

Local Government, Housing and Planning Committee
Tuesday 21 January 2025
2nd Meeting, 2025 (Session 6)

Scottish Government Budget 2025-26

Introduction

1. The purpose of this paper is to provide information to help inform the Committee's evidence session with the Cabinet Secretary for Finance and Local Government on the Scottish Government budget for 2025-26.
2. The Committee will take evidence on the budget from—
 - Shona Robison MSP, Cabinet Secretary for Finance and Local Government
3. The Cabinet Secretary will be accompanied by Scottish Government officials—
 - Ellen Leaver, Deputy Director, Local Government and Analytical Services Division; and
 - Ian Storrie, Head of Local Government Finance.

Background

4. The [Scottish Government's Budget for 2025-26](#) was published on 4 December 2024.
5. The Committee's [pre-budget scrutiny for 2025-26](#) focussed on the sustainability of local government finances, including funding of council infrastructure through debt, reserves and capital investment. The Committee then [wrote to the Cabinet Secretary on 5 November](#) to set out its conclusions and recommendations. The letter covered the following key themes and issues—
 - The UK Government's autumn statement and its impact on the Scottish Government budget for 2025-26;
 - Capital investment and borrowing;
 - Council reserves;
 - Ring-fencing and directed spend;
 - Revenue raising powers for councils;
 - Multi-year budgeting;
 - Public service reform;
 - Prevention;

- Localism;
 - The Verity House Agreement; and
 - Comparison with councils in England.
6. The letter also provided the Committee's view on the recommendations of the Scottish Local Authority Remuneration Committee (SLARC) in respect of councillors' pay.
7. The Cabinet Secretary [responded to the Committee's letter on 5 December](#).
8. A SPICe paper summarising key themes which arose during the Committee's pre-budget scrutiny along with in the Scottish Government response is attached at Annexe A. The briefing paper also briefly considers the following topics which may be of interest to the Committee—
- Employer National Insurance Contributions for councils and other pay-related matters;
 - Council tax;
 - Scottish Government consultation on general power of competence; and
 - Extended Producer Responsibility

Conclusion

9. The Committee is invited to consider the above information in its evidence session with the Cabinet Secretary for Finance and Local Government.

**Committee clerks,
Local Government, Housing and Planning Committee**

Annexe A



Scottish Budget 2025-26 – session with the Cabinet Secretary for Finance and Local Government

1. SPICe published a briefing just before Christmas which provides analysis of the local government settlement and the Scottish Budget: [Local government finance: Budget 2025-26 and provisional allocations to local authorities.](#)
2. This paper summarises the [Committee's pre-Budget letter](#) and the [Scottish Government's response](#). There are also elements of the [Finance and Public Administration Committee's pre-Budget work](#) that are relevant to this Committee, especially relating to council tax and the fiscal framework.

Summary of pre-Budget letter to the Scottish Government

3. As has been noted in previous years, and [highlighted by the Accounts Commission](#), councils are seeing significant “budget gaps” each year and they have to make difficult choices about how they deliver services. The Committee decided to explore the financial sustainability of local government during this year’s pre-budget scrutiny, focussing on overall revenue funding, capital budgets, borrowing and reserves. To support this, the Committee decided to employ the services of an adviser, Hugh Dunn, former Director of Finance at City of Edinburgh.
4. Over summer, the Committee [wrote to various stakeholders seeking views](#) on a number of financial sustainability and budget questions. It then held evidence sessions with the Accounts Commission, the Local Government Information Unit, the National Audit Office, Reform Scotland, the Mercat Group, Professor David Heald, SOLACE, CIPFA Directors of Finance, COSLA and the Scottish Government. After considering the evidence, [the Committee wrote to the Scottish Government](#) expressing its views in advance of publication of the Scottish Government budget. The Committee’s key conclusions and recommendations are as follows:

