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<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>4 June 2024</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/30/24/AP/AE</b>
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<b>Subject:</b>	<b>Finance Services Update</b>		

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## **1.0 PURPOSE AND SUMMARY**

- 1.1  For Decision  For Information/Noting
- 1.2 The purpose of this report is to update Committee on a number of matters pertaining to the Finance Service and to highlight relevant matters.
- 1.3 The areas covered within this update are:
- Council tax collection
  - Council Tax one off credit
  - Council Tax Second Home Policy
  - Welfare Reform
  - Scottish Welfare Fund
  - Loans Fund Accounting Changes
  - 2023/24 Annual Accounts Closure
  - Accounts Commission Briefing- Local Government Budgets 2024/25
  - Internal Audit Shared Service

## **2.0 RECOMMENDATIONS**

- 2.1 It is recommended that the Committee notes the updates provided in this report.
- 2.2 It is recommended that the Committee agrees that officers continue to develop options for consideration relating to a wider Internal Audit Shared Service and that an update is provided to Committee once options have been developed.

**Alan Puckrin**  
**Chief Financial Officer**

### **3.0 BACKGROUND AND CONTEXT**

3.1 Each reporting cycle the Committee receives an update on relevant service delivery matters relating to the Finance Service that are not covered in reports elsewhere on the agenda. This report covers several areas relating to Revenues, a technical guidance update, an update on the 2023/34 Annual Accounts closure plus an update on the Internal Audit Shared Service.

#### **3.2 Council Tax Collection**

Previous updates reported the effect of cost-of-living pressures and changes to Debt Recovery Regulations on Council Tax collection. The level of "in-year" Council Tax collected in 2023/24 was in line with projections, at 94.7%. Performance has been tracked against 2019/20, when collection was 95.4%. Collection in 2022/23 was 95.9%, the highest ever performance when Council Tax payers were assisted by £5m in covid and cost of living one off grants. The Council reduced its estimated ultimate collection target by 0.3% to 96.5% as part of the 2024/25 Budget.

#### **3.3 Council Tax One Off Credit**

The Policy and Resources Committee agreed on 26<sup>th</sup> March 2024 to provide a one-off Council Tax credit funded by the Scottish Government in 2024/25. This was contingent on the Council's share of the £62.7 million, confirmed by the Scottish Government of 7 March, being in line with the estimates provided by the Chief Financial Officer to Committee on 26 March. Following approval of the distribution methodology by Cosla Leaders on 26 April, the Scottish Government confirmed that the Council's share of the £62.7million being £0.973million being £2,000 more than the Chief Financial Officer's estimate in February. The Scottish Government letter confirmed that the £62.7 million will be baselined in future years. The credit was therefore processed.

3.4 The credit, based on a qualifying date of 30 April 2024 equated to the approved Council Tax increase, net of any Council Tax discounts such as the 25% single occupancy discount. It was made to the accounts of the 28,500 Council Tax payers for whom Council Tax payments increased as a result of the approved 8.2% Council Tax increase.

3.5 The provision of the one-off credit required new Council Tax Notices to be issued. These were delivered to households in the middle of May. Payment instalments were adjusted, and the date Direct Debits were collected from some Council Tax payers were altered to allow for the required notice period. The process of re-issuing bills did not affect the timetabled reminder schedule, although an allowance has been made to not issue reminders to those who have arrears equivalent to the 8.2% increase. During this interim period, debt recovery has not proceeded to allow the one-off credit to be made to accounts, enabling Council Tax payers to continue to pay by instalments. Consequentially, the ability to refer debt to the Council's debt recovery partner has been delayed by 8 weeks. The first debt file is due to be dispatched by late July 2024.

3.6 The credit appeared on the Notices as "One-off credit" and an enclosure explained the credit and Direct Debit collection dates. Customer Services are handling enquiries, the website was updated, and telephony and social media have conveyed key messages before and during the period of the revised Notices being issued.

#### **3.7 Council Tax- Second Homes Policy**

The amendment to the Council Tax Long Term Empty and Second Homes Policy to apply a council tax premium of 100% to second homes from 1<sup>st</sup> April 2024 was communicated by letter or email to 100 second home owners. Council Tax notices for 2024/25 issued in March 2024 included the premium. Twenty one enquiries had been received by the end of April with the premium being removed from eleven accounts where evidence has been provided demonstrating the Council Tax payer is not liable for premium.

The premium has been confirmed as being due in eight cases and enquiries to ascertain the position of the others continue. An update presenting the impact of the policy will be provided in early 2025.

### 3.8 Welfare Reforms

The Department for Work and Pensions (DWP) informed a change to the move to Universal Credit (UC) programme following the Prime Minister's announcements on 19 April 2024 about Employment and Support Allowance (ESA). The DWP's planning assumptions are to begin notifying this final cohort of legacy benefit claimants, including those who claim Housing Benefit with ESA in September 2024. The DWP's aim is to notify everyone to make the move to UC by December 2025. The date this group was scheduled to move to UC has changed over time with the previous timeframe being to delay this group for fiscal reasons until 2028.

- 3.9 The DWP inform that bringing the date forward will provide better opportunities to support claimants and their partners into or closer to the labour market. They estimate that around half would receive over £100 a month more on UC. Claimants who are eligible for UC but have a lower entitlement than they had on legacy benefits will be considered for Transitional Protection (TP). The letter received by the Council from the Director General, Universal Credit Programme is at appendix 1.
- 3.10 The latest published UC information was the position at November 2023 at which point the rollout was 77% complete; Inverclyde being ranked 9<sup>th</sup> of the 59 Scottish Westminster constituencies. There are 8,862 households in receipt of UC and a further 2,631 households estimated to still be on legacy benefits and tax credits and in scope to move to UC.

The DWP plans to notify the following legacy benefit claimant groups to make the move to UC:

<u>Legacy Benefit</u>	<u>DWP notification letter</u>
Income Support	April–June 2024
Housing Benefit	June– August 2024
Income–related ESA with Child Tax Credits	July–September 2024
Income-based Jobseeker's Allowance	September 2024
ESA and ESA with (HB)	from September 2024
Pensioners on tax credits*	July or August 2024

\*Pension age Tax Credit claimants will be asked to claim Pension Credit or to move to UC depending on household circumstances,

- 3.11 The DWP acknowledges some customers require additional support to make the move to UC. From April, DWP will introduce additional contacts to the standard process for all households who are in receipt of ESA. For households receiving Income Support, system checks will be undertaken by DWP to identify where additional support may be needed. Households deemed to require additional support will receive a text 12 weeks after the Move to UC letter is sent to advise that DWP will be contacting them by phone. Three attempts will be made to contact the household to offer support. Where no contact is made, DWP will refer households for a home visit. Should the visit be unsuccessful, further escalations will be considered on a case-by-case basis.

