

**Local Government, Housing and Planning Committee**  
**Tuesday 27 January 2026**  
**4th Meeting, 2026 (Session 6)**

## **Budget Scrutiny 2026-27**

### **Introduction**

1. At its meeting on 11 November 2025, the Local Government, Housing and Planning Committee agreed to take evidence from the Cabinet Secretary for Housing and the Cabinet Secretary for Finance and Local Government upon the publication of the Scottish Government's Budget for 2026-27.
2. This paper is provided to support the evidence session with the Cabinet Secretary for Finance and Local Government.

### **Local Government, Housing and Planning Committee pre-budget scrutiny**

3. The [Verity House Agreement](#), signed in 2023, sets out the Scottish Government and Local Government's ambition to "work together strategically to advance public service reform".
4. At its meeting on the 24 June, the Committee agreed to explore how the Scottish Budget supports this as the focus of its pre-Budget scrutiny. The Committee considered the following themes:
  - How local authorities have been reforming public services in recent years.
  - What is preventing councils from achieving "transformative change"?
  - What impacts have efficiency savings had on service users?
  - The support available to councils trying to reform how they deliver services.
  - Local authority engagement with the Scottish Government's Invest to Save fund, a £30 million fund supporting efforts to catalyse efficiency, effectiveness and productivity projects.
  - Will the Invest to Save Fund continue and expand in future years?
  - How multi-year funding packages from the Scottish Government could help councils reform.
  - How successful is the partnership between the Scottish Government and local government in delivering public service reform?
5. The Committee wrote to the Improvement Service and the Accounts Commission to seek more details on the public service reform. Their responses can be found at the following links—

- a. [Letter from the Accounts Commission](#)
  - b. [Letter from the Improvement Service](#)
6. The Committee also wrote to the [Educational Institute of Scotland](#) and [GMB Union](#).
7. The Committee took evidence at the following meetings:
  - [9 September](#) – Local Authority Chief Executives
  - [16 September](#) – Accounts Commission
  - [23 September](#) – Trade Union Representatives
  - [28 October](#) – COSLA and the Scottish Government
8. The Committee [wrote to the Scottish Government on 14 November](#).
9. A [response was received on 16 January 2026](#).

#### **Scottish Government Budget 2026-27**

10. The Cabinet Secretary for Finance and Local Government announced the [Scottish Government's Budget for 2026-27](#) on the 13 January 2026.
11. The Local Government, Housing and Planning Committee took evidence from the Cabinet Secretary for Housing on the Budget on 20 January.
12. A [debate on the pre-budget scrutiny undertaken by committees](#) took place on 21 January.
13. The Committee received a [written submission](#) from the Scottish Retail Consortium.
14. A SPICe briefing is available at **Annexe A**.

#### **Next steps**

15. The Committee will take evidence on the Budget 2026-27 from the Cabinet Secretary for Finance and Local Government on 27 January.

#### **Clerks to the Committee January 2026**

## Annexe A – SPICe Briefing



### The Local Government budget settlement

This paper includes Budget-to-Budget comparison as this was referred to by the Cabinet Secretary during [her announcement of the Budget](#) two weeks ago.

However, the Institute for Fiscal Studies believes that a Budget-to-Budget comparison “flatters the actual change in spending power of councils” (personal correspondence). This is because the Budget 2025-26 figures do not include additional funding that was formally confirmed in the 2026 Autumn Budget Revision (ABR) to cover Employer NICs costs and pay deals – costs which are recurrent and which must be funded by the initial Budget allocations for 2026-27. As such, the paper also includes analysis of Table A.09 in the Budget which sets out the most recent position for 2025-26, minus transfers that have not been baselined into 2026-27.

### Revenue allocation

Comparing Budget document 2026-27 to the previous Budget document, as SPICe has done in the past, we see both cash and real terms increases in the overall revenue allocation to local government:

*Comparing revenue budget 2025-26 and 2026-27 (cash terms, millions)*

Local Government (Revenue)	2025-26 Budget document	2026-27 Budget document	Cash change (£m)	Cash change %
General Revenue Grant	9,458.4	10,440.7	982.3	10.4%
Non-Domestic Rates	3,114.0	3,474.0	360.0	11.6%
Specific (ring-fenced) Resource Grants	247.4	222.4	-25.0	-10.1%
Revenue within other portfolios	1,438.3	867.7	-570.6	-39.7%
<b>Total revenue for LG</b>	<b>14,258.1</b>	<b>15,004.8</b>	<b>+746.7</b>	<b>+5.2%</b>

When adjusting for likely inflation, we can see that the local government revenue settlement increases by £419 million, or +2.9%, in real terms over the year.

