

Local Government, Housing and Planning Committee
Tuesday 24 September 2024
25th Meeting, 2024 (Session 6)

Pre-Budget Scrutiny: Sustainability of local government finance

1. The purpose of this paper is to provide information to inform the Committee's evidence taking as part of its pre-budget scrutiny for 2025-26.
2. The Committee previously agreed that the primary focus of this work would be on the sustainability of Local Government finances, particularly around the funding of council infrastructure through debt, reserves and capital investment.
3. The Committee will take evidence at today's meeting from the following witnesses—

Panel One: Jo Armstrong, Chair, Accounts Commission; Derek Yule, member, Accounts Commission; Lucy Jones, Audit Manager; and Blyth Deans, Audit Director, Audit Scotland.

Panel Two: Dr Jonathan Carr-West, Chief Executive, Local Government Information Unit; and Abdool Kara, Executive Director, National Audit Office.
4. The Accounts Commission and the LGIU previously provided written submissions to the Committee which can be accessed via the following links—
 - [Accounts Commission submission](#);
 - [Local Government Information Unit submission](#).
5. The National Audit Office was not invited to respond to the Committee's original call for views so has not provided a submission. However, the Committee has since agreed that it would be helpful to hear from it with a view to considering the financial issues that have been faced by some councils in other parts of the UK, and in particular, what lessons could be learned in order to mitigate the risk of similar issues arising in a Scottish context.

Previous evidence from Accounts Commission

6. The Committee took evidence from the Accounts Commission on its financial bulletin 2022-23 on 23 April. The meeting papers and official report can be accessed [on the Committee's website](#).
7. During its evidence session, the Accounts Commission noted that for councils, “the financial gaps are being funded principally by reducing reserves and using surpluses” but cautioned that this would not be sustainable over the longer term as “once reserves are used up, they will not be there for future purposes.” The Accounts Commission went on to note that in “2022-23, 37 per cent of the bridging actions for the budget gaps were recurring savings; 34 per cent was the use of reserves; increases in council tax were 17 per cent; and 12 per cent was via various other methods.”
8. The Accounts Commission also confirmed that—
 - The uncommitted element of local government usable reserves is £0.46 billion (15%) meaning the majority of reserves is committed;
 - There have previously been risks of councils exhausting their usable reserves within a set timeframe, “but that is not necessarily the case just now. The trend is that councils are adding to their reserves. The analysis that we carried out showed that no council was at risk of fully exhausting their reserves within the next four years.”
 - The reserve position is “very complicated”. The Accounts Commission expects to call for greater clarity in its next piece of work on reserves, “including what is uncommitted and how much is committed for what and when”.
9. In respect of capital funding, the Accounts Commission noted that—

“Any reduction in capital budgets means that there is less money to maintain and build new assets such as roads, schools or other community buildings. A cut to the capital budget means that those properties are not being maintained to the same level. We all know from the state of the roads that they are not being maintained to the level that we would expect, so cuts to capital budgets have an impact on infrastructure.”
10. The Accounts Commission further stated that—

“In the event of not being given an uplift on capital, or of capital funding being lower than perhaps had been anticipated, debt is the obvious solution to plugging a gap in carrying out a project. It will be harder and harder to deliver the infrastructure projects that are required without using borrowing, but the corollary to that is whether the borrowing programme is affordable.”

Briefing materials and next steps

11. The Committee issued a call for views to help inform its pre-budget scrutiny at the start of summer recess. Nine submissions were received and can be accessed on the [Committee's website](#) under "correspondence".
12. SPICe has published a briefing to support the Committee in its pre-budget scrutiny: [Local Government Finance: Facts and Figures 2024](#)
13. The Finance and Public Administration Committee published its [Guidance for Committees on the Budget Process 2025-26](#) on 10 June. It recommends taking "a strategic year-round approach to budget scrutiny, allowing parliamentary committees to build up an evidence base over time on the impact of spending in their portfolio areas." Committees are invited to report their findings to their respective Ministers by letter or report, at least six weeks before the Scottish Government's Budget is published.
14. Whilst the publication date of the budget is currently unconfirmed, the expectation is that pre-budget letters or reports would be published around the end of October/start of November 2024.
15. The Committee expects to continue to take evidence to inform its pre-budget scrutiny at its meetings on 1 and 8 October before considering draft correspondence to the Cabinet Secretary for Finance and Local Government on 29 October and publishing shortly thereafter.

Conclusion

16. The Committee is invited to consider the above information in its evidence sessions with the Accounts Commission, LGIU and the National Audit Office.

Clerks to the Committee
September 2024