

The Scottish Budget 2026/27

Supplement to the Financial bulletin 2024/25



Despite a funding increase in 2026/27, councils will continue to face significant challenges in remaining financially sustainable over the medium term as demands rise and costs increase. Furthermore, funding from the Scottish Government to 2028/29 is projected to fall in real terms, challenging councils to consider and implement the measures necessary to ensure the ongoing delivery of services.

Introduction

1. This supplement to [Local government in Scotland: Financial bulletin 2024/25](#) sets out our analysis of the recently published 2026/27 Scottish Budget and the draft financial settlement for local government. Both are currently subject to parliamentary scrutiny as part of the budget process.

2. The primary sources of information for this supplement are Scottish budget documents and relevant local government finance settlements published alongside these. Our findings are based on:

- Analysis of relevant portfolio allocations within the Scottish budget, including specific analysis of the local government allocation within the Finance and Local Government Portfolio. This includes analysis of the supplementary information relating to transfers to local government from other portfolio areas.
- Analysis of related local government finance circulars to outline the trend in individual allocations to Scotland's 32 councils.

The Scottish budget process

3. The Scottish Government published its draft 2026/27 Budget on 13 January 2026, alongside the Scottish Spending Review covering 2026/27 to 2028/29 (and to 2029/30 for capital). The draft 2026/27 Scottish Budget was published later than usual, due to the delay to the UK Government's Autumn Budget, in November 2025.

4. On 14 January 2026, the Scottish Government issued Local Government Finance Circular 01/2026, setting out the provisional 2026/27 revenue and capital funding settlement for councils. These figures form the basis of the annual consultation with COSLA ahead of the Local Government Finance (Scotland) Order 2026 being presented to the Scottish Parliament, currently planned for late February 2026.

5. 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, 2026/27). 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.

The Scottish Government plans to increase funding to councils in 2026/27

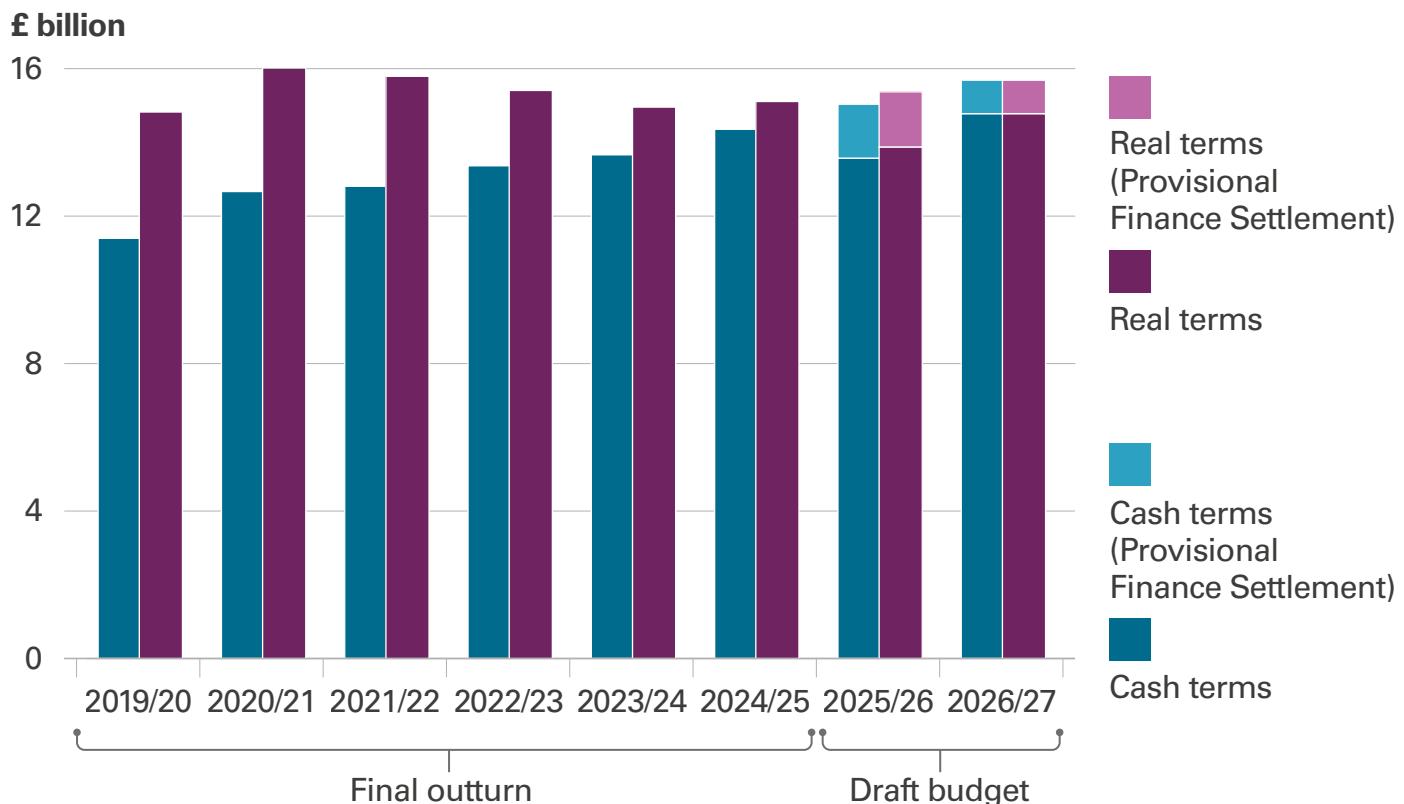
6. The local government budget within the Local Government and Finance Portfolio for 2026/27 is currently set at £14.8 billion. This is equivalent to 24 per cent of the Scottish Government's discretionary budget, including non-domestic rates (NDR). This is a slight increase from recent years, but this primarily reflects increased baselining of funding [\(paragraph 16\)](#).