*Comparing revenue budget 2025-26 and 2026-27 (real terms, millions)*

Local Government (Revenue)	2025-26 Budget document	2026-27 Budget document	Real change (£m)	Real change %
General Revenue Grant	9,458.4	10,213.0	754.6	8.0%
Non-Domestic Rates	3,114.0	3,398.2	284.2	9.1%
Specific (ring-fenced) Resource Grants	247.4	217.5	-29.9	-12.1%
Revenue within other portfolios	1,438.3	848.8	-589.5	-41.0%
<b>Total revenue for LG</b>	<b>14,258.1</b>	<b>14,677.5</b>	<b>+419.4</b>	<b>+2.9%</b>

The past three Budgets have all included real terms increases for the local government revenue settlement (when comparing budgets to budgets). However, COSLA argues that these increases have not been enough to meet the needs of local authorities and the increasing demands on their services. Prior to the Budget, [COSLA called for](#) a revenue settlement of £16 billion in 2026-27, including an additional £750 million for social care. So, the 2026-27 settlement is almost a billion short of what they asked for.

### More on the Autumn Budget Revision to Budget comparison

The Scottish Budget document includes an additional table which shows the Autumn Budget Revision (ABR) figures for 2025-26 *without* transfers that have not been baselined into 2026-27. In the Institute for Fiscal Studies' opinion, the figures in Table A.09 represent "a major improvement". The figures are not broken down beyond the "Finance and Local Government" heading, but the vast majority of funding included is for local government.

*Finance and Local Government (Revenue plus NDR, millions)*

Finance and Local Government	2025-26 ABR (minus non-baselined transfers)	2026-27 Budget	Change (£m)	Change (%)
Cash terms	14,154	14,506	+352	+2%
Real terms (2025-26 prices)	14,154	14,190	+36	+0.3%

This table appears to support the IFS's argument that local government's spending power is increasing by a far smaller amount than the Budget-to-Budget comparison would suggest.

Last week, [COSLA published more details](#) of local government's reaction to the Budget. They say that the Budget as it currently stands, fails to deliver on COSLA's previous call for £750 million extra investment in social care:

"There is no dedicated, additional funding for social care, and the £160m allocated for paying the Real Living Wage to adult social care workers falls short of the estimated £175m cost of this policy commitment."

COSLA's position is that the Budget is "very poor", especially in relation to social care. During the Committee's pre-Budget scrutiny, Members heard details of social care pressures from council chief executives, the Accounts Commission and Unison.

### **Individual council allocations**

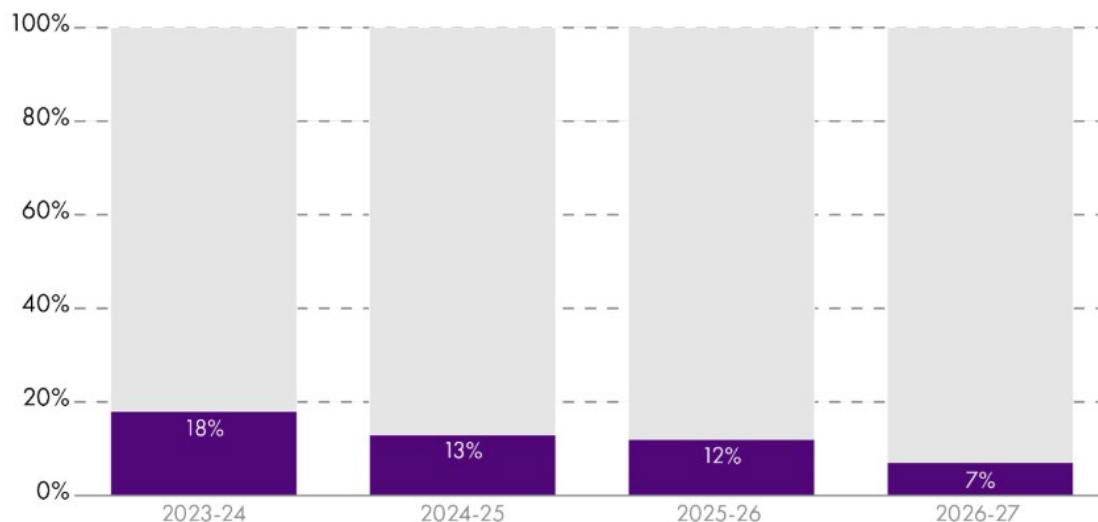
The day after the Budget was presented to Parliament, the Scottish Government published [a Finance Circular for local authorities](#) showing how the local government allocation would be distributed to Scotland's 32 councils. Tables showing changes over the year for all local authorities are included in Annexe A.