Information produced by DWP to help services support their service users has been circulated to the Financial Inclusion Partnership. The pack includes Frequently asked Questions containing a contact email address for anything not covered.

### 3.12 **Scottish Welfare Fund**

The Scottish Welfare Fund provided 818 Community Care Grants totalling £550,412 and 1,696 Crisis Grants totalling £193,330 during 2023/24 against core Scottish Government allocation of £756,305. The application approval rate was 75% which is comparable to pre-Covid years.

3.13 A projected overspend of 5.5% reported in November 2023, calculated before the second and third of three cost of living payments were made by DWP to households in receipt of means tested benefits, was not realised. Cost of living awards totalling £900 during 2023/24 reduced demand for Crisis Grants during 2023/24 but these are not due to continue into 2024/25. Officers therefore anticipate significantly increased demand on the Scottish Welfare Fund.

3.14 The core allocation for 2024/25 has not changed and does not take account of inflationary increases in the cost of goods to be met by Community Care Grants or the increase in the minimum level for Crisis Grants, aligned with the welfare benefit rate increase in April 2024 of 6.7%. The earmarked underspend of £130,000 together with recurring Anti-Poverty Funding of £40,000 to increase the level of Crisis Grants by 20% and Anti-Poverty Funding of £50,000 for 2024/25 provides a total budget to £976,000. Expenditure will be included in future update reports.

### 3.15 **Loans Fund Accounting**

Where capital expenditure is funded by borrowing (referred to as Loans Fund advances), the debt financing costs are paid from the Revenue Budget as loan charges comprised of the repayment of debt ("principal repayment") and interest and expenses costs on the borrowing.

In November 2023, the Scottish Government issued a consultation paper on proposed changes to the Loans Fund accounting rules. Following responses to that paper, they deferred some of their proposals until 1 April 2027 at the earliest for further consideration but introduced the following with effect from 1 April 2024:

- Where it is proposed to change the period for charging particular capital expenditure on an asset to Revenue, the new period cannot result in repayments for that expenditure exceeding the useful life of the asset or 50 years if the useful life of the asset cannot be determined.
- Any changes to the annual principal repayments for an asset can no longer be applied retrospectively and cannot result in a NIL or negative repayment.

The Scottish Government are also currently proposing some changes to the statutory guidance on Loans Fund accounting which are expected to have little or no impact on the Council.

Any future changes to the Loans Fund accounting rules or the statutory guidance and the expected impact on the Council will be reported to Committee and the Full Council in reports submitted on Treasury Management

### 3.16 **2023/24 Annual Accounts Closure**

The draft annual accounts for 2023/24 are due for completion by the end of June and will be considered by the Audit Committee on 27<sup>th</sup> June.

3.17 Progress against any External Audit Action Plans is reported regularly to the Audit Committee and where appropriate any actions will be reflected in the draft accounts. Specific actions which could impact on the accounts closure include:

- Heritage Asset Valuations – the valuer has been re-appointed for 2023/24 and has completed the valuation of the 2<sup>nd</sup> tranche of the collections. The remaining collections will be valued as part of the 2024/25 Accounts

- Management controls – a number of recommendations were made to tighten up controls around processing of payments, journal entries etc. these have been actioned.
- IFRS16 - changes to reporting of leased assets has been delayed nationally and will be implemented from April 2024
- Infrastructure Assets – changes to reporting of Infrastructure Assets (mainly Road Assets) have also been delayed nationally and will not be reflected in the 2023/24 accounts.

Work is progressing well with the bulk of the internal processing having been completed during April/early May with further accounting work done allowing the accounts to be drafted by mid-June and it is anticipated that the accounts will be complete by the deadline.

3.18 The External Audit Plan was presented to Audit Committee in May and highlights the anticipated audit risks and the audit approach taken to examine those risks as well as the further work to be undertaken around the wider scope and best value. The audit will take place from July with the aim of completion by early September allowing the Annual Report and Audited Accounts to be presented to the Full Council by the end of September.

### 3.19 **Accounts Commission Briefing- Local Government Budgets 2024/25**

In mid-May the Accounts Commission published a briefing highlighting the challenges faced by Scottish Councils in setting and delivering balanced budgets for 2024/25. The report advised that the average “budget gap” amongst the 32 councils was 3.5% (£585million), and that a variety of recurring and one -off methods had been used to address the funding shortfalls.

3.20 The Briefing emphasised the importance of Council’s delivering against approved savings plans and the need to present key financial information clearly and consistently. Exhibits within the Briefing show Inverclyde as being in the bottom quartile in both the value of the budget gap and percentage that gap represented of the Revenue Budget. In terms of the medium-term budget gap (ie 2025/27), the Council’s cumulative gap of £10.2million was around average as a percentage of net Revenue Budget.

3.21 The full briefing is attached as Appendix 2.

### 3.22 **Internal Audit Shared Service**

On 7 December the Council agreed to the continued sharing of Internal Audit services with West Dunbartonshire Council (WDC) in the short to medium term. It was also agreed that wider discussions continue with other local authorities on possible options for a more sustainable delivery model in the longer term.

3.23 Since December informal discussions have been held with the Section 95 Officers of the Council, WDC and Renfrewshire Council (RC) to explore possible options and review a range of existing models across the other Scottish local authorities. Specifically in relation to their internal audit service all three councils have concerns regarding recruiting and retaining staff and ensuring sufficient resilience over service delivery.

3.24 It should be noted that no decisions have been made yet with preliminary discussions focused on considering options with the opportunity to provide:

- improved resilience
- better career progression and staff development
- increased satisfaction and retention of key skills
- knowledge sharing to provide better outcomes for the three councils.

3.25 Before any options can be more formally considered consideration will need to be given to issues such as (but not limited to):

- responsibilities, liabilities, and costs
- ensuring sufficient capacity to deliver internal audit across multiple councils including associated bodies such as IJBs, Valuation Joint Boards and other small bodies
- alignment of roles, salaries, grades and role descriptions and any TUPE implications (if applicable)

3.26 In order to develop any options there is a need to engage with the existing Internal Audit teams as any discussions of this nature can create uncertainty for staff and elected members are therefore asked to consider whether they wish the three S95 Officers to progress these discussions and bring back a paper setting out options at an appropriate time.

