

Strictly embargoed until 00:01 Thursday 8 January 2026



2025 State of Local Government Finance in Scotland

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Introduction

Local government finance in Scotland is still not fit for purpose. That is the overwhelming message coming from the sector. Although there have been changes, including the introduction of the [Verity House Agreement](#) and the Fiscal Framework between the Scottish Government and local government, the underlying problems that threaten councils' financial sustainability have not been resolved.

This year, as we move towards the 2026 Scottish Parliament election, we wanted to understand exactly what needs to change and how the sector believes we could get there.

The survey was sent to chief executives, leaders and directors of finance across all 32 local authorities from 30th October to 5th December. This survey received 36 responses from 26 local authorities. This included 13 chief executives, 13 leaders and 10 section 95 officers. These responses provide an unparalleled look into the view from the inside when it comes to managing local government finances.

There is no simple way to fix local government finance, but within the sector, there is a near-universal agreement about what the problems are, and no end of ideas about how they could be solved.

Moving forward, it will take imagination, communication, political leadership and commitment to find the solutions that can rebuild sustainable local government finances. A good start would be to enshrine in legislation the principles that underpin the Verity House Agreement, a commitment to review the role and responsibilities of local government, and a new, permanent and legally binding role for local government in all decisions that affect the sector.

The responses we received contain a stark warning: in the current trends, councils believe that their funding position makes it harder to protect the vulnerable, more likely they will become insolvent, and will decrease quality of life in their communities. But this trend is not inevitable, and councils are ready and willing to continue their work with Scottish Government to introduce meaningful and lasting reform.

Key findings

- Confidence in the sustainability of local government finances has not improved since last year.
 - For a second consecutive year, no respondents reported being confident.
- Over two-thirds of respondents said they thought it was likely that their council would be unable to balance its budget within the next five years.
 - Just under a third said they may not be able to pass a balanced budget in 2026-27.
- Adult social care continues to dominate as the most significant short-term and long-term pressure on council finances.
 - There are also significant concerns about the financial sustainability of Integration Joint Boards.
- Every respondent said they would be increasing council tax and decreasing spending on services in the upcoming financial year.
- There is widespread support for multi-year financial settlements and an end to ring-fencing.
 - A majority also supported freedom to levy other local taxes, and 70% supported a local share of national taxes.

Recommendations – immediate

- We are again calling for an agreed national convention between the Scottish Government and local government to outline procedures and actions for councils that are unable to pass a balanced budget.
- The next Scottish Parliament should agree to implement and enshrine in legislation the principles of the Verity House Agreement, and commit to an annual review by Scottish Parliament covering the key principles.

Recommendations – medium to longer-term

- Moving into this election year, parties should commit to a full-scale review of local government finance, including sources of funding, the formulae for distribution, and the place of local government in the wider public sector.
- Scottish and local governments should be brought together in a standing commission or representative body, which should be defined in statute with a key role in pre-budget engagement processes, negotiation of the funding settlement, and any and all decisions that have an impact on

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councils. The exact responsibilities and membership of this body should be a matter for future discussions, but should at a minimum include ministerial representation, local elected representatives and senior officers from local government.