Once again there are (at least) two ways of showing changes – comparing Budget 2025-26 to Budget 2026-27 or comparing Revised Allocations 2025-26 to Budget 2026-27. The first shows increases in revenue allocations for all local authorities, the second shows real terms reductions for 14 councils.

### **Verity House Agreement**

There are some positives for local government in the Budget, including a significant reduction in the proportion of the revenue allocation that is either ring-fenced for specific purposes or transferred in-year from other portfolios (often seen by local government as a form of ringfencing). In light of the commitment in the 2023 [Verity House Agreement](#) to work towards "no ring-fencing or direction of funding", this Budget shows a significant move forward.

*Proportion of total revenue allocation either ring-fenced or transferred in-year*

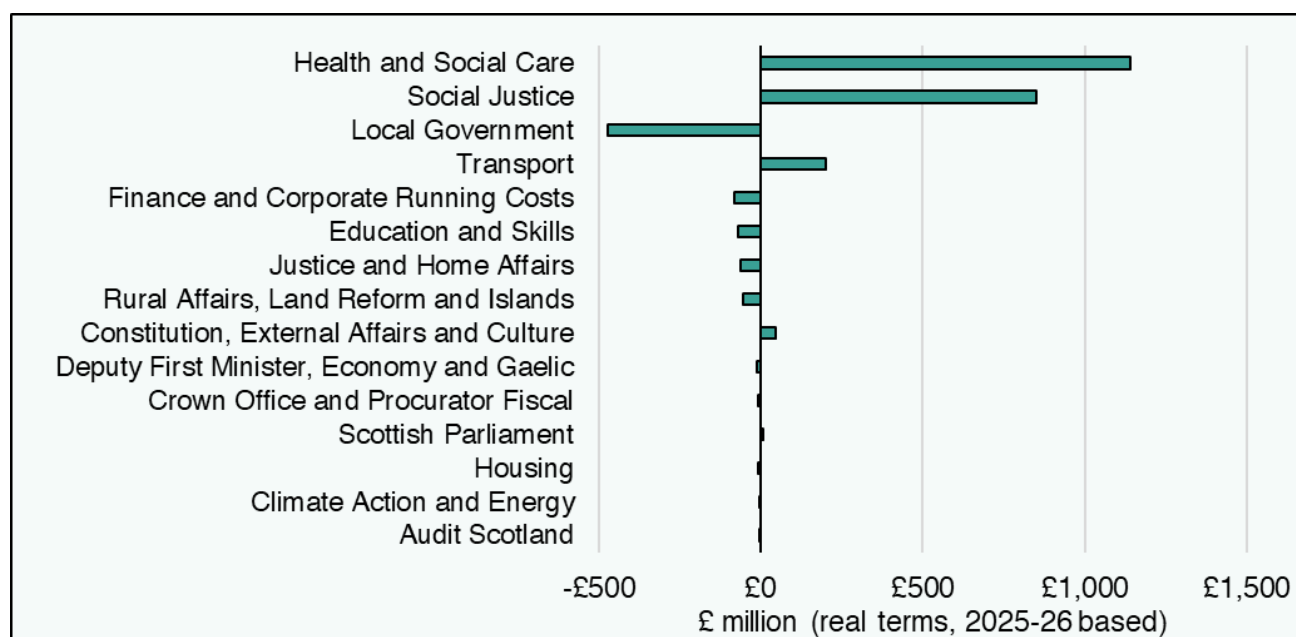


### Spending review and local government multi-year settlement

The Verity House Agreement also stated that “wherever possible multi-year certainty will be provided to support strategic planning and investment”. The publication of the [Scottish Government's Spending Review](#), alongside the Budget document, may provide some degree of certainty to local government. This shows that the core revenue settlement increases initially in 2026-27 but then falls in real terms over the following two years.

