briefing, Local government budgets 2026/27, we will examine the decisions that Scotland's councils take as they set their budgets (including setting council tax), the finalised funding settlement from the Scottish Government, decisions and the steps they intend to take to fund and transform their services.

Appendix

Progress against the recommendations in Local government in Scotland: Financial bulletin 2023/24

In 2025, councils should:	Progress/status
Report on the savings made within their management commentaries more comprehensively, including provision of comparisons to savings targets agreed during budget-setting, and whether they were recurring or non-recurring.	**Limited progress** • Councils are still not adequately reporting on the delivery of savings in their management commentaries, including whether savings are recurring or non-recurring (paragraph 35). • The report includes an updated recommendation on how councils must adequately report information on the delivery of savings within their management commentaries.
Ensure that the impact of capital underspends, future borrowing projections and of using financial flexibilities on their indebtedness are reported clearly alongside the impact of these of future revenue budgets.	**Limited progress** • Our review of council management commentaries found limited references to the impact of current financial decisions, such as capital underspends, new borrowing and utilising financial flexibilities, will have on future revenue budgets. • This report includes a recommendation on how councils should clearly explain within their management commentaries how future revenue budgets will be impacted by current financial decisions.
Ensure reserve policies indicate explicitly and clearly the impact of financial flexibilities on reserves held; the nature, level of and intended timing of the deployment of committed usable reserves held; and the level of uncommitted and contingency funding held within General Funds.	**In progress** • Most councils have a reserve policy which sets out the minimum level of reserves to be held, including those uncommitted. Five councils breached their minimum level for uncommitted reserves in 2024/25 (paragraphs 56–57).

Cont.

In 2025, councils should:	Progress/status
Prioritise service transformation, considering the impact of current service delivery models on longer-term financial sustainability, including the medium-term impact on reserve levels.	**In progress** • Most councils use their management commentaries to report on transformation activities, but the level of details varies. Not all councils hold committed reserves for transformation activities (paragraphs 68–69). • Councils need to continue to prioritise transformation activities to address financial challenges. • The report includes an updated recommendation for councils to clearly report on the level of committed reserves held for on transformation activities.
Ensure that financial sustainability becomes a central focus of financial monitoring and reporting, making greater use of financial sustainability indicators within reports to elected members and within their regular public reporting and financial strategies and plans.	**In progress** • Most councils regularly report financial sustainability indicators to elected members. There is discretion on how councils do this with not all councils fully using the LGBF financial sustainability indicators or CIPFA's level of reserves indicators (paragraphs 80–83). • An updated recommendation on the use of financial indicators in monitoring and reporting is included in this report.

Local government in Scotland

Financial bulletin 2024/25

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