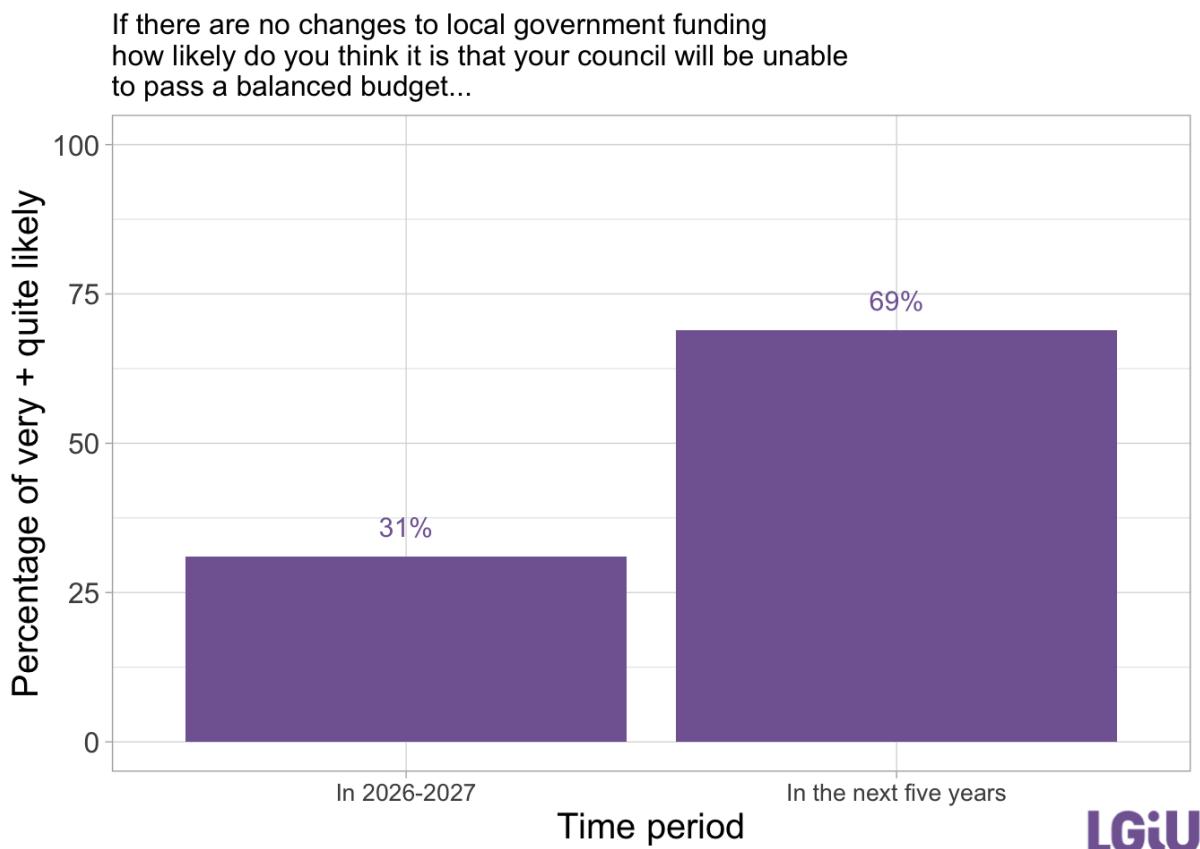
Confidence in local government finance

Confidence in local government finance has not improved since we started this survey two years ago. Since 2024, no respondents to our survey have said they were confident in the sustainability of local government finances.

Almost two-thirds (64%) said they were less confident than last year. This picture, of low and declining confidence, should be seen as a serious warning about the financial health of the sector. The progress made in areas like the fiscal framework has not been sufficient to mitigate the impact of the significant structural forces that are leading councils to positions where they may be unable to balance their budgets.

As one respondent put it:

"The key problem is the mismatch between what it costs to provide services and the funding made available (mostly through government grant) to provide them. That mismatch continues to grow. The cumulative impact of this is a huge problem."



Councils in Scotland legally have to pass a balanced budget, and the process for what would happen if a council is unable to do so (as has [happened repeatedly in England](#) in the last few years) is [not clear](#). Councils only have a small number of levers they can pull in order to make up for budget gaps, and as this respondent pointed out, these choices can have serious consequences even if they avoid effective bankruptcy.

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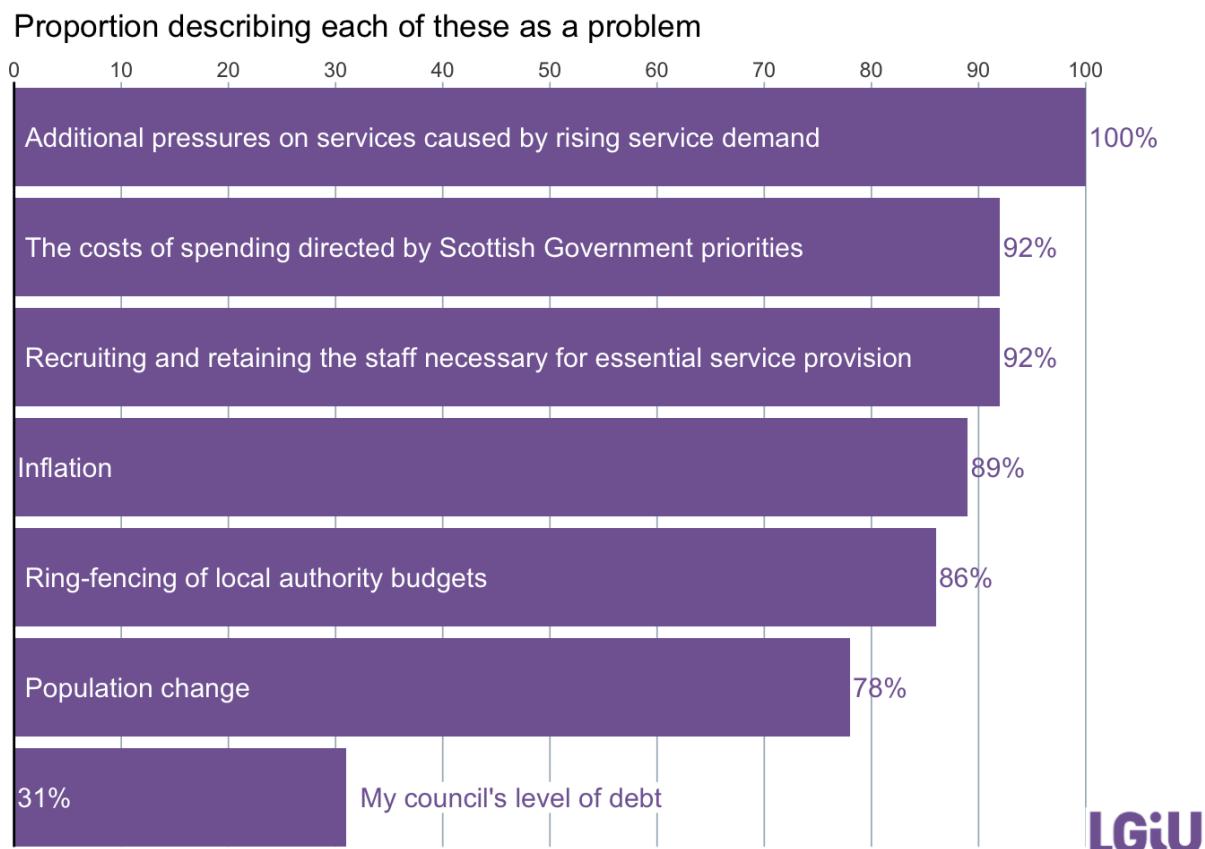
"Scottish local authorities are responsible bodies and will do what is necessary to set financially balanced budgets but the decisions on services that are necessary to do so can no longer protect the most vulnerable persons in our communities."