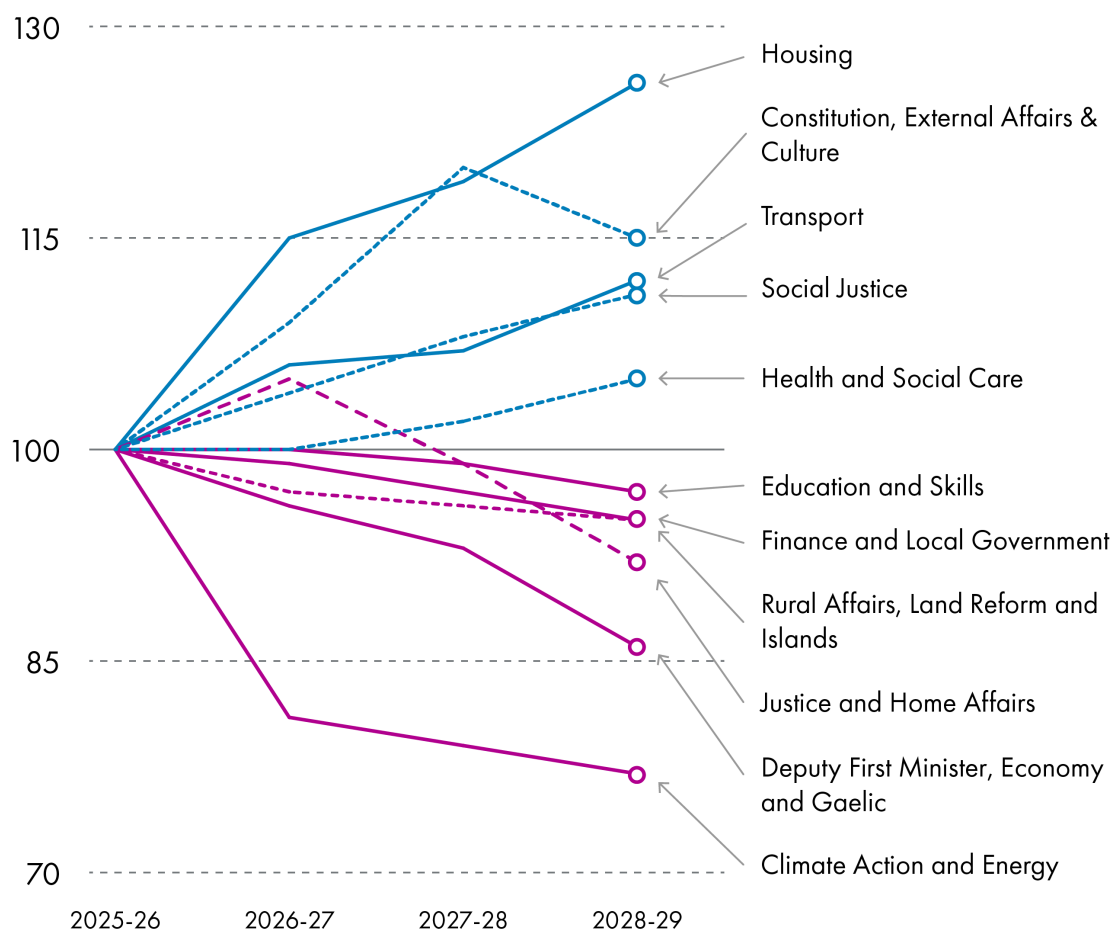
The following chart shows the real term changes in portfolio spending plans between 2025-26 and 2028-29. The largest positive change applies to the Health and Social Care portfolio, followed by Social Justice. The Local Government portfolio sees the largest negative change.

*Portfolio changes between 2025-26 and 2028-29, real terms, £ million*



Source: Scottish Fiscal Commission

The **percentage** changes to each portfolio over the next three years is set out below:



### Capital allocations

COSLA also wanted to see a General Capital Grant (GCG) of £844 million in 2026-27. Instead, the Budget provides a GCG £494 million. The overall capital allocation from the Scottish Government continues to fall, decreasing by 14.2% in real terms over the year, which will be a disappointment to many in local government.

