

Introduction

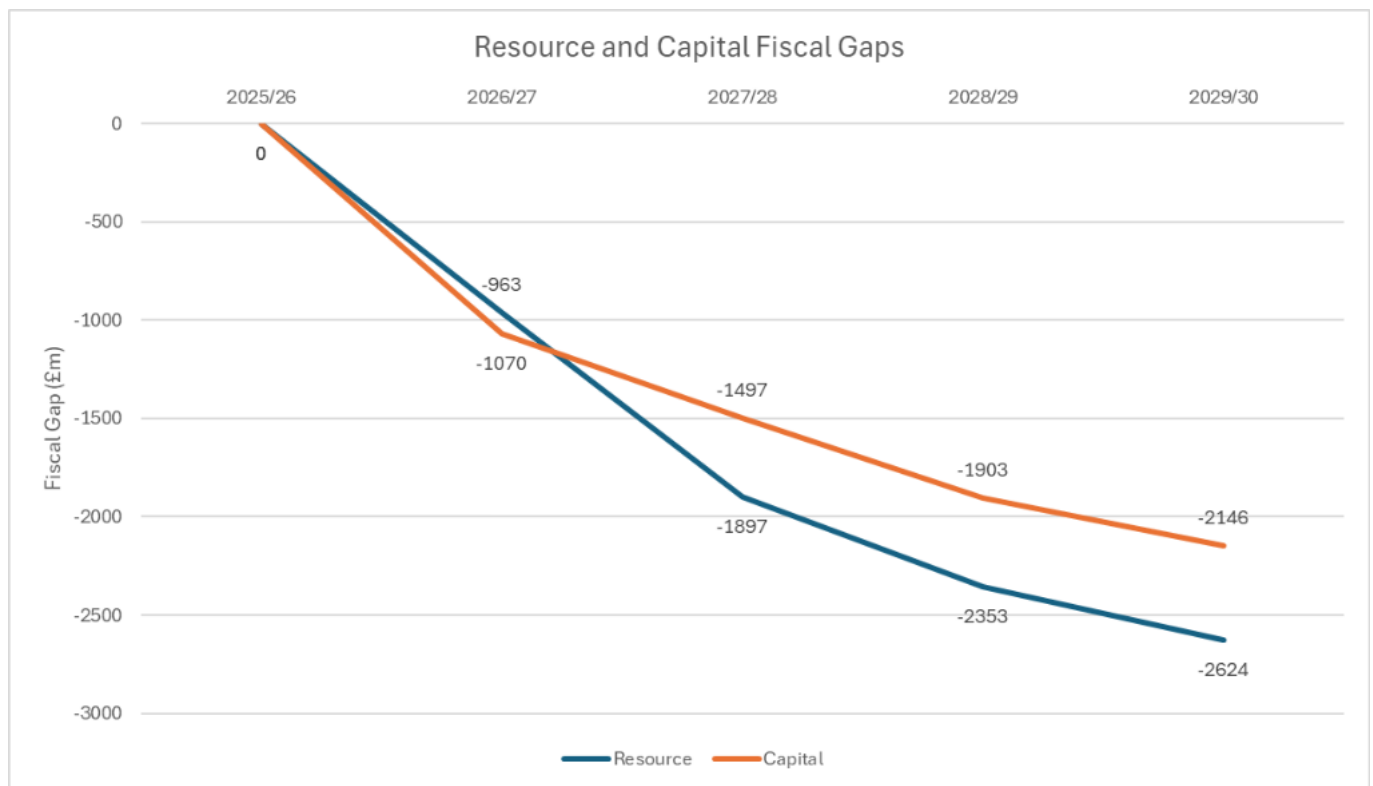
1. The Scottish Government's draft Budget for 2026/27 was published on 13 January 2026. Alongside its draft Budget, the Scottish Government also published its Scottish Spending Review for the period 2026/27 to 2028/29 (2029/30 for capital), its Draft Infrastructure Investment Strategy and Infrastructure Delivery Pipeline, and its Integrated Pay and Workforce Policy.
2. The draft 2026/27 Scottish Budget was published later than usual due to the later-than-expected publication of the UK Government's Autumn Budget on 28 November 2025. This means that Parliamentary procedure and scrutiny of the budget must occur within a much tighter timescale. However, the budget is now widely expected to pass following [Scottish Labour's announcement](#) that it would not vote against it.
3. This budget briefing:
 - provides a headline analysis of the 2026/27 Scottish Budget
 - sets out the key messages included in the Budget relevant to local government as set out in the Commission's budget supplement to the 2024/25 Financial Bulletin which will be published on 12 February
 - identifies key announcements which relate to the Accounts Commission's work programme
 - summarises reaction to the draft Budget by local government stakeholders.