#### 4.0 PROPOSALS

4.1 Committee support for continued discussions with West Dunbartonshire Council and Renfrewshire Council regarding a potentially expanded Internal Audit service is sought.

#### 5.0 IMPLICATIONS

5.1 The table below shows whether risks and implications apply if the recommendation(s) is(are) agreed:

SUBJECT	YES	NO
Financial		x
Legal/Risk		x
Human Resources	x	
Strategic (Partnership Plan/Council Plan)		x
Equalities, Fairer Scotland Duty & Children/Young People's Rights & Wellbeing		x
Environmental & Sustainability		x
Data Protection		x

#### 5.2 Finance

There are no direct financial implications arising from this report at this time.

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					

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### 5.3 **Legal/Risk**

There are no legal/risk matters other than those referred to in the body of the report.

### 5.4 **Human Resources**

The Internal Audit employees and Trades Unions have been updated regarding the current discussions relating to a potential wider sharing of the service.

### 5.5 **Strategic**

There are no strategic matters arising.

## 6.0 **CONSULTATION**

6.1 No consultation was required other than discussions regarding the potential wider Internal Audit Shared Service.

## 7.0 **BACKGROUND PAPERS**

7.1 None.



By email

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19 April 2024

To: Local Authority (LA) Chief Executives

cc: Revenues and Benefits Managers

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**Announcement by the Prime Minister to bring forward the Migration of Employment and Support Allowance (ESA) only and ESA with Housing Benefit (HB) claimants to Universal Credit (UC).**

Dear colleague,

I am sure you may have heard the Prime Minister's speech today, which included the announcement to bring forward the movement of Employment Support Allowance (ESA) and ESA with Housing Benefit customers to Universal Credit.

Bringing forward ESA migrations will move 800,000 claimants and their 50,000 partners off an inactive regime and provide better opportunities to support these groups into or closer to the labour market. We estimate around half of those would also receive over £100 a month more on UC. Claimants who are eligible for UC but have a lower entitlement than they had on legacy benefits will be considered for Transitional Protection (TP).

Migrating these claimants earlier than 2028 ensures the expertise, knowledge, and skills that the UC Programme and DWP Operations have built over the past 10 years will be used to transition this vulnerable group.

The Move to UC work programme is currently progressing well and we remained on track to deliver our ambition of notifying over 500,000 tax credit only households of the need to claim UC by the end of March 2024. In April we started work to notify households on other benefit combinations of the need to make a claim to UC. Thanks to

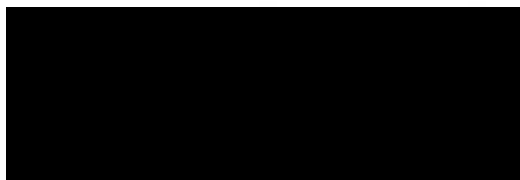


the confidence and momentum we have built together with partners like you, we are confident that we are now in a good position to complete the implementation of Move to UC.

We appreciate that this will have an impact for Local Authorities, as the ESA cohort includes a large number of working age Housing Benefit recipients. Our delivery approach and timelines will be informed by detailed planning and engagement with stakeholders. Our current planning assumption however is that we would begin notifying this group in September 2024 with the aim of notifying everyone to make the move to UC by December 2025. We will however work closely with LA partners on the detailed approach and will share more information with you when this work is completed.

Should you wish to discuss this further or have any questions please do not hesitate to contact myself or Darren Baker at [lawelfare.liaisonteam@dwp.gov.uk](mailto:lawelfare.liaisonteam@dwp.gov.uk), who will be more than happy to help.

Yours faithfully,

A large black rectangular redaction box covering the signature area.

Neil Couling

Briefing

Appendix 2

# Local government budgets 2024/25



ACCOUNTS COMMISSION 

Prepared by Audit Scotland  
May 2024



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## **Accessibility**

You can find out more and read this report using assistive technology on our [website](#).

For information on our accessibility principles, please visit: [www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility).

# Key messages

- 1** In real terms, the 2024/25 Scottish Budget allocation of total revenue funding to local government has increased by 5.7 per cent, however funding remains constrained as most of the increase is directed funding to deliver Scottish Government priorities and agreed pay deals. Most councils were proposing to increase their budgets by raising council tax rates for 2024/25 but in October 2023 the Scottish Government announced a council tax freeze. Although the Scottish Budget included £144 million to 'fully fund' a five per cent increase in council tax, and an additional £63 million was offered in February 2024, 11 councils said the funding provided would not 'fully fund' the freeze.
- 2** At the time of setting budgets, councils identified a difference of at least £585 million between their anticipated expenditure and the funding and income they expect to receive (the 'budget gap') for 2024/25, representing an estimated 3.5 per cent of councils' total revenue budget. Councils agreed a range of actions to close these gaps, most commonly the use of recurring savings and reserves. Councils are also budgeting for an increase in the income generated through fees and charges, although overall this is a below inflationary increase.
- 3** Councils have had to make difficult budget setting decisions for 2024/25, and most worked with their communities to inform or consult on the challenges faced. Some councils changed proposed savings measures in response to public opposition. It will be important for councils to deliver their planned savings in 2024/25 given the significant challenges they face in balancing their budgets in subsequent years. Councils are facing an

estimated cumulative budget gap of £780 million by 2026/27 which represents five per cent of councils' revenue budget.

- 4** Budget setting processes vary across councils, partly reflecting differences in organisational structures and local priorities. However, this makes it difficult to compare information across Scotland. Even within individual councils, the way in which budget papers are presented means that elected members and communities cannot easily determine the impact of budget decisions nor the overall financial position of the council, highlighting a need to improve accessibility and transparency.
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# Commission's expectations

The Commission recognises that there will continue to be variation in the way that councils present budget information to elected members and the public. This is influenced by political and organisational structure, established custom and practice and the role of decision-making committees and budget scrutiny groups.

However, to enhance accessibility and transparency, the Commission expects councils to present some fundamental information within publicly available budget papers. This will help establish good practice in budget setting, allow for greater comparability between councils and provide auditors with the opportunity to assess the accessibility of the information presented. Information we expect to see set out clearly includes:

- the annual revenue budget, comprising funding and income, prior to savings and other 'bridging' actions
- the associated budget gap, prior to 'bridging' actions such as savings and use of reserves
- the savings plan, clearly setting out the split between recurring and non-recurring actions
- projected revenue budget gaps, both annual and cumulative
- the assumptions used in calculating projected budget gaps.