*Comparing capital budget 2025-26 and 2026-27 (cash terms)*

Local Government (Capital)	2025-26 Budget document	2026-27 Budget document	Cash change (£m)	Cash change %
General Capital Grant	556.0	493.7	-62.3	-11.2%
Specific (ring-fenced) capital grants	196.1	147.7	-48.4	-24.7%
Total "core" Capital	752.1	641.4	-110.7	-14.7%

<b>Local Government (Capital)</b>	<b>2025-26 Budget document</b>	<b>2026-27 Budget document</b>	<b>Cash change (£m)</b>	<b>Cash change %</b>
Capital Funding within other Portfolios	25.0	40.0	15.0	60.0%
<b>Total capital for LG</b>	<b>777.1</b>	<b>681.4</b>	-95.7	-12.3%

*Comparing capital budget 2025-26 and 2026-27 (real terms)*

<b>Local Government (Capital)</b>	<b>2025-26 Budget document</b>	<b>2026-27 Budget document</b>	<b>Real change (£m)</b>	<b>Real change %</b>
General Capital Grant	556.00	482.93	-73.1	-13.1%
Specific (ring-fenced) capital grants	196.10	144.48	-51.6	-26.3%
Total "core" Capital	752.1	627.41	-124.7	-16.6%
Capital Funding within other Portfolios	25.00	39.13	14.1	56.5%
<b>Total capital for LG</b>	<b>777.1</b>	<b>666.54</b>	<b>-110.6</b>	<b>-14.2%</b>

[COSLA explains](#) that the capital reduction in the Budget “can be attributed to known cessation or reductions of previous funding streams”. Whatever the explanation, it is certainly the case that the local government capital allocation continues to reduce in real terms.

As [explained by the Accounts Commission](#), “borrowing is the main source for funding [local authority] capital projects, and councils are intending to borrow £3.13 billion in 2025-26”. Overall, local government debt currently sits at around £25 billion (see [Local Government 2024-25 Provisional Outturn and 2025-26 Budget Estimates](#)) and it seems likely to continue growing over the coming years.

### **Council tax**

One way in which local authorities can autonomously improve their financial position next year is through council tax.

The Budget did not include any surprise council tax-related freezes or caps. So, councils are free to increase bills by as much as they see fit in 2026-27. The Cabinet Secretary told the Parliament:



“Decisions on council tax rates will, of course, be taken locally. However, this is a reasonable deal and, given the cost of living pressures that we all recognise, I urge local authorities to translate the settlement into reasonable decisions on council tax.”

A recent [Local Government Information Unit survey](#) of council leaders, chief executives and senior finance officers found that every respondent intends to reduce spending on services and increase council tax in 2026-27. The report concludes:

“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%.”

All 32 local authorities [increased their council tax](#) in 2025-26, with increases ranging from 6% in South Lanarkshire to 15.6% in Falkirk.

#### *New council tax bands from 2028*

The UK Budget in November included plans to introduce a council tax surcharge on properties in England valued above £2 million from 2028, dubbed a ‘mansion tax’. The Scottish Budget includes a proposal to introduce two new tax bands for properties valued above £1 million from April 2028. Band I will apply to properties valued between £1 million and £2 million, and Band J will apply to those valued above £2 million.

The Scottish Government notes this will be based on an ‘up to date’ valuation of those properties, not the 1991 value that is used to calculate council tax liability currently. This suggests that a partial, targeted revaluation will be required to determine liability for the new bands, with the Budget setting aside £5 million to carry this out. The Scottish Government suggests this will affect fewer than 1% of properties.

A COSLA source told SPICe (personal correspondence) that their understanding based on very initial information from the Scottish Government is that the new policy could raise between £12 million and £16 million annually. The cost of a targeted revaluation is estimated to be around £10 million, albeit this would be a one-off cost. The Budget contains £5 million in 2026-27 to support the introduction of two new high value property bands for the purpose of calculating council tax.

Last year, the Committee held an inquiry on reforming council tax. The Committee invited the Scottish Government to provide a specification to the Scottish Assessors Association to enable it to assess the likely costs of revaluation and to share this document with the Committee.