Context

4. The overall economic and fiscal context for Scotland remains challenging. Continued global uncertainty and instability have impacted both the Scottish and UK economies. The Scottish Fiscal Commission's five-year forecast of Scottish GDP growth remains mostly unchanged. Yet, Consumer Price Index (CPI) inflation peaked at 3.8 per cent in 2025 Q3, higher than previously anticipated. Forecasts now suggest that it will take longer than previously anticipated for inflation to fall to the Bank of England's 2 per cent target. The SFC has also revised down its forecast of Scottish productivity growth, with growth in 2029/30 assumed to be 0.2 percentage points lower than forecast in December 2024.
5. The Scottish Government published its Medium-Term Financial Strategy (MTFS) on 25 June 2025. This projected significant shortfalls in resource and capital funding against planned spending for 2026/27 through to 2029/30:

Exhibit 1

Projected gaps between resource and capital funding and spending at the 2025 MTFS



Source: Scottish Government, [2025 Medium-Term Financial Strategy](#)

The 2026/27 Scottish Budget

6. Total Managed Expenditure (TME) for the 2026/27 Scottish Budget is £67,979 million, a 4.7 real terms increase over 2025/26. This larger increase is driven partially by significant increases to both Annually Managed Expenditure (AME) and non-cash funding. The increase in AME funding is driven by an increased requirement for budget cover for NHS, teachers, and police and fire pensions. The non-cash increase arises largely from increased costs associated with government borrowing to support the student loans system. Both AME and non-cash funding are provided by the UK Government and ringfenced, meaning that these increases do not impact on the Scottish Government's discretionary spending power.

7. When AME and non-cash funding are removed, the total increase to the Scottish Government's discretionary funding envelope is lower than the total increase to TME, at 2.3 per cent in real terms, as set out in Exhibit 2 below:

Exhibit 2

Trends in funding types between the draft 2025/26 and draft 2026/27 Scottish Budget in cash and real terms (2025/26 prices)

£ millions	2025/26	2026/27	Cash terms change	Real terms change
Resource	48,315	50,635	4.8 per cent	2.5 per cent
Capital	7,176	7,324	2.1 per cent	-0.2 per cent
Financial Transactions	167	245	46.7 per cent	43.5 per cent
<i>Discretionary funding</i>	<i>55,658</i>	<i>58,204</i>	<i>4.6 per cent</i>	<i>2.3 per cent</i>
AME (inc. NDR)	7,018	8,213	17 per cent	14.5 per cent
Non-cash	807	1,563	93.7 per cent	89.5 per cent
Total	63,483	67,979	7.1 per cent	4.7 per cent

