04 March 2025

Ariane Burgess
Convenor
Local Government, Housing and Planning Committee
Scottish Parliament

By email

Local government in Scotland: Financial bulletin 2023/24

Dear Ms Burgess

On 04 February 2025, colleagues and I provided evidence to the Committee on the Accounts Commission for Scotland's recent report 'Local government in Scotland: Financial bulletin 2023/24'.

During the meeting, it was indicated that we would come back to you with further information on two issues raised by members:

- Information on which councils reported underspends against their 2023/24 Housing Revenue Account capital budgets; and
- Additional information about the savings related to employer pension contributions following the 2023 triennial revaluations of Scotland's 11 Local Government Pension Scheme Funds.

Relevant information is appended to this letter.

Yours sincerely,

Jo Armstrong

Chair

Accounts Commission for Scotland

Appendix 1: 2023/24 Housing Revenue Account capital underspends

As indicated at the Committee session, and shown in **Exhibit 7** of our report, a number of councils reported underspends against their HRA capital budgets in 2023/24.

As outlined in the report, some of our analysis was based on available audited and unaudited accounts, thus it excluded three councils (Clackmannanshire, East Dunbartonshire and Eilean Siar). It was supplemented by information from 30 councils collected via a data return issued to council directors of finance (and reviewed by appointed auditors). At our 25 November 2024 deadline, data returns were unavailable for Clackmannanshire and Eilean Siar.

Twenty-six Scottish councils own and maintain council housing stock, including Clackmannanshire and East Dunbartonshire.

The six councils that have transferred housing stock to Registered Social Landlords, and therefore no longer provide social housing directly (or maintain an HRA), are: Argyll and Bute, Dumfries and Galloway, Eilean Siar, Glasgow City, Inverclyde and Scottish Borders.

This means we received comprehensive information about the outturn position against HRA capital budgets for 24 of the 26 councils that maintain an HRA.

Of these 24, 18 councils reported underspends against their HRA capital budgets in 2023/24. Detail is provided in the table below. Councils also supplied underlying reasons for underspends in their data returns. These included supply chain disruption, elements of housing improvement projects being put on hold due to procurement issues and HRA regeneration projects being fully redesigned following significant increased costs post-covid, resulting in later start dates.

We intend to continue to monitor HRA capital spending through our programme of overview reports (as spending on housing is an integral part of many councils' budgets). A description and scope of each element of the programme is available publicly on our website.

Members may also wish to note that the Scottish Government published '*Housing Revenue Account (HRA) Statistics: Scottish Local Authority Housing Income and Expenditure 2023-24 (near actuals) and 2024-25 (estimates)*' on 27 November 2024. While this pre-empts the financial year ending 31 March 2025, our subsequent audit work on the relevant accounts and the next financial bulletin, it may provide additional context and information for members. The supplementary data file includes the additional breakdown of capital expenditure that was raised at the session.

Councils that maintain an HRA	2023/24 HRA capital budget (£000s)	2023/24 HRA capital expenditure (£000s)	Overspend / (Underspend)	Overspend / (Underspend) as a percentage of budget (%)
Aberdeen City	159,015	124,288	(34,727)	(22)
Aberdeenshire	78,320	68,138	(10,182)	(13)
Angus	14,732	12,993	(1,739)	(12)
City of Edinburgh	68,865	88,190	19,325	28
Clackmannanshire				
Dundee City	29,735	12,176	(17,559)	(59)
East Ayrshire	30,867	30,429	(438)	(1)
East Dunbartonshire				
East Lothian	33,964	42,850	8,886	26
East Renfrewshire	8,400	5,130	(3,270)	(39)
Falkirk	76,370	76,197	(173)	(0)
Fife	132,341	88,906	(43,435)	(33)
Highland	69,473	66,817	(2,656)	(4)
Midlothian	50,500	50,450	(50)	(0)
Moray	19,671	5,882	(13,789)	(70)
North Ayrshire	41,863	38,966	(2,897)	(7)
North Lanarkshire	125,395	126,218	823	1
Orkney	7,155	2,399	(4,756)	(66)
Perth & Kinross	19,249	19,332	83	0
Renfrewshire	29,678	22,995	(6,683)	(23)
Shetland	6,914	7,242	328	5
South Ayrshire	46,550	45,685	(865)	(2)
South Lanarkshire	67,443	62,240	(5,203)	(8)
Stirling	18,026	19,504	1,478	8
West Dunbartonshire	124,846	56,163	(68,683)	(55)
West Lothian	31,012	23,440	(7,572)	(24)
Total for 24 councils	**1,290,384**	**1,096,630**	**(193,754)**	**(15)**

Appendix 2: Additional information about the reduction in Local Government Pension Scheme (Scotland) (LGPS) employer contributions

During the session, it was requested that we provide some additional information about the impact of the reduction in LGPS employer contributions and the expected budget savings that are forecast by councils as a result of these.