#### **Non-domestic rates**

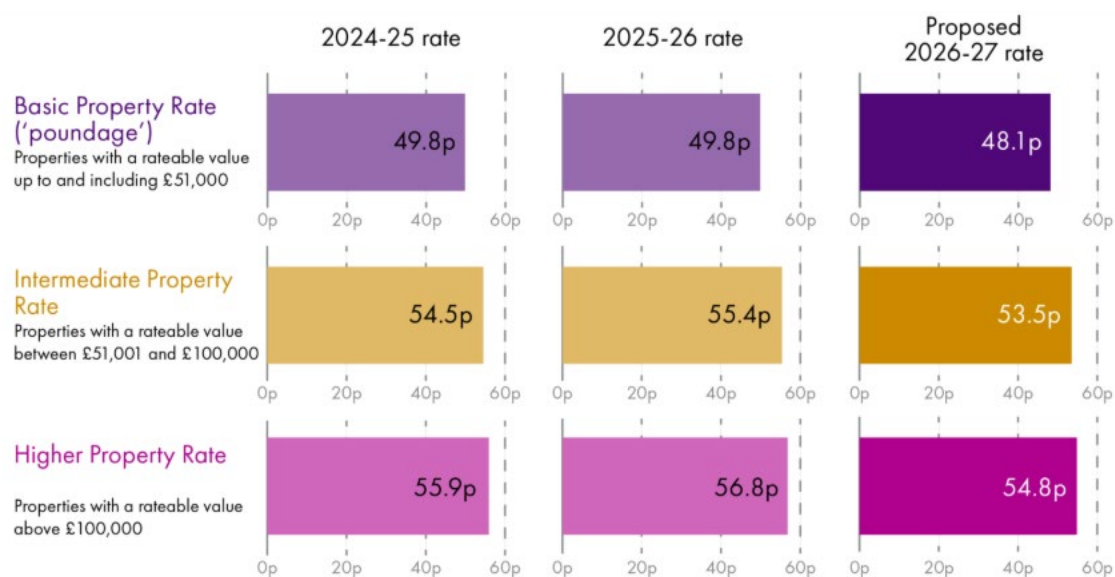
Non-domestic rates (NDR) are local taxes paid on land and heritages used for non-domestic purposes in the private, public and third sectors. The tax is administered and collected by local authorities, but tax rates and reliefs are set by the Scottish Government. The amount of tax due depends on the rateable value of the property,

set by independent assessors, multiplied by the poundage rates set by the Scottish Government. These are announced in the Budget, alongside a range of rates reliefs.

There has been particular interest in NDR this year as Scotland, like England and Wales, is currently undergoing a revaluation of rateable values. On the Wednesday before the Budget, the Scottish Parliament [held a debate on non-domestic rates](#) and the impact of increased bills on businesses and other non-domestic properties across Scotland. This came after draft valuation notices were sent to properties at the end of November showing changes to their rateable values. It is clear that the revaluation is causing considerable concern across several sectors, particularly amongst hospitality and retail businesses.

In last year's Budget, the Scottish Government maintained the poundage rates from 2024-25 at 49.8 pence for the Basic Property Rate and increased the Intermediate and Higher Property Rates in line with inflation. The 2026-27 Budget includes measures aimed at softening some of the impacts of the 2026 revaluation, with the Government reducing the Basic Property Rate (for properties with a rateable value up to and including £51,000) from 49.8p to 48.1p. There are also reductions for the Intermediate and Higher Property Rates, shown in the figure below:

*Non-domestic rates and thresholds, 2024-25 to 2026-27*



The Budget states:

“The Scottish Budget delivers a broadly revenue-neutral revaluation in real terms over the course of the revaluation cycle, and therefore decreases the Basic, Intermediate and Higher Property Rates in 2026-27 to reflect overall growth in rateable values at revaluation, whilst offering a generous relief package.”

### Retail, Hospitality and Leisure relief

The [Parliamentary debate on NDR held the week before the Budget](#) had a particular focus on the retail, hospitality and leisure (RHL) sectors. Some businesses in these sectors are likely to see significant increases in their rateable values come April.

Based on draft 2026 rateable values, the [Government estimates](#) that 144,000 non-domestic properties across Scotland (around 56% of total non-domestic properties) will see an increase in their rateable value in 2026. Approximately 66% of hotels, 60% of pubs, 49% of shops and 88% of leisure and entertainment properties will see their rateable values increase. Self-catering properties are expected to see an overall increase in rateable value of 88%, with the mean rateable value of self-catering entries rising from £4,153 to £7,826. However, changes to actual NDR bills for individual properties will depend upon the rates and reliefs set out in the Budget. These include the Small Business Bonus Scheme which provides 100% exemptions to properties with rateable values less than £12,000 (subject to cumulative rateable value rules).

The Budget includes a new 15% NDR relief from April 2026 to March 2029 for RHL premises liable for either the Basic or Intermediate Property Rates. This could help up to 37,000 properties (subject to the cap of £110,000 per ratepayer) and the Scottish Budget states this will reduce the NDR bills of beneficiaries by around £36 million in 2026-27. The Budget also extends and expands the 100% relief for three more years for RHL properties on islands and some remote areas (capped at £110,000 per business per year). The SFC estimates that these policy decisions will cost around £47 million.