# Introduction

1. This budget briefing has been prepared by Audit Scotland on behalf of the Accounts Commission to summarise key issues arising from our analysis of the 2024/25 budgets which have recently been agreed by Scotland's 32 councils.
2. Each year councils have a legal duty to set a balanced budget for the coming financial year. This means that a council's funding and income must cover their anticipated expenditure. During the budget setting process, councils may identify a budget gap, ie a difference between their anticipated expenditure for the year and funding and income they expect to receive. Councils will identify and agree bridging actions to allow them to set a balanced budget. This may include an agreement on savings to be made in the course of the year.
3. The briefing brings together data from all 32 councils to provide an indicative national picture of the budgets set for 2024/25 and how Scottish councils are addressing the challenges faced in achieving a balanced budget and longer-term financial sustainability.
4. This is the first year that we have produced this briefing and the first time we have collected some of the data for analysis. **The wide range of approaches councils take to budget setting and the level of information, and the way that it is publicly reported, make it challenging to report a definitive national position.** Some of the variation between councils is likely due to differing budgeting approaches - for example, some have moved to a multi-year budgeting approach - rather than significant differences in cost and service pressures. We have added caveats to the exhibits where caution is required. We intend to develop and refine this dataset in future years.
5. The briefing forms part of the Commission's wider overview reporting programme to provide an independent assessment of the financial health of the local government sector in Scotland, the impact that the challenging operating environment is having on service delivery and performance and the actions councils are taking to address these challenges.

# What the data is telling us

## Revenue budgets

**6.** Each year, councils must set a balanced revenue budget. For 2024/25, councils reported a combined revenue budget of around £16.6 billion. Councils' revenue expenditure is the cost of delivering services each year. Most of the funding to meet this expenditure comes from the Scottish Government. The remaining amount largely comes from council tax as well as other grants, and fees and income raised by councils.

## Scottish Government funding

**7.** The 2024/25 Scottish Budget allocated total revenue funding (including transfers from other portfolios) of £13.25 billion to local government ([Exhibit 1, page 8](#)). Additional revenue funding was also allocated to compensate for the Scottish Government's council tax freeze ([paragraphs 10–11](#)).

**8.** While this revenue settlement is an increase in both cash and real terms from the initial 2023/24 Scottish Budget, a significant number of funding adjustments mean comparison between the two years is not straightforward. The large increase in the general revenue grant in part reflects over £1 billion of funding that was previously ring-fenced or transferred in-year from other portfolios being included ('baselined') into the general revenue grant. This includes:

- £522 million early learning and childcare funding
- £121 million capital into revenue switch to pay for prior year pay awards
- £333 million Living Wage funding
- £42.3 million free personal and nursing care funding
- £42.2 million free school meals funding.

**9.** A move towards reducing ring-fenced funding is welcomed and in line with the commitments of the Verity House Agreement. However, funding remains constrained as the increase in the general revenue grant is largely directed towards the delivery of Scottish Government policies or to support previous pay awards, rather than an increase in available funding for councils to use at their discretion.



## Exhibit 1.

### Scottish Budget local government revenue settlement 2023/24 and 2024/25

Scottish Government revenue funding	Cash terms			Real terms		
	2023/24 £ million	2024/25 £ million	change %	2023/24 £ million	2024/25 £ million	change %
<b>Total revenue</b>	<b>12,405</b>	<b>13,245</b>	<b>6.8%</b>	<b>12,529</b>	<b>13,245</b>	<b>5.7%</b>
General revenue grant	7,134	8,404	17.8%	7,205	8,404	16.6%
Non-domestic rates	3,047	3,068	0.7%	3,077	3,068	-0.3%
Specific resource grants	752	239	-68.2%	760	239	-68.6%
Transfer from other portfolios	1,472	1,534	4.3%	1,487	1,534	3.2%

Note: Additional revenue funding to compensate for the council tax freeze is not included in this table.

Source: Scottish Budget documents 2023/24 and 2024/25. Real terms uses 2024/25 prices, calculated using the most recent GPD deflators (March 2024), (see [Appendix](#) for further information).

#### Council tax

**10.** In October 2023, the Scottish Government announced a council tax freeze for 2024/25. In the 2024/25 Scottish Budget, £144 million was allocated to 'fully fund' the freeze – equivalent to a five per cent increase on 2023/24 levels - which will be baselined into the general revenue grant in future years. COSLA disputed the claim from the Scottish Government that the £144 million would 'fully fund' a council tax freeze.

**11.** An additional £62.7 million was offered to councils following discussions between the Deputy First Minister and COSLA in February 2024. The extra funding comprises £45 million of Barnett consequentials arising from the UK Government providing additional funding for adult social care in England, with the remaining £17.7 million added to councils' general revenue grant by the Scottish Government. The £144 million figure was also uplifted to £147 million.

**12.** With the exception of one (Inverclyde), all councils accepted the Scottish Government's council tax freeze, but 11 of the 31 councils said that the funding provided by the Scottish Government would not fully fund the freeze. Inverclyde did not accept the freeze, instead increasing the council tax rate by 8.2 per cent and accepting Scottish Government funding, which will be passed directly to residents through a one-off rebate.

**13.** The setting of council tax rates is a decision for elected members and is one of the few levers councils have to raise income to support the setting of a balanced budget. Many councils will have had working assumptions on the potential of increasing council tax. Freezing council tax removed this local discretion, and added complexity to the budget setting process, at a time when councils were having to make challenging decisions about the level of savings to make.

### **Budget gaps**

**14.** At the time of setting their 2024/25 budgets, councils identified a total budget gap of around £585 million. This represents a budget gap in the range of 3.5 per cent of councils' total revenue budget for 2024/25.

**15.** At a council level, budget gaps ranged from £3.1 million in Glasgow to £65.6 million in Highland ([Exhibit 2, page 10](#)), which is 0.2 per cent and 8.5 per cent of their respective total revenue budgets.