As a warning of how serious this position is, a third of respondents said they may not be able to pass a balanced budget in 2026-27, and over two thirds that they may not be able to at some point in the next five years.

"I expect our Council to become insolvent either this year or more likely next year, and the Councillors to refuse to set a balanced budget within [the] next 2 years."

Given it is still not clear what would happen in this scenario, we are again calling for **an agreed national convention between Scottish Government and local government to cover procedures and actions for councils that are unable to pass a balanced budget.**

The multiple crises facing local government in 2025



Last year, we wrote that there were reasons to think that 2024 was an unusually difficult year for council finances. However, given that this is now the third year in a row that the sector has reported similar reflections on the state of local government finances, it is worth asking if this position represents the new normal.

Rising service demand, particularly in adult social care, is unlikely to slow down as the population ages. Equally, the issues with recruiting and retaining the council workforce have not improved. Later in this report, we will explore the ideas councils have for managing these issues, particularly through prevention, but there is no easy fix, and councils are severely constrained by their own capacity to raise and spend resources as they see fit.

Inflation may decrease, but as many respondents pointed out in written responses, other cost pressures, such as increased employer National Insurance Contributions, mean that there is no obvious end in sight for the increased cost of providing services.

Both directed spending and ringfencing are still seen as major issues, despite the Verity House Agreement and the Fiscal Framework. This was most often referred to in the

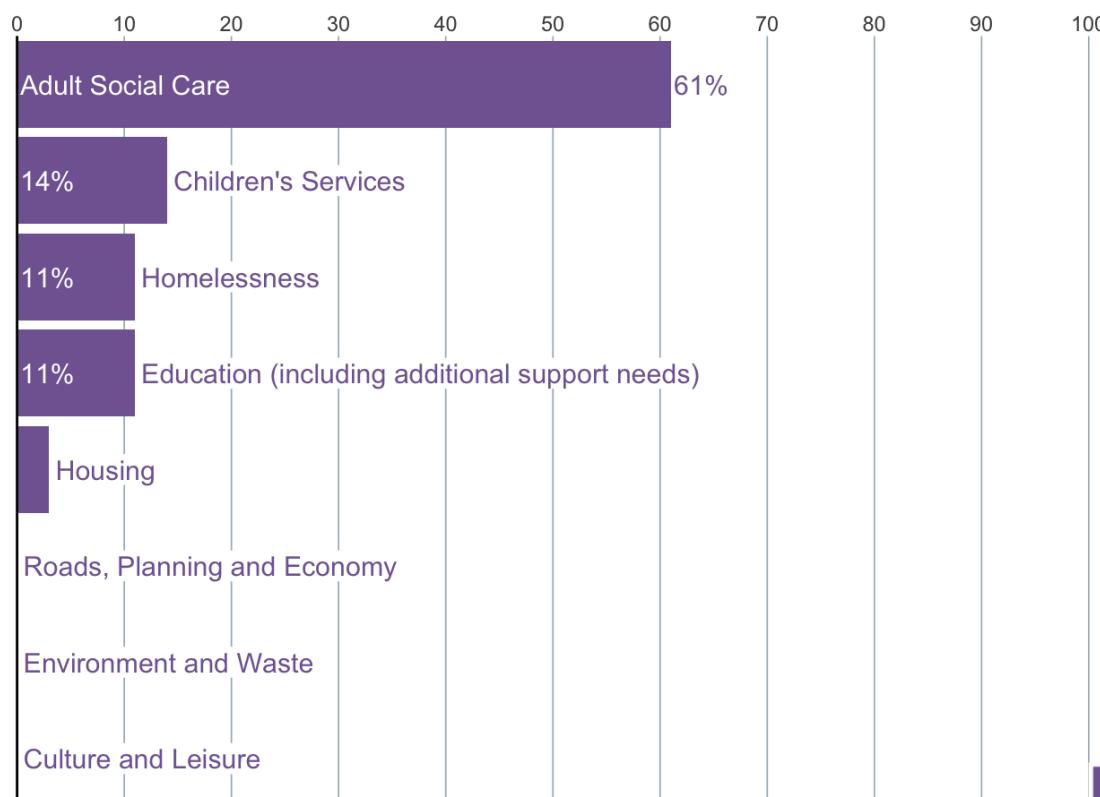
context of IJBs (Integration Joint Boards) and teaching, both in terms of teacher numbers and reduced class contact time. In these cases, local authorities have been critical that they are not fully reimbursed for the costs of these policies, directed by Scottish Government, and that they are effectively unable to make their own spending decisions.