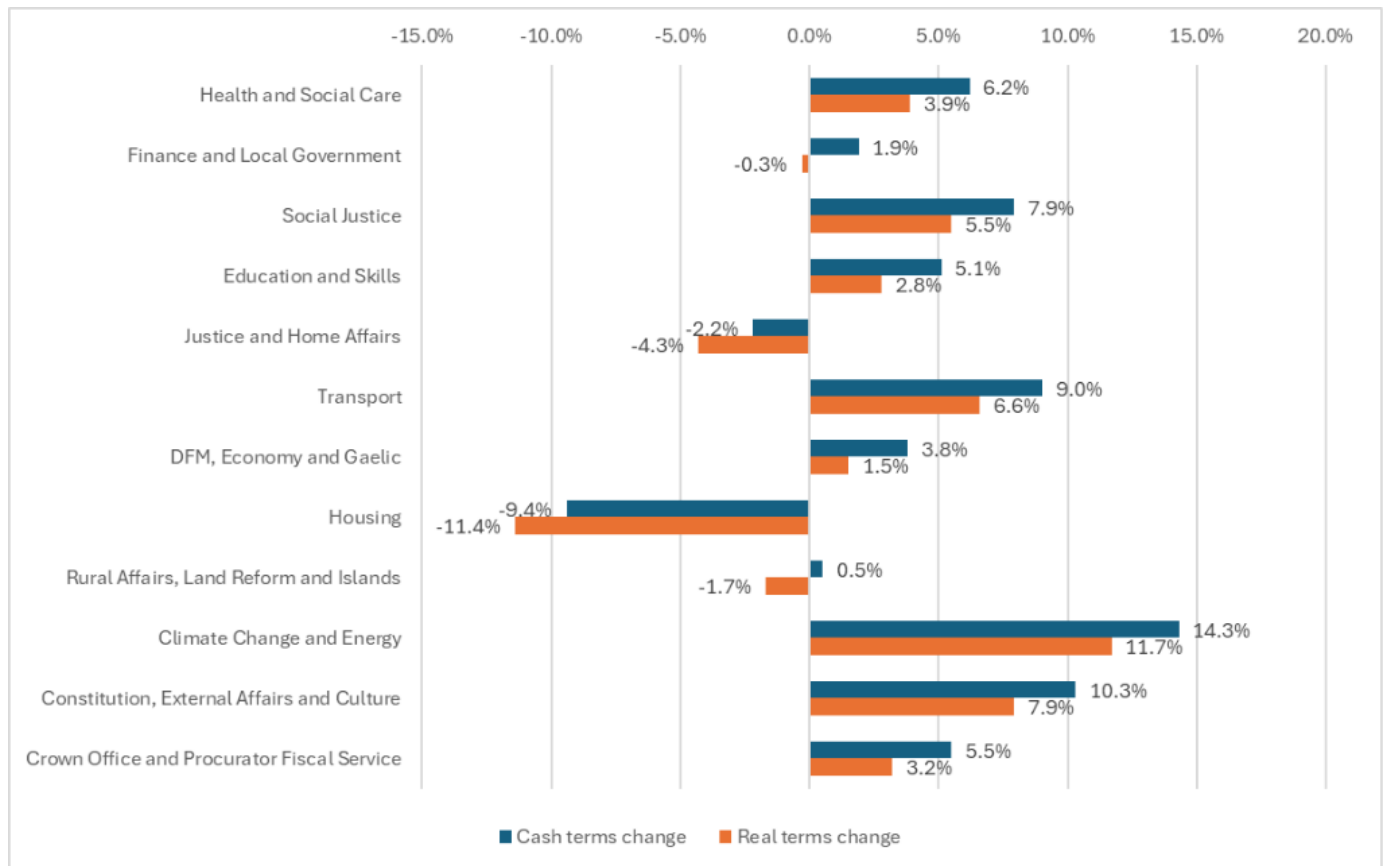
Source: [2026/27 Scottish Budget](#), [2025/26 Scottish Budget](#)

Resource funding

8. Resource funding in the 2026/27 Scottish Budget has increased to £50.6 billion, a 2.5 per cent real terms increase over 2025/26. The change in portfolio resource funding is set out in Exhibit 3 below:

Exhibit 3

Changes in resource funding between the draft 2025/26 and draft 2026/27 Scottish Budgets in cash and real terms (2025/26 prices)



Note: These changes do not reflect the impact of additional funding added in Stages 2 and 3 of the 2025/26 Budget process or the transferring of funding between portfolios in-year.

Source: Audit Scotland analysis of the [2026/27 Scottish Budget](#) and [2025/26 Scottish Budget](#)

9. Most portfolios have seen real terms increases to their resource funding. Health and Social Care has seen the largest resource funding increase in absolute terms, with a £1,225 million increase to funding over 2025/26, representing a 2 per cent uplift over baseline for health boards and additional funding to cover the cost of pay deals. The Social Justice portfolio has received an additional £583 million over its 2025/26 resource funding, primarily to cover forecast increases in social security expenditure.

