

Local Government, Housing and Planning Committee  
Tuesday 4 February 2025  
4<sup>th</sup> Meeting, 2025 (Session 6)

## Accounts Commission: Local government in Scotland: Financial bulletin 2023/24

### Introduction

1. The purpose of this paper is to provide information to help inform the Committee's evidence session with the Accounts Commission on its [Local government in Scotland: Financial bulletin 2023/24](#).
2. The Committee will take evidence on the financial bulletin from—
  - Jo Armstrong, Chair of the Accounts Commission;
  - Derek Yule, Member of the Accounts Commission;
  - Blyth Deans, Audit Director, Audit Scotland; and
  - Martin McLauchlan, Senior Manager, Audit Scotland.

### Financial bulletin 2023-24

3. The Financial bulletin was published on 28 January and forms “part of a series of overview outputs produced by the Accounts Commission which together provide an independent overview of the financial and operational performance of Scotland's local government sector.”
4. This financial bulletin “examines councils' financial performance in 2023/24 and sets out—
  - councils' funding and budget-setting;
  - councils' financial performance; and
  - councils' position at the end of 2023/24 and the financial outlook.”
5. The report notes that “this follows the unprecedented challenges of the Covid-19 pandemic and cost-of-living crisis and sits against a backdrop of the whole of the Scottish public sector facing challenges to its financial sustainability.”
6. Further information is provided in the SPICe briefing which is attached at Annexe A.

### Conclusion

7. The Committee is invited to consider the above information in its evidence session with the Accounts Commission.

**Clerks to the Committee,  
January 2025**

# Annexe A



## Local Government, Housing and Planning Committee 4th Meeting 2025, Tuesday 4th February Accounts Commission

1. Tuesday's session is with the Accounts Commission, Scotland's public spending watchdog for local government. This is an opportunity to discuss the Commission's [Local Government Financial Bulletin 2023-24](#) with the following witnesses:
  - Jo Armstrong, Chair of the Accounts Commission
  - Derek Yule, Member of the Accounts Commission
  - Blyth Deans, Audit Director, Audit Scotland
  - Martin McLauchlan, Senior Manager, Audit Scotland.

### ***About the Accounts Commission***

2. The Commission aims to hold councils in Scotland to account and help them identify and make improvements. It operates independently of councils and of the Scottish Government. Audit Scotland provides support to the Accounts Commission and ensures organisations that spend public money in Scotland use it properly, efficiently and effectively.
3. The Accounts Commission has various responsibilities, including:
  - Securing the external audit of local government accounts and the audit of Best Value and community planning.
  - Making recommendations to Scottish ministers and local authorities.
  - Carrying out or promoting national performance audit work to improve economy, efficiency and effectiveness.
  - Coordinating the scrutiny of local government in Scotland.
4. Jo Armstrong [was appointed in January 2024](#). She has appeared before the Local Government, Housing and Planning Committee twice in the last year: [23 April 2024](#) and [24 September 2024](#).
5. The Commission expects councils to achieve the highest standards of governance and financial stewardship and fulfil their statutory duty of Best Value in how they use their resources and provide services. It publishes reports on the performance of, and challenges faced by, councils and other local government bodies. Outputs include overviews of the sector nationally,

best value reports on individual councils and reports on any specific issue of concern arising from annual audit work.

### **Accounts Commission's Financial Bulletin 2023-24**

6. The [Account Commission's Financial Bulletin 2023-24](#) was published last week. It is based on 2023-24 annual accounts for 29 councils (20 audited and nine unaudited)<sup>1</sup>. Members are reminded that two further Scottish Government Budgets have been announced since the start of financial year 2023-24. Some of the main conclusions and recommendations highlighted in the Bulletin include:

#### *Recent budget settlements*

- Councils are heavily reliant on Scottish Government funding, which comprises over 60% of their total income.
- Scottish Government funding to local government reduced in real terms in 2023-24 compared to the previous year. This was followed by real terms increases in 2024-25 and Budget 2025-26
- The real terms reduction between 2022-23 and 2023-24 can partly be explained by high inflation seen between these two financial years.
- Total ring-fenced and directed funding amounted to £2.7 billion in 2023-24, 21% of total SG revenue funding to local government.
- Since the signing of the Verity House Agreement (June 2023), the level of ring-fenced or directed funding has reduced significantly.