Service pressures

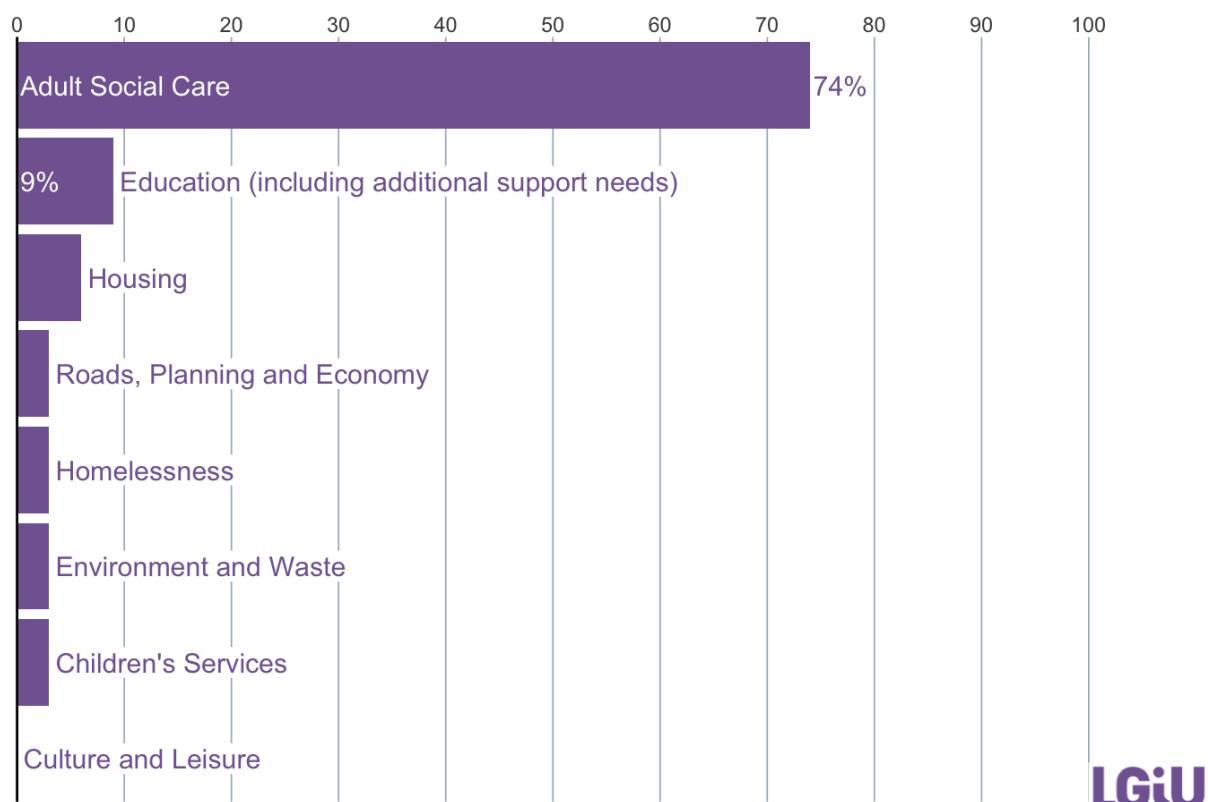
We asked respondents to identify the greatest short and long-term pressures on their councils' finances. As was the case in 2024, adult social care dominated as the biggest short-term and long-term pressure on council finances.

Our [recent reports with CIPFA](#) have looked into the reform of adult social care in Scotland, Wales and England. There is an urgent consensus across the nations that adult social care needs to be reformed, as not only the greatest pressure on local government finances now, but also the one with the highest certainty of increasing in the future, and the reduction in scale of the national care service reforms only serves to highlight how difficult it will be to implement reform. In many ways, the question of local government finances is one about how adult social care will be funded in the future.

Greatest short-term pressures



Greatest long-term pressures



Other than adult social care, children's services, education and homelessness were raised as significant service pressures. In written responses, respondents pointed to the pressures caused by teacher number policies, as well as the rise in service demand for both homelessness and children's services.

Respondents were also keen to point out the divergence between public expectations of what councils can achieve, and what councils can do today:

"Public expectations of what councils can and cannot do need to be much better explained and managed."

When it comes to service provision, there is an increasing need to clearly outline the responsibilities that belong to councils and ensure they are adequately resourced in order to fulfil them, or risk public alienation through misplaced dissatisfaction.

Integration Joint Boards (IJBs)

Integration Joint Boards (IJBs) are the bodies responsible for the resourcing and management of social care in their area, jointly managed by NHS boards and councils. As the Accounts Commission has noted, in recent years their financial position, partially funded by councils, has become increasingly precarious. The costs of IJBs, and their

place in the management of social care, were robustly criticised throughout the responses to our survey.

"I think that Integration Joint Boards should be abolished so that there is clear accountability for spending by councils and Health Boards rather than having a third entity that both funded bodies can blame for the problems. The real problem is too little money in the system for the many responsibilities that have been mandated. It really did work better before we had IJ Bs."

"Finances of IJ Bs are unsustainable at a national level at the current funding levels. The majority are facing significant deficits, particularly in relation to local authority-related services, such as adult social care, which are not funded to the same degree as NHS services."

"IJ Bs across Scotland are having to be subsidised by councils, over and beyond the ringfenced amounts in annual settlements. However, the reasons for IJB financial pressures vary across the country and homelessness is consistently overlooked as a driver of cost overruns."

"Horrendous. Massive budget gap locally, and no realistic solution without Scottish Government drastically changing their position on wider health and social care funding."

IJ Bs were characterised as an ineffective way to allocate resources, a financially precarious burden on councils, and an unnecessary confounding factor in determining accountability. The suitability of IJ Bs as a system should be reviewed alongside any future review of adult social care provision, before their operation contributes to any more serious collapse in councils' financial sustainability.