10. Once £772 million of newly baselined funding has been accounted for, the Finance and Local Government portfolio has received an additional £207.5 million in additional resource funding, which amounts to a 0.3 per cent real terms decrease. The reduction in resource funding for Justice and Home Affairs is a result of a technical change to the treatment of police and fire pensions, and does not impact on the portfolio's resource spending power. The Housing portfolio has also seen a reduction in

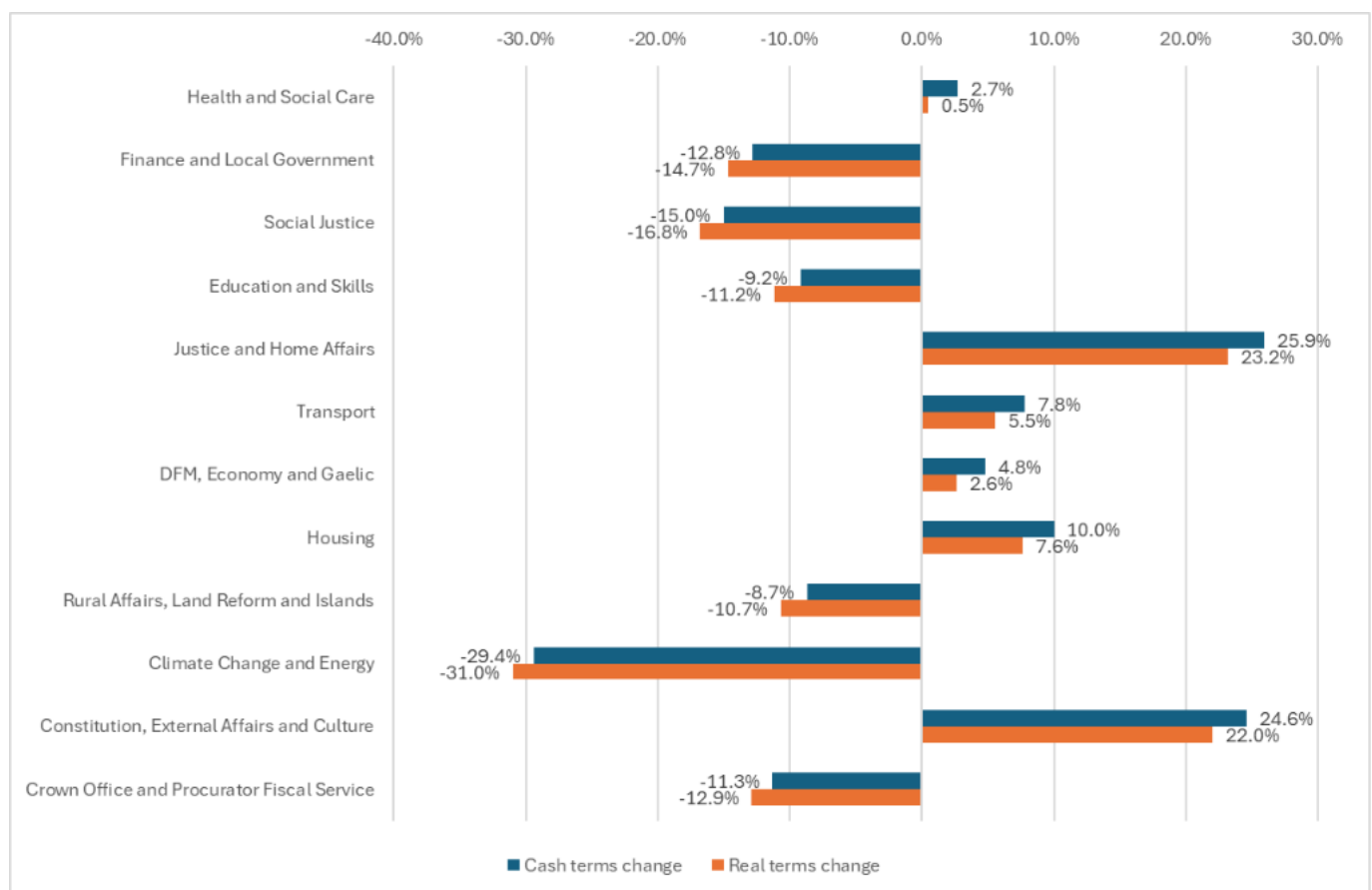
resource funding, but due to changes in portfolio structure during 2025/26, it is not clear where these reductions have impacted.