Councils generally contribute to two pension schemes on behalf of their employees:

- The Scottish Teachers Superannuation Scheme (STSS), administered nationally by the Scottish Public Pensions Agency, for teaching (and some other education employees);

- The LGPS, administered by 11 geographical funds, (all other eligible staff).

The STSS is unfunded, and therefore councils account for it as a Defined Contribution Scheme, and employer contribution rates are set nationally. The LGPS is a funded scheme (i.e. funds are held and invested) and is accounted for as a Defined Benefit Scheme.

The triennial revaluation assesses the funding position of the funds, looking at the investments held, and the forecast returns, against the projected future liabilities of each. The results from all LGPS funds in Scotland (31 March 2023) showed a significantly improved funding position, compared to 31 March 2020.

Councils are using the results of the 2023 triennial pension fund revaluations as an opportunity to lower their employer contributions to pension funds over the three-year period to the next triennial valuation in 2026. These reduced contribution rates have been assessed by the funds' actuaries to maintain solvency for the funds. The scale of reduction to required employer contributions is directly influenced by the funding position of the individual funds. It is set for each individual employer, considering historic contributions, and so can vary across councils within the same fund.

For example:

At Strathclyde Pension Fund, the actuary reported a funding position of 147 per cent (assets: liabilities). This has allowed 12 councils within the fund, who had contributed 19.3 per cent in 2023/24, to reduce contribution to 6.5 per cent in 2024/25 and 2025/26 before rates increase to 17.5 per cent in 2026/27. Whilst this shows a sharp decrease for two years, there is only a modest reduction in rates after that.

At North East Scotland Pension fund, the funding position was assessed to be 126 per cent. This has allowed Aberdeen City Council, Aberdeenshire Council and The Moray Council, to reduce their contribution rates for each of the next three years by around 3-8 percentage points from 2023/24 levels (to 10.5 per cent, 16 per cent and 14.3 per cent respectively).

Other councils have incorporated more modest decreases in pension contributions over this three-year period (generally between two and three per centage points). Again, this reflects the funding position of other schemes, and an assessment of fund solvency.

This means that any budget saving (i.e. the forecast reduction in the annual budget commitment to make employer contributions into the LGPS) were realised from 2024/25 onwards. This does not mean that the council received a cash lump sum, simply that the money could be budgeted for use in other areas.

The ‘*Scottish Local Government Finance Statistics 23-24*’ (published by the Scottish Government on 18 February 2025) present figures that exclude accounting adjustments related to, for example, depreciation or how councils recognise pension costs over the longer term.

This means they are a useful, and consistent, way of analysing staff costs. On that basis, Scotland’s councils spent £10.3 billion employing staff in 2023/24:

- £3.8 billion on teaching staff (£3.2 billion staff costs plus £0.6 billion pension contributions i.e. to the STSS)

- £6.5 billion on non-teaching staff (£5.7 billion staff costs plus £0.8 billion pension contributions i.e. primarily to the LGPS).

The £0.8 billion of non-teaching staff contributions equate to 15 per cent of the staff costs, but will be influenced by a range of factors, for example staff leaving employment, staff retiring or staff opting out of pension scheme membership.

The cost to councils contributing to the LGPS will be influenced by annual pay deals, as it is a percentage of salaries, as well as the other factors noted above.

This means forecasting the actual expected budget savings expected by the reductions in employer contributions is complex. It is something that councils undertook as part of their 2024/25 budget setting and will feature again within their 2025/26 budget setting (which is currently live).

We currently intend, as part of our upcoming publication ’*Local Government in Scotland: Local Government budgets 2025/26*’ (due to publish in May 2025) to look in more detail at the exact quantum of the forecast benefit across all 32 councils, as well as comparing 2024/25 employer contribution costs to prior years within out next financial bulletin (which will cover 2024/25).

However, to provide the committee with an update and idea of likely scale of benefits arising from reduced contributions, examples from a sample of 2024/25 budget papers have been extracted below:

- Argyll and Bute Council assumed a gain of £2 million per annum, which it intended to set aside for transformation projects, as a result of the reduction in Strathclyde Pension Fund contribution rates.

- Aberdeenshire Council assumed reducing its contribution rate to North East Scotland Pension Fund would result in a gain of £5.8 million per annum.

- Falkirk Council forecast a gain of £4.1 million from a reduction in contributions to Falkirk Pension Fund.

- City of Edinburgh Council was forecasting a gain of £19.9 million from a 5.1 per cent reduction in contributions in makes to Lothian Pension Fund (to 17.6 per cent).