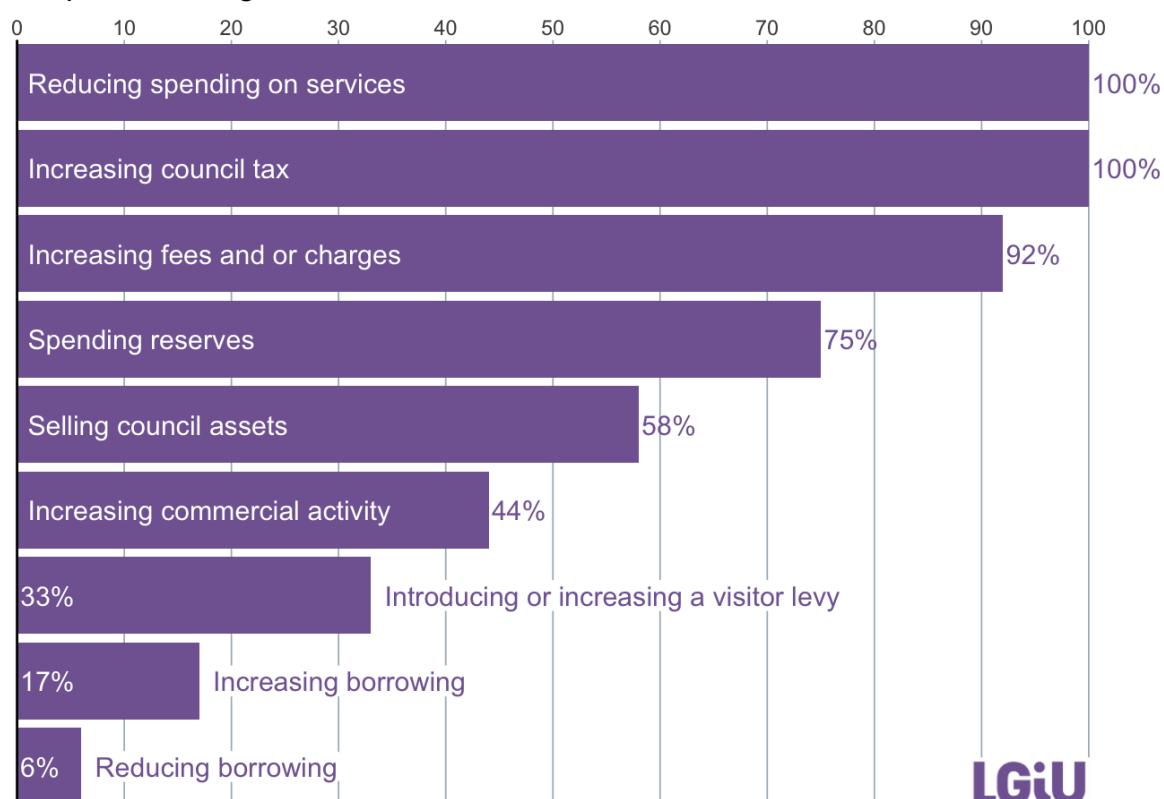
Balancing the budget

In order to balance their budgets, councils are, again, pulling every one of the small number of levers available to them. Every respondent said they would be reducing spending on services and increasing council tax. Nearly all said they would be increasing fees or charges.

Perhaps more concerningly, 75% said they would be spending reserves this year, and 72% that they had spent reserves in the current financial year and planned to again in the upcoming financial year. Although this is not necessarily a sign of financial issues (see [this briefing](#) for a full explanation of the ways in which reserves can be used), we know from [Accounts Commission](#) work that total reserves are diminishing. Once reserves have been spent, they are gone, and routine use of reserves is not financially sustainable.

Equally, council asset sales indicate that the financial pressures on councils extend to their capital budgets.

Proportion taking each of these measures



Predicted council tax increase	Proportion of respondents
<5%	0%
5-10%	69%
10-15%	22%
>15%	2%

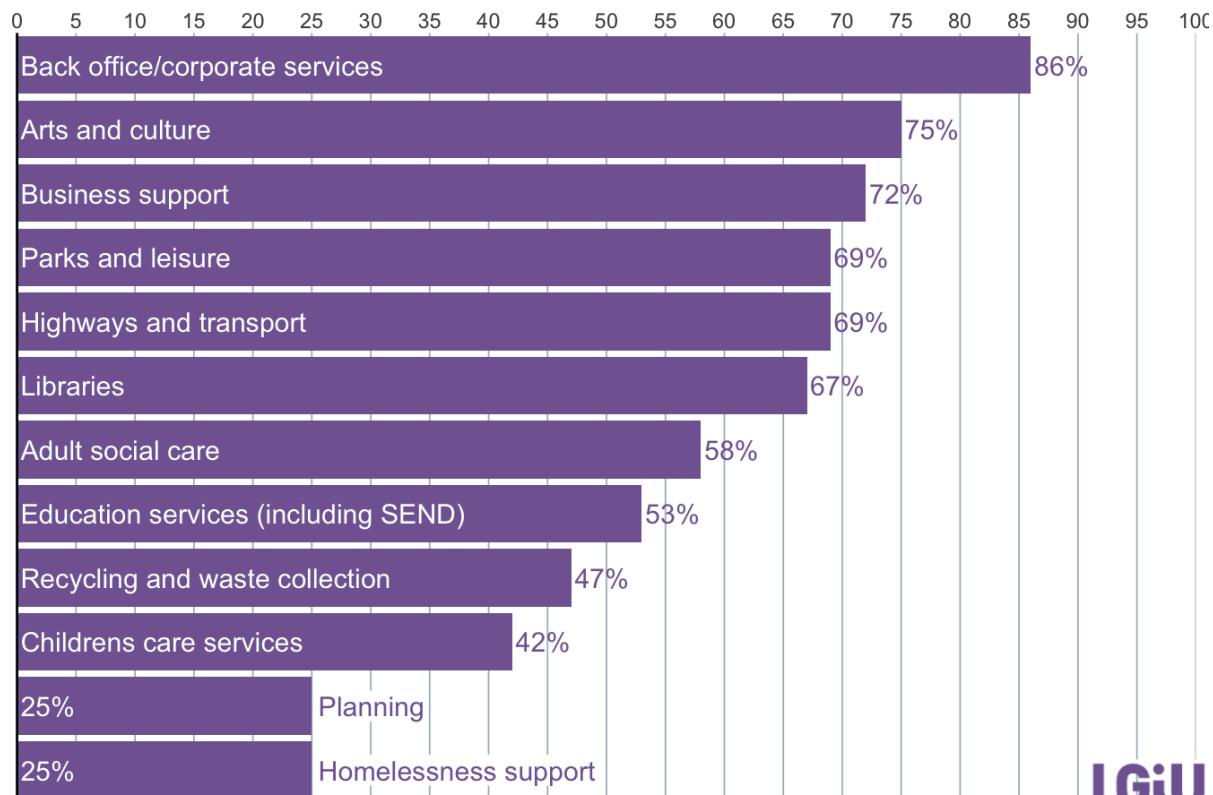
The scale of council tax increases continues to be significant. Not only is every council planning to raise council tax, every council is planning to raise it by at least 5%. Over a fifth plan to raise council tax by over 10%.