Capital funding

11. Capital funding (excluding Financial Transactions) in the 2026/27 Scottish Budget has seen a cash terms increase of 2.1 per cent, but a real terms decrease of 0.2 per cent.

Exhibit 4

Changes in capital funding (excluding financial transactions) between the 2025/26 and 2026/27 Scottish Budgets in cash and real terms (2025/26 prices)



Note: These changes do not reflect the impact of additional funding added in Stages 2 and 3 of the 2025/26 Budget process or the transferring of funding between portfolios in-year.

Source: Audit Scotland analysis of the [2026/27 Scottish Budget](#) and [2025/26 Scottish Budget](#)

12. The Scottish Government continues to face pressures on its capital funding and expenditure and have had to reduce capital spending in 2026/27 by £856 million compared to the expected level of capital spending set out in the June 2025 Medium-Term Financial Strategy.

13. The Transport portfolio has seen the largest increase to its capital allocation, with an additional £166.3 million over its 2025/26 funding. This

increase will cover costs associated with the A9 dualling, sustainable transport, railway rolling stock replacement, and ferry upgrades, among other projects. Justice and Home Affairs has received a £132.4 million increase, primarily due to costs associated with the Scottish Prison Service and the delivery of HMP Glasgow and HMP Highlands, as well as the costs of delivering the recommendations of the 2025 Deaths in Custody Independent Review of Fatal Accident Inquiries.

14. The Climate Change and Energy portfolio has seen decreases to its capital budget of £134.9 million, resulting from reductions in expenditure for offshore wind, industrial decarbonisation, and flood risk management. The reduction in capital funding in the Finance and Local Government portfolio is primarily due to reductions in capital funding for local government.

Local government funding settlement

15. The supplement to the Accounts Commission's Local government in Scotland: Financial bulletin 2024/25, tabled alongside this briefing, provides an analysis of the 2026/27 local government funding settlement. At a high level it notes that the total provisional allocation for 2026/27 of £15.7 billion represents a £313 million real terms increase (2 per cent) compared to the 2025/26 provisional settlement. This represents an increase in resource allocations while the 2026/27 capital funding of £681.4 million represents a 14 per cent annual real terms reduction from initial 2025/26 funding.

16. In presenting the [budget statement](#) to parliament, the Cabinet Secretary for Finance and Local Government stated that the 2 per cent increase for local government funding was “a settlement that is fair” and urged councils to “translate this into reasonable decisions on Council Tax”.

17. The Financial bulletin supplement also provides analysis of the Scottish Spending Review, which the Scottish Government published alongside the 2026/27 Budget. While it doesn't set out council-level funding, it outlines that all elements of Scottish Government funding to the Local Government and Finance portfolio are projected to fall over the spending review period.

Key issues and announcements relevant to local government

Council Tax

18. The Scottish Government announced that the cap on council tax premiums for second and empty homes is set to be removed, subject to parliamentary consent. Removing the cap was a commitment in the Scottish Government's Programme for Government 2025 and, if approved, will enable local authorities to determine the level of council tax premium that applies for second and empty properties from 01 April 2026. The cap is currently set at 100 per cent of the applicable council tax. This change

has been welcomed by COSLA as a positive step in providing councils with greater local flexibility.