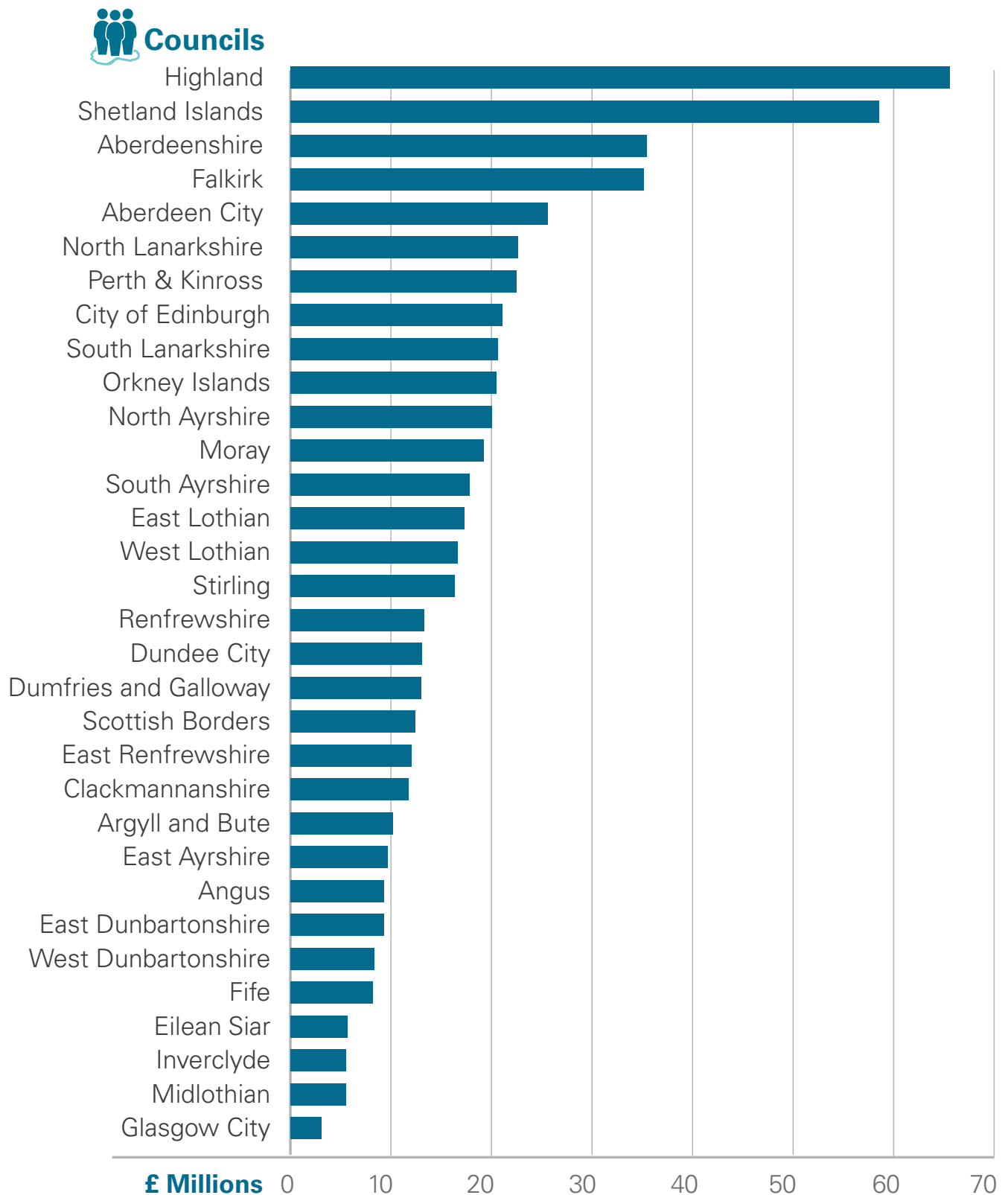
**16.** Analysing the budget gaps as a proportion of councils' revenue budget provides an illustration of the size of the budget gap relative to the council's budget ([Exhibit 3, page 11](#)).

**17.** Highland has the largest budget gap both in terms of value and as a percentage of their revenue budget. Their gap is largely due to pay increase assumptions (£16.9 million), service pressures (£15 million) as well as the need to address the use of £23 million of reserves in 2023/24 in a sustainable way.

**18.** Glasgow's 2024/25 budget gap is an 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 related to 2024-25 as part this longer-term plan.