7. Councils receive further funding throughout the year, including transfers from other portfolios. These are recognised during the budget revision processes and reflected in final outturn figures. Information on some of the further funding that councils expect to receive is, however, outlined in the provisional finance settlement issued to councils alongside the draft budget 2026/27. The settlement outlines £15.7 billion of funding and, on that basis, funding is expected to increase annually in real terms by two per cent between 2025/26 and 2026/27 [\(Exhibit 1, page 3\)](#).

Exhibit 1.

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

The Scottish Government plans to increase council funding in 2026/27.



Note: Real terms analysis, with financial information adjusted to 2026/27 prices. Data for 2025/26 is provisional and will be subject to further adjustments to show final outturn. The draft budget allocations above do not include transfers from other portfolios, but they are included in outturn figures and outlined within provisional finance settlements.

Source: Scottish Government budget documents and local government finance circulars

Most councils are projected to receive higher overall funding in 2026/27, although capital funding is expected to decline

8. The provisional financial settlement provides indicative allocations to councils for 2026/27. It assumes that the contribution council tax will make to council funding will be broadly maintained at 2025/26 levels (in cash terms). The total allocation of £15.7 billion represents a £313 million real-terms increase (two per cent) compared to the 2025/26 provisional settlement.

9. Allocations are determined by a formula agreed with COSLA, and all councils have been allocated cash and real-terms increases in revenue funding in 2026/27. Total revenue funding of around £15 billion is a

three per cent real-terms increase. Capital allocations, however, are to decrease in both cash and real terms between 2025/26 and 2026/27, with 2026/27 capital funding of £681.4 million representing a 14 per cent annual real-terms reduction from initial 2025/26 funding. Combined, this equates to a two per cent overall funding increase.

Within the financial bulletin, we note that councils are already facing concerns about their medium-term financial sustainability. The cost of delivering services continues to rise, and reserves and non-recurring savings are already being deployed, but significant budget gaps remain to be addressed.

Budget gaps identified in recent years exceed this increase in funding. Councils identified a budget gap of £647 million at the time of setting their 2025/26 budgets, with a projected cumulative budget gap to 2027/28 of £997 million.

10. This reduction in capital funding partly reflects the removal of flood defence allocations of around £33 million from the general capital grant but, over the longer term, there has been a £769 million (55 per cent) real-terms reduction in the initial capital allocation to councils since 2019/20. All but three councils are expected to experience a reduction in capital funding, including significant decreases for Dumfries and Galloway Council (£30 million, mainly reflecting the removal of flood defence funding) and Shetland Islands Council (£7 million, 47 per cent in real terms).

11. These large reductions contribute to both councils receiving lower overall provisional funding allocation in real terms, as these capital reductions are larger than revenue increases. All other councils, however, are expected to receive a real-terms increase in their 2026/27 combined revenue and capital funding allocation from the Scottish Government. Individual allocations to councils will be finalised, and communicated to councils via a finance circular, following parliamentary approval of the 2026/27 Scottish Budget.

Within the financial bulletin we report on the capital challenges facing councils. Councils report that they will struggle to deliver their capital programmes over the next five years. They have increasingly relied on borrowing as Scottish Government funding remained constrained, and now this funding will reduce.

The Scottish Government plans to reduce funding to councils over the next three years

12. The Local government in Scotland: Financial bulletin 2024/25

highlights the significant financial challenges facing councils and raised concerns about their ability to remain financially sustainable over the medium term.

13. Alongside its 2026/27 draft budget, the Scottish Government published The Scottish Spending Review 2026, which sets out indicative multi-year spending plans up to 2028/29 for revenue spending, and 2029/30 for capital. Within this document, it sets out planned funding for local government and other portfolios. This is a projected spend rather than a final settlement and does not provide a council-level breakdown of funding.

14. All elements of Scottish Government funding to local government are projected to fall over the spending review period, and both revenue and capital funding are expected to reduce between 2026/27 and 2028/29 ([Exhibit 2](#)), further raising the challenge of councils remaining financially sustainable over the medium term.

Exhibit 2.

Overview of local government funding plans in the Scottish Spending Review

Scottish Government funding to councils is expected to reduce in cash and real terms over the period to 2028/29.