19. The Scottish Government announced that from 01 April 2028 two new council tax bands will be introduced for high value properties (band I for properties over £1 million and band J for those over £2 million). It states that this will bring greater fairness to the system and increase revenues for local authorities. A targeted programme of revaluations will be undertaken for these properties, with funding of £5 million allocated by the Scottish Government. While this does not affect the 2026/27 budget settlement, the detail of this announcement will need to be worked through. In its response to the budget, COSLA welcomed the announcement but highlighted the need for local authorities to be engaged in its development. The Scottish Government estimates that fewer than one per cent of households will be affected by this change. To date neither the Scottish Government nor COSLA have produced an estimate of how much additional revenue this could generate.

20. The Fraser of Allander Institute has commented that this adds complexity to the council tax system, with the targeted revaluation of some properties taking place in the context of concern about the outdated valuations underpinning the system as a whole. It also highlights the uneven distribution of high value properties across local authorities and the need to consider how the impact of this on funding might be managed.

Non-Domestic Rates

21. Non-Domestic Rates (NDR) income is expected to increase by 9.1 per cent in real terms from £3,114 million in 2025/26 to £3,398 million in 2026/27. However, the Scottish Government notes that revenues raised from NDR will be 6 per cent lower in real terms in 2026-27 than pre-COVID. In the 2026/27 Budget, the Scottish Government has allocated almost £100 million more to the NDR pool than previously planned, due to the pool being forecast to be in surplus in 2025/26. This will effectively bring some of the forecast growth in NDR receipts in 2027/28 forwards to 2026/27. The Scottish Government has stated it will continue with its plan to balance the forecast deficit in the NDR pool in future years in a phased manner by 2028/29.

22. For 2026/27 the Scottish Government has announced decreases in the Basic, Intermediate and Higher NDR rates in 2026-27, which it states reflect overall growth in rateable values. The Basic rate is set to decrease from 49.8p to 48.1p, the Intermediate rate from 55.4p to 53.5p and the Higher rate from 56.8p to 54.8p (expressed as the pence paid per £ of rateable value).

23. The Small Business Bonus Scheme is to be continued for a further three years, providing relief from Non-Domestic Rates (NDR). Transitional support of £184 million was also announced to support businesses affected by upcoming revaluations.

24. Alongside this, targeted support was announced for retail, hospitality and leisure businesses with a rateable value of £100,000 or less. This will provide 15 per cent relief from 2026/27 for three years, capped at £110,000 per business per year. In addition, 100 per cent NDR relief will be available for the next three years for retail, hospitality and leisure premises located on islands (as defined by the Islands (Scotland) Act 2018), as well as specified remote areas. This relief will also be capped at £110,000 per business per year.

Islands connectivity

25. Local government will receive £11.4 million in resource funding and £15.5 million in specific capital grants for inter-island connectivity in 2026/27. The resource element of this is a £25 million reduction on funding in 2025/26.

26. In addition to inter-island connectivity funding for local government, the Scottish Government announced the allocation of £1.8 million to the Transport portfolio for the removal of peak fares on Northern Isles Ferry Services to Orkney and Shetland.

27. The Scottish Government's [Infrastructure Delivery Pipeline](#), which it published alongside the budget, announced plans for an Islands Accelerator Model as part of the National Islands Plan. This will involve work with Shetland Islands Council, Orkney Islands Council, and Comhairle nan Eilean Siar to agree a mixed model funding package for social and economic infrastructure. It expects this to unlock significant additional investment in, amongst other things, fixed link enhancements and improvements to infrastructure. An agreement is not yet finalised and there is limited additional detail on the plans.

Pay awards and pressures

28. Scottish Government estimates indicate the pay bill for local government and teachers in 2024/25 was around £10.8 billion, of which around £3.9 billion relates to teachers.

29. Alongside the 2026/27 budget the Scottish Government published its Integrated Public Sector Pay and Workforce Strategy. This applies to the local government sector. It restates the Public Sector Pay Policy for 2025/26 to 2027/28 which set an overall pay award envelope of 9 per cent across the period, with a 3 per cent cap for an individual year. The Scottish Fiscal Commission has noted that all pay awards agreed in 2025/26 and 2026/27 were over 3 per cent and that remaining pay awards are likely to be in line with inflation (3.2 per cent in November 2025, expected to fall to 2.5 per cent over 2026). It also highlights that many existing awards have inflation protection guarantees, which are likely to be triggered, leading to additional costs. The Scottish Government plans to publish a Workforce Management Governance Framework in Spring 2026, which will include the local government workforce.