This year, for the first time, council tax is not the only local tax that councils have the power to set. The [newly implemented visitor levy](#) grants councils the power to charge for overnight stays. Our research suggests that a third of respondents are taking this option as a means to make up for their budget shortfalls, but the money raised in visitor levies tends to be relatively small and is only an attractive option for a small number of councils.

Service reductions

Councils are again saying they will have to cut services to make ends meet. This year, the cuts range from discretionary services, such as arts and culture, parks and leisure or business support, to statutory services like adult social care.

Proportion of respondents reducing each service



Proportion agreeing with each statement



The cuts to discretionary services will be felt by people across the council areas. Eighty nine percent of respondents said cuts to services will have a negative impact on quality of life in their area.

On the other hand, the cuts to statutory and acute services, such as adult social care, represent a risk to vulnerable people in the council.

Finally, just under half of respondents agreed that there is a danger that they may be unable to fulfil their statutory duties in 2026/27. This could leave councils at risk of legal challenge, or at worst imply that they will be forced into effective bankruptcy.

Fees and charges

The overwhelming majority of councils will be increasing fees and charges, and most of those will be increasing fees and charges **across every area** where they can.

Nearly all of our respondents who answered that they were increasing fees and charges said they would be increasing every charge that they have discretion over. A small number specified areas for additional charges: waste collection, sports and leisure, non-residential care.

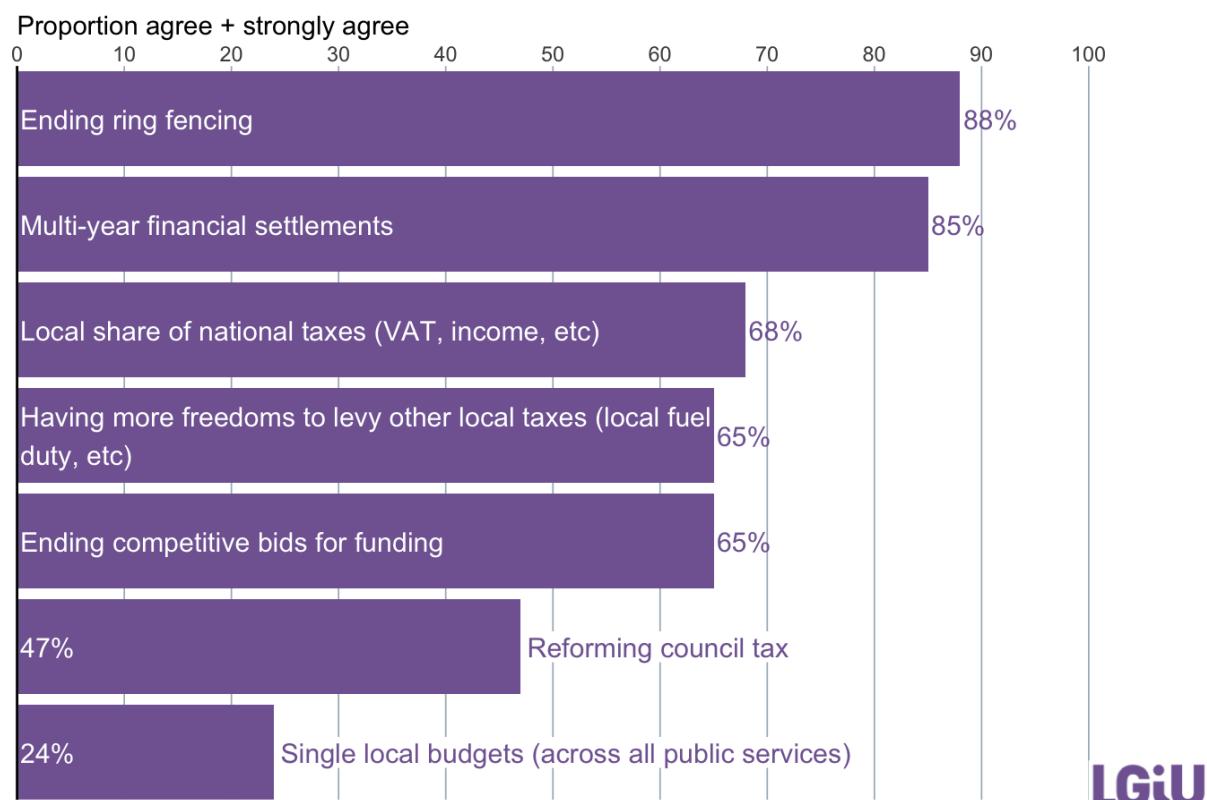
Not every respondent went into detail about how much they were raising charges, but those who did said they would be increasing them at the rate of inflation or above.