#### *Local Government employment costs*

- There is still uncertainty as to how increased employers' National Insurance (NI) contributions, announced by the UK Government, will be funded. COSLA estimates these will be an additional £265 million cost pressure for councils in 2025-26.
- In 2023-24, some councils made use of reserves to meet pay awards and there is ongoing uncertainty about the scale of future annual pay deals.
- *[Members may wish to note the recent joint pay claim from UNITE, GMB and Unison submitted to COSLA asks for an increase of 6.5% in 2025-26.]*

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<sup>1</sup> Accounts were unavailable for Clackmannanshire, Eilean Siar and East Dunbartonshire.

### *Budget gaps and reserves*

- At the time of setting their 2023-24 budgets, 29 councils had identified a cumulative budget gap of £759 million for the year. This represented a budget gap of 4.8 per cent of the total net cost of services.
- A budget gap is a gap between what councils estimate they need to fund their services and the income they expect to receive.
- To address gaps, councils have to either increase income, dip into reserves and/or reduce costs. Councils are clearly limited in what they can do in terms of raising their own income. But all councils have reserves and all can reduce costs by changing the way they deliver services.
- The Commission sees the use of reserves and other non-recurring measures as unsustainable and only “a temporary plug”.
- Every local authority except Fife, Stirling and East Lothian identified recurring savings in 2023-24. Aberdeen, Angus and West Dunbartonshire identified the most recurring savings (as a percentage of their net service costs).
- In its previous financial bulletin (for 2022-23), the Commission recommended that councils prioritise the achievement of recurring savings and avoid reliance on non-recurring measures.
- Progress against this recommendation has been difficult to assess due to a lack of detail and transparency in reporting.
- Income from customer and client receipts dropped significantly during the pandemic and has not yet returned to previous levels. Customer and client receipts are 12 per cent (£253 million) lower in real terms than in 2019-20.
- Income generation, and the limited capacity to increase this, was cited by a number of councils as a risk to financial sustainability. [*Members are reminded that the [Scottish Government's current consultation on a General Power of Competence](#) relates to this issue.*]

### *Capital issues*

- The Bulletin highlights that failing to invest in estates and infrastructure increases the risk that asset failures may impact services.
- South Lanarkshire and Stirling councils both reported only having one-year capital plans in place.
- Capital expenditure was 20% lower than planned and was funded by increased borrowing.

- Higher borrowing means debt has again increased, and further borrowing will be needed to invest in new schools.

#### *Reserves, debt and financial sustainability*

- Total usable reserves were £4.1 billion in 2023-24. Between 2022/23 and 2023-24 revenue reserves increased by 0.8%, capital reserves fell by 33%.
  - Overall, there was a 5% reduction in councils' total usable reserves. This follows a number of years when reserves were increasing (partly due to Covid-related funding).
  - Nevertheless, councils' usable reserves remain higher than before the pandemic, mainly due to the use of financial flexibilities.
  - Uncommitted reserves increased to £500 million in 2023-24, but this is a Scotland-wide total and there may be a degree of local variation in any changes.
  - 12 out of 29 councils had to make unplanned use of reserves in 2023-24 to manage budget pressures.
  - As in the last Financial Bulletin, the Commission asks for improvements in how councils report on how they intend to use their reserves.
  - Councils' net debt in 2023-24 was £19.8 billion, a 16% increase on 2022-23.
  - Councils have become more reliant on borrowing to finance their capital programmes.
  - Half of councils have long-term financial plans in place, with councils reporting difficulty planning for the longer term due to future uncertainty.
  - Most councils stated that financial sustainability was a "significant challenge".
7. The Bulletin includes a table showing progress towards recommendations the Commission had made in its previous Bulletin (see Appendix 1). One of those recommendations relates to how councils engage with communities on budget decisions, an area of interest to this Committee. The Commission found that fewer than half of councils had undertaken public consultation in 2023-24; however, this had increased to 24 out of 32 councils in 2024-25.