- Some councils are concerned that financial pressures may mean they fail to meet some of their statutory duties.
- The Accounts Commission notes that total council debt has increased significantly over recent years (SPICe research shows total local government debt now stands at around £22 billion).
- The Committee welcomes the Scottish Government's willingness to explore different funding approaches to maximise the benefits of capital investment.
- However, there is not much detail of what these approaches are.
- The Committee explored the issue of council reserves and concluded that greater transparency and consistency in the classification of reserves would help the public and politicians to understand how reserves are being used.
- The Committee welcomes the reduction in the use of ring-fencing, seeing it as a sign that the Verity House Agreement has led to improvements in relations.
- The Committee supports moves to enable councils to generate more of their own revenues and is encouraged by the Scottish Government's commitment to explore the issue of a general power of competence for councils.
- The Verity House Agreement also committed the Scottish Government to provide multi-year budget certainty "wherever possible".
- However, the Committee notes how difficult it is for the Scottish Government to provide multi-year settlements to councils when they themselves have only single-year budget settlements from the UK Government.
- The UK Government has provided assurances that it will revert to a system of multi-year funding from next year.
- The Committee would like to see faster progress made towards public service reform in the local government sector, especially in the area of preventative policies.
- The Committee wanted to see specific measures in the Budget that support sector-led transformation in local government.
- These could include funding for collaborative pilots, for example in areas of digital, human resources and procurement, or in supporting changes in the way services are delivered in specific areas.
- The Committee would like to see "swifter progress" made on agreeing a fiscal framework.
- On the issue of councillor pay and the recommendations of the [Scottish Local Authority Remuneration Committee](#) (SLARC), the Committee recommends that the Scottish Government work with COSLA "to give effect to SLARC's recommendations on councillor remuneration".

Summary of the Scottish Government's response

5. The [Scottish Government responded](#) to the Committee's pre-budget letter on 4 December. The Cabinet Secretary highlighted the potential impact of the UK Government's increase in employer National Insurance Contributions on the Scottish public sector, stating "it is inappropriate for the UK Government to fail to fully reimburse Scotland for the full costs of their decision". Other points raised include:
- The 2025-26 local government settlement is a "record funding" of £15 billion, an increase of £1,008 million on the 2024-25 settlement – equating to a 7.2% cash terms increase, or a real-terms increase of 4.7%.
 - The capital grant to local government for 2025-26 is £777 million, a 21.8% cash terms increase, or a real-terms increase of 19%.
 - The £1.5 billion of funding announced by the UK Government for 2024-25 has already been factored into spending plans this year.
 - Scottish Government officials are working with local government "to explore the potential for more innovative infrastructure funding".
 - As an example, the Scottish Government notes work with Edinburgh City Council to explore options to unlock their investment at Granton.
 - This provides an "illustration of the opportunities of partnership working between national and local government".
 - The Cabinet Secretary agrees that there is need for greater transparency and consistency in the reporting of reserves by local authorities.
 - There is a reiteration of the commitment to review ring-fenced funding, whilst noting that "ring-fenced funding accounts form a very small proportion of the overall grant funding received by Local Government".
 - On the issue of additional revenue raising powers, the Scottish Government highlights its [joint progress report with COSLA](#) on the fiscal framework and informs the Committee of its intention to [consult on a general power of competence](#) (launched last week).
 - The Scottish Government agrees with the Accounts Commission that medium-term strategies should still be produced by local authorities "on the basis of stated assumptions".
 - The Scottish Government intends to publish its 2025 Medium Term Financial Strategy after the UK Government concludes its multi-year spending review.
 - The Scottish Government states that it "has a clear programme for Public Service Reform (PSR) that recognises the centrality of prevention". (Members may be interested in the [recent Audit Scotland report](#) into broader public service reform, which concluded "there is no evidence of large-scale change on the ground")
 - The "substantive uplift" in General Revenue Grant ensures that the SLARC councillor pay uplift is "affordable within the Local Government Settlement".

Relevant issues raised by the Finance and Public Administration Committee

6. In its [pre-budget scrutiny report](#), the Finance and Public Administration Committee asked the Scottish Government for an update on the fiscal framework “given that this was originally expected to conclude in September 2023”. The [Scottish Government responded](#):

“We have made significant progress on delivering a Fiscal Framework with Local Government, but it may be unhelpful to consider a final version of the Framework to be a desirable objective. Instead, the Framework should be viewed as an evolving document that will likely change over time to ensure both Scottish and Local Government continue to benefit from its core objectives.

The foundations of the framework are being applied in practice through the simplification and consolidation of the Local Government Settlement, development of clear routes to deliver local revenue streams such as the Visitor Levy and Cruise Ship Levy, and establishing more frequent and meaningful budget engagement.”

7. The FPA Committee also asked the Scottish Government to work with local government to identify where existing commitments and ring-fencing may no longer be needed. The Scottish Government responded:

“We have committed to review ring-fenced funding under the Verity House Agreement (VHA) agreed with COSLA. The 2024-25 Scottish Budget notably invested in the VHA by baselining almost £1 billion of funding across Health, Education, Justice, Net Zero, and Social Justice. Reaching an agreement with Local Government on an assurance and accountability framework is likely to be required to achieve further progress on this ambition but work on that framework continues alongside the budget engagement process.”