What are the solutions?

Respondents pointed to a number of reforms that would have a positive impact on council finances. Ending ring fencing, a major aim of the Verity House Agreement, is still supported by the vast majority of respondents. Multi-year financial settlements, a reform that has just been introduced in England, are also supported by most respondents. Although the [specific complications](#) with Scottish Government funding represent a challenge to this reform, it is clear that there remains widespread support for it within local government.

It is also interesting to note that a majority of respondents support new tax options for local authorities, including a local share of national taxes. This would bring Scotland more in line with [its international counterparts](#), where it is common to have a wide basket of local taxes to support local government service provision.

This policy would have a positive impact on my council's finances...



LGiU

Council Tax

Council tax is the main mechanism by which councils generate revenue locally. There are many criticisms of how council tax currently works, as outlined in [this briefing](#), and 47% of respondents said that council tax reform would have a positive effect on their council's finances.

When we asked how respondents would recommend reforming council tax, by far the most common response was for a full-scale revaluation. There were also a small number of calls for more fundamental reform, such as the introduction of a local income tax or rebanding.

At the time of writing, the Scottish Government [is consulting](#) on the future of council tax, which includes engagement on both banding and valuation. The evidence from our research suggests that there is significant, although not universal, support for change.

"Increasingly, councils are under pressure to create income streams to provide basic statutory services that really should be funded by central government. We need a review with an effective, positive outcome in respect of the General Power of Competence to facilitate this."

The meaning of public service reform

Scottish Government released a [public service reform strategy](#) in June 2025. We asked about many of the different items in the 18 workstreams identified by Scottish Government, and found varying levels of confidence in the extent to which these workstreams will lead to sustainable public services at a local level.

Before asking about any of the specific areas of public sector reform suggested in the strategy or in the wider sector, we first investigated what exactly our respondents understand public service reform to mean.

The evidence suggests that there are a wide range of interpretations of what public service reform could and should involve. The list below outlines the range of responses.

- The single authority model
- Abolishing IJBs
- Place-based public services
- Removing expansion of free universal services
- Structural change
- Moving to prevention
- Reduction in the number of public bodies
- "Further decades of discussion without resolution."
- "It is a jargon used commonly by those who are desperately seeking answers when they don't understand the right questions."

At its most radical, public service reform was seen as:

"Complete re-organisations of public services based upon the place. This will be supported by the use of digital, early intervention and prevention and other strategies to reduce long-term demand and to deliver services in the most joined-up and efficient manner possible."

However, in other cases, the entire language of public service reform was criticised as either jargon (see above) or another label for a long process of reform that councils have already been engaged in for years:

"Call it change, improvement, transformation - whatever - more than any other area of the public sector, councils have been adapting to their financial circumstances."

Structural change

In England, the conversation over local government reform has been dominated over the last year by discussions of Local Government Reorganisation (LGR) and devolution - the replacement of two-tier areas with unitary councils and the introduction of elected mayors.

In Scotland, by contrast, discussions of structural reform tend to focus on the size of councils, and to a lesser extent on the re-introduction [of a regional layer](#). The responses to our survey demonstrated no clear consensus on these questions.

On the question of council size, respondents' opinions ranged from stating that there were too many councils, to arguing that the sizes were wrong, to saying that boundaries had led to some councils having constrained council tax bases. As one respondent pointed out, although there are strong arguments for changing the size of councils, the real difficulty is determining what the right size would be:

"Some reform is required - we have a mix of some too small and some too big (both geographically and population-wise) - agreement on the 'right' size is the challenge."

When it comes to the introduction of a regional level of government (equivalent to England's combined or strategic authorities) there is no obvious agreement, with some arguing in favour of the principle, while others pointed out the risks of implementing such a policy in a top-down way.

"Having a region-based approach makes sense in many areas and may produce economies of scale; however the upheaval of wide-scale structural reform would absorb so much bandwidth for several years, that the focus on what councils look to achieve in terms of local outcomes would inevitably suffer as a result."

This final point, on the bandwidth councils have, was echoed by several other respondents:

"It would be a costly distraction."

Structural reform is relevant to many aspects of local government finance, affecting council tax bases, demographics, service pressures, and local governance. However, our evidence suggests that there is no consensus on immediate changes to council sizes, nor on further devolution of powers to a new regional layer. At this stage, more evidence would be needed to determine the direction of travel any reform should take, the exact

benefits of expected reform, and steps would need to be taken to ensure that local government has the organisational capacity to take on what would inevitably be the largest reform to local government since the 1990s.

Place-based and integrated services

"Place-based integrated services should be the norm."

We asked respondents their opinions on place-based and integrated services. We intentionally left these terms undefined, giving our respondents the opportunity to offer their own analysis of these often-contested policy areas.

Several patterns emerged in the analysis of the responses. In general, place-based services were praised, and implementing policies at the local level was, unsurprisingly, widely seen as desirable.