## Exhibit 2.

### Council budget gaps 2024/25

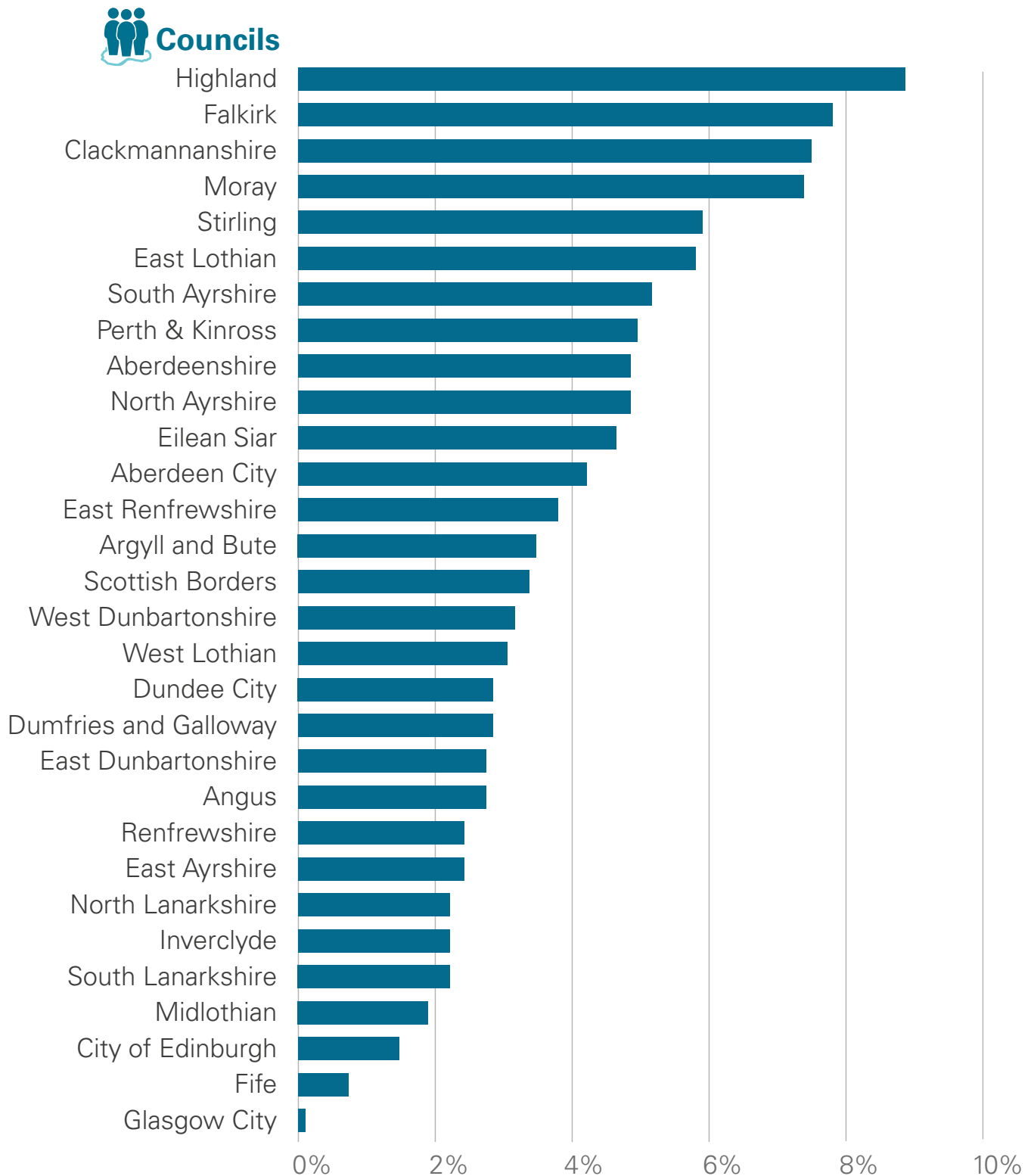


Note: There are differences in the way councils approach and present their budget and identify budget gaps. This means that direct comparison should be taken with caution. Glasgow is a significant outlier due to their approach ([paragraph 18, page 9](#)).

Source: Auditor data return

## Exhibit 3.

### Budget gaps for 2024/25 as a percentage of revenue budget



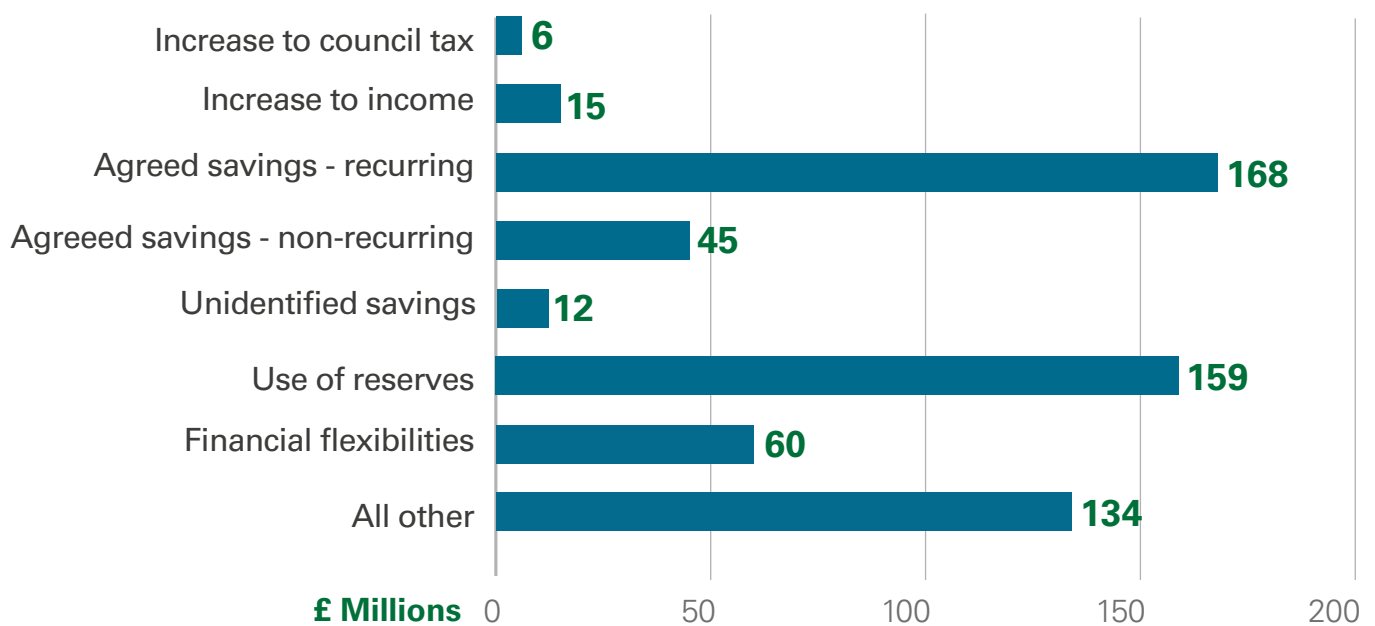
Note: Shetland and Orkney are excluded from this chart as they are outliers due to their planned use of (large) reserves to their balance budgets. Their budget gaps as a percentage of revenue budget are 35 per cent and 18 per cent respectively. Glasgow at 0.2 per cent is a significant outlier due to their approach ([paragraph 18, page 9](#)).

Source: Auditor data return

## Actions to close the budget gap

**19.** Councils used a range of actions to set balanced budgets for 2024/25 ([Exhibit 4](#)). The most common actions taken were to agree recurring savings (28 per cent, £168 million) and the use of reserves (27 per cent, £159 million). This is a similar pattern to previous years.

## Exhibit 4. Councils' bridging actions to set their 2024/25 budget



Note: Highland's savings are included in the All other category as detail was not provided by type of savings (ie, recurring, non-recurring and unidentified). The chart elements add up to £599 million which is higher than the total anticipated budget gap. This is because some councils identified bridging actions of greater value than their budget gap to allow for additional investment in priority areas.

Source: Auditor data return

**20.** Examples of other actions include:

- Funding from the Scottish Government to freeze council tax.
- New council tax levy on second homes.
- A reduction in non-domestic rates relief.
- Savings where these have not been separated by recurring and non-recurring.

**21.** The use of reserves and other non-recurring measures is unsustainable and is only a temporary plug for a budget gap in that one year. The gap will need to be met with the same level of recurring measures such as recurring savings or increases to income in future years.

## Savings

**22.** Councils identified at least £282 million of new savings for 2024/25.

These comprise of:

- £199 million of agreed recurring savings
- £45 million of agreed non-recurring savings
- £26 million of agreed savings where the type of savings was not specified
- £12 million of savings yet to be identified.<sup>1</sup>

**23.** As well as new savings identified for 2024/25, many councils will have previously agreed savings built into their 2024/25 revenue budgets or will be continuing to assess and identify savings proposals to meet longer-term budget gaps. It will be important for councils to deliver their planned savings in 2024/25 given the significant challenges they face in balancing their budgets in subsequent years (see paragraphs 31 to 33).