Employer National Insurance Contributions and other pay matters

8. Council leaders recently agreed that COSLA would work with both the UK and Scottish governments “to ensure that negative impacts of the increase to employers' National Insurance contributions are limited for local government and the wider public and third sectors”.
9. On Friday 3 January 2025, [COSLA's President and the Scottish Government's First Minister wrote a joint letter](#) to the UK Chancellor of

the Exchequer calling for additional funding to fully mitigate the impact of the increase in employer's National Insurance contributions on Scotland's public sector, including councils and the range of services they commission.

10. The Fraser of Allander Institute (FAI) wrote about this issue in a [blog written shortly after the Budget was published](#). Talking about the public sector generally, the FAI was surprised that the Budget did not account "for the certain increase in employment costs due to the employer National Insurance Contributions that will come into effect on 1 April". They state:

"This is an extremely risky approach, and one which sets up a possible need for further emergency measures during the course of the next financial year – leaving us wondering whether any lessons have been learned from going into a new year without fully setting aside budget cover for what are known costs, as highlighted by the recent Audit Scotland report."

11. Members will be aware that employment costs take up around 60% of total spending by local government. Pay for teaching and non-teaching staff is negotiated between COSLA and the local government workforce unions. There have been some high-profile industrial actions over the past few years, and the Scottish Government has stepped-in to provide additional money to support pay claims. For example, the Scottish Government [provided an additional £77.5 million in August last year](#), stating that its intervention "has led to the suspension of planned industrial action by council workers, including refuse collectors, this week". 2024-25 pay negotiations between COSLA and the three unions representing non-teaching staff [only concluded in November](#), eight months into the financial year.
12. Although the 2025-26 Budget settlement [was broadly welcomed by COSLA](#), President Councillor Shona Morrison stated that the increase "will not stop Councils from having to make difficult decisions to protect services given ongoing pressures, including inflationary increases, pay awards and the significant strain on social care".

Council tax

13. The Cabinet Secretary for Finance and Local Government said in her Budget statement that "with record funding, there is no reason for big increases in council tax next year". The [Local Government Information Unit](#) said that around a fifth of local authorities had been considering raising council tax by at least 10% next year. However, this research was conducted before the announcement of the Budget and the increased local government settlement for 2025-26.

General powers of competence consultation

14. The general power of competence is the power to do “anything that individuals generally may do”. It is available to local authorities and some other types of body in England, local authorities in Wales, and local authorities in Northern Ireland. The power is not available in Scotland. Generally speaking, the legal position in Scotland is that local authorities can do only those things which statute law empowers them to do. Anything else is ultra vires.
15. A GPC for local authorities has been an ask of local government since the 1990s (at least). In its [submission to the Local Governance Review](#), COSLA states that a GPC would:

“...allow local authorities to achieve improved outcomes for communities. This would replace the more restrictive power of well-being in the Local Government in Scotland Act 2003, and echo powers already in place in England. This will ensure that local authorities can become more responsible for a broader range of matters in their areas, and as entrepreneurial as possible in their approaches to addressing the local challenges and opportunities they face.”
16. The Scottish Government [launched a public consultation](#) on a local authority General Power of Competence on the 6 January 2025. This will run until the end of March. The Government is seeking views “in relation to both existing legislative powers in Scotland and the wider legislative powers in England, Wales and Northern Ireland, on the barriers to using such power, the concerns and perceived risks and potential conflict with other legislative provisions”.
17. It is worth noting the National Audit Office’s view that English councils were encouraged to become more entrepreneurial and many hoped to generate income including through commercial investment and trading, with a minority getting into financial difficulty. Furthermore, Scottish Government officials [told the Committee in October](#) that:

“Their experience of the general power of competence in Wales is very interesting, in that councils asked for the power to supplement areas where they do not feel able to act because there is not a specific power. Their reflection, which is interesting, is that councils would still by far prefer to rely on specific powers rather than on the general power, so the general power has not been used.”

Extended Producer Responsibility

18. The Scottish Government, along with the other UK governments, is introducing [extended producer responsibility](#) (EPR) for packaging from April 2025.
19. EPR will require producers of products to pay the full net cost of managing their packaging at end of life, providing a source of funding to local authorities to provide efficient and effective household packaging collection and disposal services, and placing financial responsibility on the producer in line with the “polluter pays” principle. Payments will be made to a Scheme Administrator appointed by the four governments of the UK acting jointly. The Scheme Administrator will then distribute these monies to local authorities.
20. This source of funding is estimated at £1.2bn per annum UK-wide. This will increase recycling rates, incentivise more-sustainable use of packaging and help to build a more circular economy in Scotland. Local authority payments from the Scheme Administrator will be based on operating efficient and effective services. This will be assessed to take account of an authority’s population, demographics and geography to ensure realistic expectations and appropriate costs are determined.

Hugh Dunn, Committee Adviser, and Greig Liddell, SPICe, January 2025

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