How these reliefs compare to those announced by the UK Government (for NDR payers in England) at the Autumn Budget Statement will undoubtedly be explored over the coming weeks. [Initial analysis by the IFS](#) suggests that the 15% RHL relief “will be a little more generous than the equivalent lower tax rate in England for small businesses, but less generous for larger businesses occupying multiple properties due to the cap”. It’s also interesting to note that the Scottish Government could improve the support available depending on possible announcements by the UK Government:

“We are still awaiting details from the UK Government about possible changes to business rates for pubs in England, following press speculation last week. But I can assure members that, if additional resources become available, we stand ready to use these to provide even further support for the sector in Scotland.”

In its submission to the Committee, the Scottish Retail Consortium said:

“The new 15% Retail Hospitality and Leisure (RHL) sectors’ rates relief is an encouraging start, but the convoluted restrictions and cap on eligibility being applied means it will only benefit a limited part of the retail industry in Scotland and that it is less generous at every level than England’s RHL relief. Indeed, the total value of Scotland’s new RHL relief is about 40% of the equivalent RHL relief scheme being introduced in England from April 2026.”

### **Revaluation-related transitional reliefs**

The Scottish Government also announced a new Revaluation Transitional Relief for those businesses seeing significant increases to their rateable values in April 2026. With this, the Government is capping increases in gross bills up to 2029.

#### *Transitional Relief Caps*

<i>Transitional Relief Caps</i>	<i>2026-27</i>	<i>2027-28</i>	<i>2028-29</i>
Small (rateable value up to £20,000)	15%	22%	38%
Medium (rateable value £20,001 to £100,000)	30%	44%	75%
Large (rateable value over £100,000)	50%	75%	113%

The SFC estimates the cost of this policy decision to be £70 million in 2026-27, £25 million in 2027-28 and £4 million in 2028-29.

MSPs will have heard concerns from constituents that the 2026 revaluation means businesses' eligibility for the Small Business Bonus Scheme will be impacted (for example a new rateable value above £20,000 could mean the property receives no more SBBS relief). The Budget also includes details of a new Small Business Transitional Relief aimed at ratepayers losing eligibility for Small Business Bonus Scheme relief. This scheme aims to ensure they do so "in a phased manner". Eligible ratepayers will pay 25% of any increase to their net bill in the first year (2026-27), 50% in the second year (2027-28) and 75% in the third year (2028-29).

The SFC estimates the cost of this policy decision to be £36 million in 2026-27, £28 million in 2027-28 and £16 million in 2028-29.

## **Scottish Government Response to the Committee's pre-budget scrutiny**

The [Committee's pre-Budget letter](#) to the Scottish Government included the following conclusions and recommendations:

- The budget must recognise the challenges of increased demand for council services, in particular social care delivery.
- The Committee seeks the Scottish Government's view on increased demand for council services and the pressures presented by the rising costs of social care.
- There is a need for public consultation and awareness-raising initiatives that would build better understanding of the financial situation across local government.
- The Committee requests more detailed information on the Scottish Government's work aimed at addressing some of the issues coming from the current funding distribution formula.
- The Committee looks forward to scrutinising the detail of the SG's response to representations from COSLA about expanding local authority flexibilities through secondary legislation.

- The Committee requests that the Scottish Government responds to the points made by stakeholders regarding IJBs and looks into the ways in which it can address some of the organisational, procedural and technical issues preventing further integration.
- The Committee would like to see the Invest to Save fund continued and possibly expanded in upcoming years.
- It would also like to see further consideration of how the funding can incentivise collaboration across the public sector.
- Explore how the Invest to Save Fund can be allocated to all local authorities without a bidding process.
- The Committee would welcome Scottish Government's consideration of how it can ensure that local government leaders can be appropriately represented and better supported on the Public Service Reform Board.
- The Committee strongly supports stakeholder's calls for multi-year funding for local government and calls on the Scottish Government to provide it in this budgetary cycle.