"Place-based whole-system approaches are essential to ensure services are designed to meet local need. Too many centrally designed policies and processes fail to meet local needs, especially in rural and island settings."

On the other hand, the practical work of integration was criticised by several respondents. As we saw in our question on Integration Joint Boards, the integration of health and social care has been widely criticised for its lack of practical impact, the ongoing financial issues faced by IJBs, and issues with the imbalance in power and accountability between the NHS and local government sides.

Integration as a principle is often praised for offering opportunities to improve services for users; however, many respondents also warned of the practical difficulties of implementing integration across services, especially those between local government and other public bodies.

"There are opportunities but you should not underestimate the challenges in getting services and public bodies to work together."

"Integrated services require greater budgetary freedom and more financial collaboration across the public sector more widely."

Digital transformation

The potential for digital transformation to unlock productivity gains and improve services has been persistently cited as one of the key elements of future public service reform. However, our respondents paint a decidedly mixed picture in their estimates of how

much technological transformation will contribute to improving local government finances.

"Key to enable efficiencies and effectiveness in local government."

"Advanced automation has been happening for years, AI opportunities need to be carefully explored given ethical and governance issues, but undoubtedly a route to further potential efficiencies."

"Digital will not have a huge impact on services like adult social work or waste collection."

Several respondents pointed to the potential for common platforms across local authorities:

"Needs to be coordinated and supported at a national level."

"Too slow and needs a joined-up national approach rather than 32 different ways."

Overall, there is no clear estimate across the sector as to how far digital or technological transformation will be relevant to solving councils' financial issues.

Prevention

Prevention is one of the key principles of public sector reform, and has been since at least the [2011 Christie Commission](#). Respondents were generally supportive of the idea of prevention as a means to save resources and improve outcomes in the long term, but questioned how possible it is given their short-term budget pressures.

"Investing today to prevent costs tomorrow is economically advantageous in the long term, but unaffordable in the short term."

"The challenge is to be able to invest in prevention while still delivering current service levels until the long-term benefits of prevention are realised."

"We have had 20 years to switch resources to prevention and have not done so; we have simply continued to increase the health budget when prevention requires a dramatic switch of resources to local government. We are actually worse on prevention than we were 20 years ago due to the deprivation of resources."

One respondent suggested a change that could work towards ameliorating these challenges:

"Set a target for protecting levels of investment in prevention spend."

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This is a similar suggestion to the proposed Preventative Departmental Expenditure Limits (PDEL) [outlined by Demos](#). Whether these would be centrally imposed, based on grants from Scottish Government, or if they would be funded through councils' normal budgets is not clear. But if there is to be a renewed effort to move funds towards prevention, the first essential change must be addressing the acute spending pressures today to free up resources for prevention in the future.

Other proposed reforms

Alongside these significant areas of reform, there were other suggestions from our respondents. These have been summarised in the table below.

Proposal	Quote
Full funding for directed spend	"I would make sure that every government policy and piece of legislation was fully funded at a local level. We are responsible for so many things that we don't get fully funded for."
Outcome-based benchmarking and resource allocation	"More money is the obvious one, but that aside, a true ability to make local decisions and then be judged on outcomes, rather than being required to budget based on inputs."
Council responsibility review and subsequent funding formulae changes	"I would make it so that funding allocations from the government had to be based on a proper assessment of needs and costs. The current system allows government to provide a sum of funding and no one has any idea if that is reasonable or sufficient to deliver what councils are required to do."

How to implement Public Service Reform

We asked our respondents what would need to change in order to implement these suggestions. Moving into this election year, there is an important opportunity to introduce new ideas, but although that will be necessary to bring about lasting change, it will not be sufficient. Respondents pointed to consistent cooperation, increased localisation, improved trust, and bold vision as essential for introducing the scale of reform needed to fix council finances.

"Reduced control from the centre and localised services."

"We need less new burdens, a greater focus on prevention and a willingness to be bold and take risks. This requires trust from government and truly empowered local government."

"Spend some time on visioning what we are transforming to and then resource the necessary actions to get us there."

'Political will which recognises real, sustainable delivery will only take place over the long term i.e. longer than a political cycle. Brave politicians required to say to the public, "You're not going to like this, and it will not deliver in the short term, but it's the right thing to do."

Conclusion

Despite the series of welcome commitments between Scottish Government and local government over the last few years, this survey demonstrates that the fundamental calculation has not changed. Local government still does not have the resources it needs to provide its vital services, nor the means to sustainably raise more revenue. It remains squeezed between demand pressures, the high cost of directed and ringfenced spending, and the difficult economic conditions.

Although the symptoms of this malaise are mainly financial, the causes are more structural. Councils do not have an enshrined, well-defined role that they can point to when there are disputes with the Scottish Government over spending commitments. Local government in Scotland is, compared to its international counterparts, excessively dependent on central grant funding. Adult social care funding, which has long been a significant portion of spend, is increasingly seen as the greatest pressure on council finances, with no signs of slowing down.

These issues require fundamental reform. Reform to how **Scottish and local government work together**. Reform to how **councils are able to raise and spend their own revenue**. And finally, **Scottish Government commitment to work with councils to tackle the issues that councils cannot manage alone**, most importantly adult social care and education.

These will not be easy changes, but they can only be managed if future Scottish Governments and local government move forward in - using the words of one of our respondents:

"Mature political co-operation, consistent leadership and a new culture of government in Scotland."

A new culture of government that enshrines the principles of Verity House, and recognises local government as a co-equal partner in all aspects of Scottish democracy.