**24.** Different council structures and financial reporting formats make it difficult to compare across Scotland.

**25.** We know that some councils have experienced significant negative public opposition to some of their proposed savings measures, including in the case of threats of judicial review of Aberdeen City's proposed closure of a number of local swimming pools and libraries. Further examples include the postponement of cuts to library and leisure services in Clackmannanshire and a reversal of plans to close 39 community facilities in North Lanarkshire in response to public opposition.

**26.** The extent of savings across different service areas, and their impact on service delivery and service users is an area of interest for the Accounts Commission and we will continue to develop our monitoring and reporting on this in future outputs.

## Fees and charges

**27.** Twenty-seven councils provided information about how much income they anticipate generating through fees and charges in 2024/25. For these 27 councils, the anticipated income is £1.3 billion.

<sup>1</sup> These savings do not match the savings identified as bridging actions in [Exhibit 4 \(page 12\)](#) due to savings being identified at different time points within the budget setting process.

**28.** Sixteen councils indicated they would introduce new charges in 2024/25 – these include garden waste collection, bulky waste uplift, harbour fees for cruise ships and new charges in relation to short-term lets licensing. Low emission zone charges were reported for Dundee City.

**29.** There has been a cash increase in income generated from fees and charges between 2022/23 and that anticipated in 2024/25. For the 23 councils where comparative data is available, an additional £51 million from fees and charges is anticipated compared to 2022/23. While this represents a five per cent cash increase, this is a below inflationary increase in real terms (two per cent).

**30.** Some auditors reported that the amount of income generated from fees and charges is not collated at a council level but is done within individual service or even directorate area budgets. As such, it is not possible from our analysis to calculate the overall extent and changes to which the public are being asked to contribute towards the cost of council services.

### **Projected budget gaps**


**31.** Based on 30 councils, the total projected revenue budget gap for 2025/26 is £393 million ([Exhibit 5, page 15](#)). The total projected gap for 2026/27 falls to £387 million.

**32.** The cumulative gap over the two years to 2026/27 is £780 million, meaning that councils need to identify and deliver recurring measures such as savings or increased income of five per cent of their overall revenue budget to be financially sustainable.

**33.** The largest cumulative gap is in Glasgow (£110 million), followed by Aberdeenshire (£58 million). However, when looking at the cumulative budget gap as a proportion of councils' revenue budget Shetland (22 per cent) and Clackmannanshire (12 per cent) are highest.

## Exhibit 5.

### Councils' projected budget gaps to 2026/27

 Councils	Budget gap for 2025/26 £ million	Budget gap for 2026/27 £ million	Cumulative gap to 2026/27 £ million	Cumulative gap as % of 2024/25 net revenue budget
Shetland Islands	15.9	19.1	35.0	22%
Clackmannanshire	13.0	5.8	18.8	12%
Midlothian	10.2	14.2	24.4	9%
South Ayrshire	6.7	22.1	28.8	9%
Aberdeenshire	29.8	28.6	58.4	8%
East Ayrshire	17.0	15.0	32.0	8%
East Lothian	17.7	6.1	23.8	8%
Aberdeen City	28.4	17.4	45.8	8%
Highland	25.8	21.6	47.4	7%
West Dunbartonshire	8.3	9.1	17.4	7%
Stirling	9.1	7.8	16.9	6%
Eilean Siar	4.2	3.2	7.4	6%
Glasgow City	35.5	74.7	110.2	6%
South Lanarkshire	21.9	22.5	44.4	5%
Angus	7.2	8.8	16.0	5%
North Ayrshire	10.7	8.7	19.4	5%
Orkney Islands	2.3	2.5	4.8	5%
Dumfries and Galloway	10.0	10.3	20.3	4%
Inverclyde	3.0	7.2	10.2	4%
Argyll and Bute	6.6	5.6	12.1	4%
Falkirk	8.1	8.3	16.4	4%
City of Edinburgh	29.8	18.4	48.2	4%
Fife	16.2	18.2	34.3	4%
East Renfrewshire	8.3	2.2	10.5	3%
Dundee City	9.7	3.0	12.7	3%
North Lanarkshire	14.5	12.9	27.3	3%
West Lothian	7.8	5.1	12.9	2%
Renfrewshire	6.2	5.7	12.0	2%
Moray	4.7	0.6	5.3	2%
Scottish Borders	4.1	2.8	6.9	2%
<b>Total</b>	<b>392.7</b>	<b>387.3</b>	<b>780.0</b>	<b>5%</b>

Note. Perth and Kinross set balanced budgets for 2025/26 and 2026/27 and do not report a budget gap. Their budget papers show the savings they will need to deliver to achieve this. Information is not available in this format for East Dunbartonshire. See [Appendix](#) for details on assumptions that councils made when calculating their projected budget gaps.

Source: Auditor data return



## Capital budgets

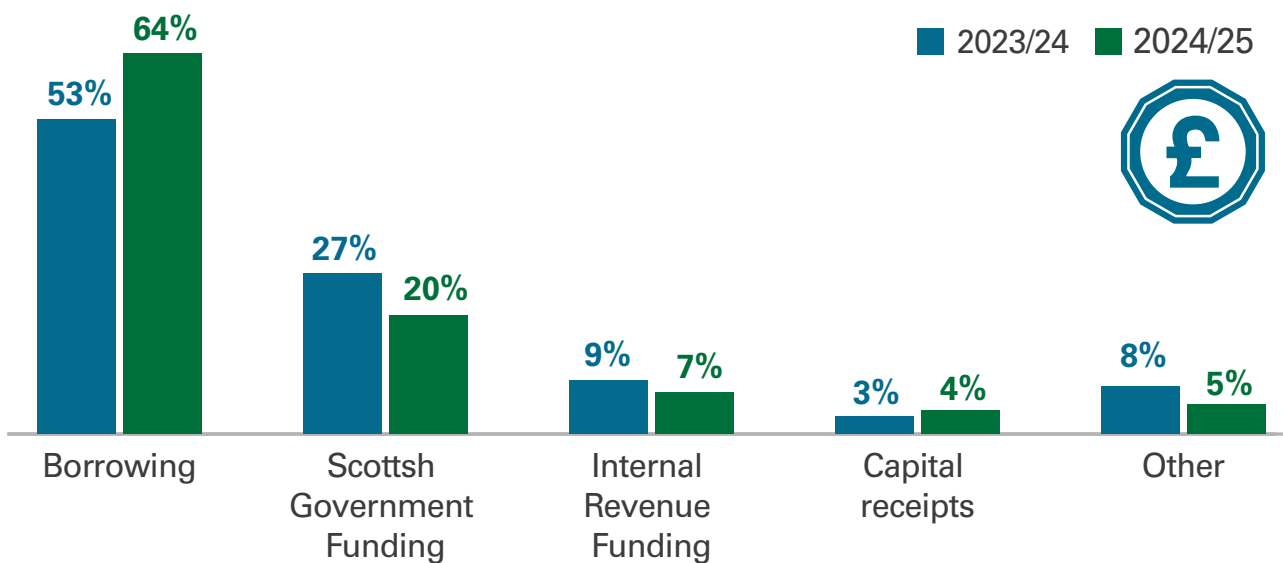
**34.** Thirty-one councils provided information on their capital budgets for 2024/25. These councils reported a combined total capital budget for 2024/25 of £3.1 billion, compared to £3.0 billion in 2023/24. This is an overall cash terms increase of £87 million, or 2.9 per cent.