#### *The Commission's best value reports and other recent reports*

##### [Best Value: The City of Edinburgh Council](#)

8. The City of Edinburgh Council has clear ambitions and priorities, but over £100 million in savings are needed by 2029. The council needs to be clear how savings will be made and the impact across all of its services, including levels of funding available for health and social care and housing services.

The performance of many services is staying the same or improving, but some services are getting worse, including housing, waste and street cleaning.

[Best Value: Scottish Borders Council](#)

9. Scottish Borders Council has a clear vision for the next 10 years. Many services are getting better, including education, but improvements are needed to services for looked after children. With over £18 million in savings needed by 2029, the council must move quickly to change how services are delivered, with local people given a greater say on these changes.

[Best Value: Clackmannanshire Council](#)

10. Clackmannanshire Council has a clear vision for the area's future and where improvements need to be made. But the council doesn't have a strategy for how it will manage its money over the coming years. This is urgently needed to show how the council will be able to deliver services in the future. The performance of many services is getting worse. There are serious risks if action isn't taken to address gaps in the council's workforce and skills, and tackle sickness absence.

[Best Value: Falkirk Council](#)

11. Falkirk Council has a clear vision for the area's future. Councillors and staff are working better together. Between 2024 and 2028, the council could be short of over £62 million in the money it wants to spend on services and the cash available.
12. The council has identified options to close over half of this gap. It needs to deliver these savings and make more difficult decisions. Local people must be better involved in making decisions about services and how money is being spent.

[The 2023/24 audit of Aberdeen City Council: Council tax refunds – a significant fraud](#)

13. Members will be aware that an Aberdeen City Council employee defrauded the council of £1.1 million over a 17-year period. The Commission reiterated that officers and councillors have a duty to safeguard public money and protect against fraud. Having effective systems and checks to monitor, manage and review financial systems is essential. Councils must also act on recommendations from internal and external auditors to address identified weaknesses and risks in key processes.

[Accounts Commission Transformation in councils report](#)

14. This stressed that reform is increasingly urgent as councils "have never faced such acute challenges, putting budgets and workforce under severe stretch and strain". The Commission calls for councils and key partners to significantly increase the pace and scale of major changes if they are to protect public services. The Commission also [published a blog last week](#),

written by one of the witnesses, Derek Yule. He writes: “relying on savings and using reserves to deliver services within agreed budgets is unsustainable. Nor does it deliver the changes so urgently needed to protect services into the future”.

### ***The LGIU’s survey of Scottish local government finance***

15. In December the Local Government Information Unit published its second survey looking at [the state of local government finance in Scotland](#). The survey received responses from council leaders, chief executives and directors of finance from 84% of Scottish local authorities. It was conducted to assess the “mood of the sector”. Councils highlighted:

- the reductions in levels of service that they will have to make;
- possible council tax increases;
- the “burdens” imposed by Scottish Government priorities;
- the ongoing strains of inflation;
- increased interest rates, and;
- demand pressures caused by demographic changes and the cost of living crisis.

16. In his foreword to the research report, Dr Jonathan Carr-West stated:

“The message of this survey builds on last year: we are nearing the point of no return. Councils will soon be unable to balance their budgets, meet their statutory duties, or provide for their communities. We need to change course now before it is too late.”

Note: Committee briefing papers are provided by SPICe for the use of Scottish Parliament committees and clerking staff. They provide focused information or respond to specific questions or areas of interest to committees and are not intended to offer comprehensive coverage of a subject area.

The Scottish Parliament, Edinburgh, EH99 1SP [www.parliament.scot](http://www.parliament.scot)