30. In the 2026/27 budget the Scottish Government has allocated £160 million to support real living wage commitments for social care. COSLA has said this is not sufficient having assessed that £175 million was needed ([Scottish Budget delivers cut to social care, warns COSLA](#)).

Implications for the Commission's work programme

31. The table below sets out updates and announcements from the 2026/27 Scottish Budget which relate to planned outputs in the Accounts Commission's work programme.

Exhibit 5

Relevant developments from the 2026/27 Budget for the Accounts Commission's work programme

Product (indicative timing)	Developments related to the 2026/27 Budget
Accounts Commission only	
School Education (February 2027)	Within its draft Infrastructure Investment Strategy and Infrastructure Delivery Pipeline, the Scottish Government states that it will continue to use revenue funding for school estate projects, through an update of the Learning Estate Investment Programme (LEIP)
Social Care (March 2027)	£160 million has been allocated to support real living wage commitments for social care in the 2026/27 budget. This is below the £175 million need set out by COSLA.
Joint with AGS	
Digital (various outputs tbc)	An additional £30 million announced for development of the MyCare digital health app.
Housing (March 2027)	<p>Funding for the Homelessness Prevention Fund, which was previously ringfenced funding transferred to local authorities in year, has now been baselined into the General Revenue Grant allocation. For 2026/27 this is £23.5 million.</p> <p>£4.1 billion of public sector investment committed to the Affordable Housing Supply Programme through the spending review (2026/27 – 2029/30). Alongside this the Scottish Government states it will work with partners such as the Scottish National Investment Bank to attract further private investment.</p> <p>On 22 January 2026 the First Minister <u>announced plans</u> to establish a new housing agency (More Homes Scotland) to lead a public sector delivery model for housing. The agency is expected to start operating from 2027/28 and be fully functional in 2028/29, subject to the outcome of the Scottish Parliament election.</p>
Early Learning and Childcare (April 2028)	£11 million included in 2026/27 settlement for improvements to pay for ELC workers in commissioned services

Reaction to the Budget

COSLA

32. In their [full response](#) to the 2026/27 Scottish Budget, COSLA leaders stated that it was “a very poor settlement which fails to address the dire financial situation of local government in Scotland”. The statement noted that there has been no increase to capital funding and that the settlement does not fully cover the cost of the Scottish Government’s commitment to paying the Real Living Wage to social workers.

33. In response to the medium-term settlement set out in the Scottish Spending Review, COSLA stated that it poses an ‘unsustainable reality’ for councils and would result in damaging cuts and service reductions.

34. COSLA warned that councils would face a difficult decision to increase charges and raise Council Tax rates to meet the budget gaps they face.

UNISON

35. [UNISON’s Scottish secretary, Lilian Macer](#), stated that the 2026/27 Scottish Budget “fails local government” and “does not go far enough to address the deepening crisis facing public services”. She highlighted that social care staff will continue to be paid close to minimum wage, and that the failure to address the challenges facing social care will have ripple effects on the NHS through delayed discharges and growing pressure on health service staff.

Institute for Fiscal Studies (IFS)

36. [The IFS stated that](#), as in England, the planned new council tax bands for high-value properties risk “wasting an opportunity for a much needed full scale revaluation of council tax” and argued that they should be a stepping stone to wider reform of the council tax system.

Fraser of Allander Institute (FAI)

37. [The FAI called the reforms to council tax ‘incoherent’](#), stating that it could have been worse but is also not good enough. They noted the inconsistencies of basing the new bands for high-value properties on up-to-date valuations whilst all other properties will continue to pay tax on their 1991 values. The FAI also highlighted the disconnect between the Scottish Government’s emphasis on the need for consensus to successfully take forward council tax reform, and the implementation of the new bands without apparently having gained such consensus.

38. The FAI also described the Scottish Spending Review settlement for local government as ‘very difficult’. It noted that the Scottish Government has identified social care as an area of growing demand, which will place further pressures on local government in the future.