**35.** Capital budgets between 2023/24 and 2024/25 varied significantly, with:

- 18 councils increasing their capital budget, ranging from 1.3 per cent in Renfrewshire to 45.1 per cent in East Ayrshire and 61.9 per cent in Glasgow.
- 13 councils reducing their capital budget, ranging from 10.1 per cent in Fife to 83.9 per cent in South Lanarkshire and 138.4 per cent in Orkney.

**36.** There have been changes to the way in which capital budgets are being met, with more reliance on borrowing and a smaller proportion being met through Scottish Government funding ([Exhibit 6](#)). As we stated in our recent [Financial Bulletin 2022/23](#), greater reliance on borrowing places further pressure on revenue budgets over the longer term, essentially ring-fencing a portion of the revenue budget to pay loan charges.

## Exhibit 6. Sources of capital finance, 2024/25 compared to 2023/24



Note: Examples of Other include developer contributions and other external contributions.

Source: Auditor data return

**37.** The 2024/25 Scottish Budget allocated capital funding of £638 million to local government compared to £827 million in 2023/24. This £189 million reduction represents a 22.8 per cent decrease in cash terms and 23.6 per cent in real terms.

**38.** This reduction in capital funding is largely explained by a move of £121 million from the general capital grant to the general revenue grant to fund prior years local government pay awards and a £40 million lower investment in the expansion of free school meals compared to 2023/24.

## Impact and involvement of residents

**39.** The Commission has for many years highlighted the importance of councils consulting communities as part of their budget setting processes, including seeking the views of local citizens on priority areas for investment or disinvestment. Councils are trying hard to engage with local citizens.

**40.** In preparing their 2024/25 budget, 23 of the 32 councils informed or consulted residents about the financial pressures it faces. Of those, 19 consulted all residents and four consulted only specific groups within their communities. Six councils (Midlothian, City of Edinburgh, Dumfries and Galloway, Eilean Siar, East Renfrewshire and Fife) did not consult residents this year and a further three (Highland, East Dunbartonshire and West Lothian) did not provide information within the auditor data return.

**41.** The way in which individual councils approached this process of engaging with citizens and community groups varied significantly. Examples of budget consultation undertaken include public consultation events, online surveys, consultation with tenants on rent increases, direct and targeted engagement with affected groups, employee engagement questionnaires and engagement with trade unions. An assessment of the quality or impact of these exercises has not been undertaken as part of our work.

## Equality impact assessments

**42.** At a time of financial pressure when difficult choices need to be made about budget allocations, and in some cases budget and service reductions, it is all the more important that councils consider what, if any, equality impacts their budget choices will have on different groups and communities, especially those with protected characteristics under the Equality Act 2010.

**43.** Twenty-six councils carried out Equality Impact Assessments (EIAs) as part of their budget setting process. Two councils stated that EIAs were not carried out as proposals did not change existing policies or practices. Four councils (East Lothian, City of Edinburgh, North Lanarkshire, and Renfrewshire) did not carry out EIAs on their budget proposals, although some stated they plan to do so on those savings

proposals passed. Given the significance of council budget choices on local communities and that councils have a statutory duty to undertake EIAs when making policy or service changes under the Public Sector Equality Duty, it is difficult to see a justification for budget EIAs not being prepared in advance.

## Issues

### Budget setting process

**44.** We identified issues relating to the budget setting process that made it difficult, in some cases, to collect and analyse the data upon which this briefing is based. These mostly related to timing.

**45.** For example, some councils set their budget before the relevant financial circular from the Scottish Government was available. As a result, some changes to the budget were required upon receipt of the circular to reflect the updated settlement information. Further to this, it was not always easy to track the changes from budget proposal to sign off and approval at some councils, and the implications of these changes on key spending decisions. The late announcement of the council tax freeze also had a significant impact, with councils having limited time to react and update budget plans and proposals. There are also longer-term implications for councils to consider as future increases to council tax will start from a reduced position, with the freeze effectively suppressing the growth of the council tax base.

### Transparency and clarity of budget papers

**46.** All councils need to meet common standards of accuracy and reliability in their budget figures, but individual councils' approaches to budget setting also need to reflect local political priorities and differences in organisation structures. This makes it very difficult to easily compare one council's budget with another. This variability of budget presentation is entirely understandable and to be expected. However, even taking account of differences in approach, budget papers should present key information in a way that is easily accessible and understandable to the public.

**47.** Some local appointed auditors reported difficulty in easily identifying key aspects of councils' budgets (eg, the scale of budget gaps, likely impacts of budget reductions and/or how any planned savings to balance budgets were to be achieved). This raises important questions about how effectively council budget papers communicate to local elected members and local communities what the impact of different budget choices might mean and the overall financial health of their local council.

**48.** It has long been recognised that there is scope to improve the understandability of council accounts to the public. In many cases the same may be able to be said of council budget proposals.

# Appendix

## Methodology

Council auditors completed a data return in March and April 2024. The data return requested information on councils' revenue and capital budgets; the identified budget gaps and bridging actions; fees and charges; and savings and their anticipated impact.

As part of our data return, we asked auditors to identify the assumptions that councils made when calculating projected revenue budget gaps. As expected, these assumptions varied across the country. For example, councils have assumed pay awards ranging from 2-3 per cent/per year until 2026/27. Council tax increase assumptions also varied, with some councils assuming no change (ie, an extension of the freeze) and others an increase of up to eight per cent in 2025/26. Assumptions were also made in relation to general inflation and the Scottish Government settlement in future years.

When looking at trends, we convert some financial data to real terms using GDP deflators. This adjusts financial information from past or future years to prices for the year under review. This is to take account of inflation so that the trend information is comparable. For this paper, we used March 2024 deflators.

Briefing

# Local government budgets 2024/25



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