	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Cash change (%)	Real change (%)
General revenue grant	10,441	10,644	10,476		0.3	-3.5
Non-domestic rates	3,474	3,266	3,434		-1.2	-4.9
General capital grant	494	504	513	525	3.9	-0.1
Specific resource grants	222	222	222		0	-3.8
Specific capital grants	148	132	124	124	-15.9	-19.1
Total budget settlement	14,779	14,768	14,769		-0.1	-3.8

Note: Excludes local government advice and policy funding of around £4 million each year. These figures are in cash terms and do not include expected transfers from other portfolios. Changes cover the period 2026/27 to 2028/29.

Source: Audit Scotland analysis of the Scottish Spending Review 2026

Significant elements of funding remain directed to support national priorities

15. The Verity House Agreement between the Scottish Government and COSLA included a commitment to baseline ring-fenced grants into the General Revenue Grant (GRG). Although baselined into the GRG, councils are still expected to direct funding towards these policies and statutory duties, reducing their flexibility over the GRG to support local spending priorities.

16. To date, the Scottish Government has baselined around £1.9 billion of previously ring-fenced funding streams into the GRG. Over a third of this, almost £0.8 billion, was baselined in 2026/27. This has resulted in large increases within the Finance and Local Government Portfolio allocation to local government, with funding being shown in this part of the budget rather than transferred from other portfolios later in the year. This is a presentational change and does not increase the overall funding to councils.

17. Significant items baselined have included: £522 million for early learning and childcare expansion (2024/25); £125 million to support the living wage for social care workers (2025/26); and £244 million for teachers' pay (2026/27) [\(Exhibit 3, page 7\)](#). Specific Revenue Grants for Gaelic (£4.5 million), Pupil Equity Funding (£130 million) and Criminal Justice Social Work (£86.5 million) remain ring-fenced.

18. Baseline funding gives councils greater autonomy and flexibility to direct funding to meet local priorities than if funding is formally ring-fenced. Councils do, however, still need to direct spending to national policies and fulfil their statutory duties. Alongside planned in-year transfers at the autumn and spring budget revisions, increased baselining can impact the absolute local flexibility councils have over the GRG.

Exhibit 3.

Funding continues to be baselined into the General Revenue Grant

Since 2024/25, the Scottish Government has baselined around £1.9 billion into the GRG.

2024/25 GRG baselining	£m	2025/26 GRG baselining	£m	2026/27 GRG baselining	£m
Blue Badge scheme	1	Customer First digital public services	1	Homelessness Prevention Fund	24
Community Justice Partnership funding	2	National trauma training	2	2025 teachers pay	244
Former housing support	1	2024 teachers pay	43	Health and social care	257
Free personal and nursing care	42	Community mental health and wellbeing	15	Care at home	124
Free sanitary products in public places	3	Living Wage	125	Health, social care and mental health	120
Free sanitary products in schools	2	2024/25 free personal and nursing care	10	School counselling	4
Free school meals intervention	42			Tobacco-related issues	1
Living Wage	334				
Local heat and energy efficiency strategies	2				
Early learning and childcare expansion	522				
Total	951		196		774

Note: Previous years are restated to account for baselined funding, meaning that GRG in 2026/27 is adjusted to reflect funds baselined in earlier years.

Source: Audit Scotland analysis of Scottish Government budget documentation

Progress has been made in delivering upon the agreed commitments under the fiscal framework between national and local government

19. The Scottish Government and COSLA published the [Fiscal Framework between Scottish Government and Local Government](#) in October 2025. It was to be implemented during 2026/27 budget-setting, reflecting a commitment within the Verity House Agreement to establish a new funding relationship between the Scottish Government and councils.

20. The framework sets out principles such as joint working, meaningful early budget engagement and establishing clear routes to explore local revenue raising and sources of funding, as well as some specific stated aims. While it will be a matter for both partners to consider how successfully the 2026/27 budget process met their expectations, and to continue to develop how they work in partnership, we do note:

- **Baselining of specific grants:** There has been further incorporation of ring-fenced revenue grants into the GRG. Although this provides councils with greater flexibility, they are still directed to allocate funding towards national policies and statutory duties [\(paragraph 18\)](#).
- **Exploration of greater revenue-raising powers:** Both the Scottish Government and COSLA agreed to consider further ways to help councils generate additional incomes to help address local financial challenges. The Scottish Government has proposed £5 million in its draft 2026/27 Budget to deliver a targeted council tax revaluation of homes worth over £1 million, ahead of introducing two new high-value bands from 1 April 2028. This measure is expected to apply to fewer than one per cent of properties. The Visitor Levy (Amendment) (Scotland) Bill is currently going through parliament which will give councils greater flexibility in raising income through visitor levies.
- **Multi-year settlements:** The Scottish Government published the Scottish Spending Review alongside the 2026/27 Scottish Budget, which sets out multi-year portfolio spending plans for resource and capital funding over the 2026/27 to 2028/29 period (2029/30 for capital funding). This has provided indicative funding information for the sector but not for each council. It should be seen as an iterative step towards re-establishing multi-year financial settlements [\(paragraph 13\)](#).

In spring 2026, we will publish our detailed annual bulletin 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. It will also provide detailed analysis of the finalised settlement for 2026/27.