The Committee received [a response from the Scottish Government](#) on the 16 January. Key points include:

- Leaders from COSLA and SOLACE – as well as from the third sector, private sector and public bodies – are members of the Public Service Reform Board.
- Scottish Government officials meet regularly with COSLA and Local Government officers to share knowledge and experience of reform and explore further opportunities for collaboration.
- The Invest to Save Fund will continue, with the Scottish Budget providing £30 million to support delivery of efficiencies and reform.
- The Fiscal Framework between the Scottish Government and Local Government was published in October 2025 and commits to providing multi-year certainty to support strategic planning and investment wherever possible.
- The Scottish Spending Review which was published alongside the Scottish Budget provides resource spending plans up to 2028-29 and capital spending plans up to 2029-30.
- The Scottish Government is open to suggestions on ways to improve the funding formula [used to distribute funding to 32 local authorities], although it is entirely plausible that every council could make a credible argument as to how the formula does not fully and accurately reflect their unique circumstances. It is for this reason that any proposals for changing the formula are raised through COSLA in the first instance.

- There was a consultation on a General Power of Competence last year with the Government now planning secondary legislation in this area in 2026-27 (depending on Election results).
- The 2026-27 Scottish Budget will provide almost £22.5 billion to deliver and reform the health and social care services and invest over £2.3 billion from the Health and Social Care portfolio in social care.
- The Scottish Government is supporting Fife Council and the Electoral Reform Society's citizens' assembly pilot in Dunfermline

## **Annex A showing real terms changes to individual council revenue allocations**

Real terms change – Provisional 2025-26 circular to  
Provisional 2026-27 circular

£million	Change (£m)	Change (%)
Aberdeen City	21.7	4%
Aberdeenshire	25.7	4%
Angus	12.0	4%
Argyll & Bute	8.4	3%
Clackmannanshire	6.5	5%
Dumfries & Galloway	16.9	4%
Dundee City	16.7	4%
East Ayrshire	16.2	5%
East Dunbartonshire	10.9	4%
East Lothian	10.8	4%
East Renfrewshire	9.4	4%
Edinburgh, City of	43.5	4%
Eilean Siar	4.0	3%
Falkirk	21.6	6%
Fife	39.4	4%
Glasgow City	81.7	5%
Highland	24.8	4%

**LGHP/S6/26/4/3**

Inverclyde	8.9	4%
Midlothian	11.5	5%
Moray	9.7	4%
North Ayrshire	15.4	4%
North Lanarkshire	63.1	7%
Orkney Islands	11.2	11%
Perth & Kinross	14.7	4%
Renfrewshire	25.1	6%
Scottish Borders	11.9	4%
Shetland Islands	5.6	5%
South Ayrshire	12.2	4%
South Lanarkshire	43.2	5%
Stirling	8.3	4%
West Dunbartonshire	10.3	4%
West Lothian	25.1	5%
<b>Scotland</b>	<b>646.4</b>	<b>5%</b>

Real terms change - Most recent 2025-26 circular  
and provisional circular 2026-27

£million	Change (£m)	Change (%)
Aberdeen City	-2.2	-0.4%
Aberdeenshire	-1.1	-0.2%
Angus	1.1	0.4%
Argyll & Bute	-0.9	-0.3%
Clackmannanshire	-0.4	-0.3%
Dumfries & Galloway	1.0	0.2%
Dundee City	-2.0	-0.5%
East Ayrshire	1.6	0.5%
East Dunbartonshire	-3.5	-1.2%

East Lothian	-0.2	-0.1%
East Renfrewshire	-4.1	-1.5%
Edinburgh, City of	-1.3	-0.1%
Eilean Siar	0.1	0.1%
Falkirk	-1.6	-0.4%
Fife	8.8	0.9%
Glasgow City	2.3	0.1%
Highland	0.1	0.0%
Inverclyde	-0.6	-0.3%
Midlothian	0.7	0.3%
Moray	0.4	0.2%
North Ayrshire	-0.5	-0.1%
North Lanarkshire	41.5	4.7%
Orkney Islands	-0.5	-0.5%
Perth & Kinross	0.9	0.2%
Renfrewshire	4.9	1.0%
Scottish Borders	-0.1	0.0%
Shetland Islands	1.8	1.5%
South Ayrshire	-0.5	-0.2%
South Lanarkshire	18.2	2.2%
Stirling	-1.9	-0.8%
West Dunbartonshire	-0.8	-0.3%
West Lothian	2.2	0.5%
<b>Scotland</b>	<b>63.6</b>	<b>0.4%</b>

Source: SPICe analysis of [Finance Circulars](#)

**Greig Liddell, SPICe Research**  
**21 January 2026**

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