

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 13<sup>th</sup> June 2023

**BY:** Executive Director for Council Resources

**SUBJECT:** Local Government in Scotland: Overview 2023 (Accounts Commission, May 2023)

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## **1 PURPOSE**

- 1.1 To review the Accounts Commission report, *‘Local Government in Scotland: Overview 2023.*

## **2 RECOMMENDATIONS**

- 2.1 The Committee is asked to note:

- The findings, conclusions and recommendations in the Accounts Commission report, Local Government in Scotland: Overview 2023
- That the council is already addressing most of the issues identified in the Overview report’s recommendations
- That although the council’s General Services and HRA revenue and capital budgets are set to meet the council’s priorities as established in the Council Plan the link between how resources are targeted to achieve the Council’s policy and performance priorities could be more explicit. This will be taken up as an action in the 2024/25 Council Improvement Plan that is to be presented to Council in autumn 2023.
- Leadership is the focus of the Accounts Commission’s annual Best Value thematic work in 2023 and will be covered in all council 2022/23 annual audit reports published in Autumn 2023. Any recommendations and actions arising from the Leadership audit will be included in the 2024/25 Council improvement Plan that is to be presented to Council in autumn 2023
- Workforce planning will be the focus of the Accounts Commission’s annual Best Value thematic work in 2023 and will be covered in all council 2023/24 annual audit reports published in Autumn 2024, followed by a national thematic report.

### **3 BACKGROUND**

- 3.1 Each year the Accounts Commission produces an overview of issues that have arisen from the local authority audits conducted by Audit Scotland. The 2023 Overview report was published in May 2023. This report is the third and final report in a series providing a strategic medium-term approach to reporting on the impact of the COVID19 pandemic. Its findings are drawn from 2021/22 annual audits, performance and best value audit work carried out during 2022.
- 3.2 The report builds on the previous reports in the series and examines:
- how the pandemic affected councils and their performance?
  - what are the current and future challenges facing local government?
  - how well placed are councils to deal with the current and future challenges?
- 3.3 This covering report provides a summary of the key findings and recommendations under these themes.

#### ***How the pandemic affected councils and their performance?***

- 3.4 The Overview report highlights that service performance was beginning to stall before the pandemic as a result of long-term reductions in funding and wider pressures. The pandemic has affected performance across all service areas. Some services are showing signs of recovery, but there are also signs of growing backlogs, declining performance in some areas and services at capacity. The extent and impact of needs not being met is not clear.
- 3.5 Over the last decade, there is a clear divergent pattern of spend. Spending on children's services (education and looked after children) and adult social care has been protected and increased because of national policy directives. This means that the remaining 'unprotected' services (in particular environmental services, culture and leisure, central support services and planning) have borne a disproportionate level of spending reductions.
- 3.6 The report highlights that the 2021/22 Local Government Benchmarking Framework shows performance are at risk or declining in some services with growing backlogs and declining satisfaction in many services. A report on the 2021/22 Local Government Benchmarking Framework with detailed assessment of east Lothian Council performance is to be considered by the Policy, Performance and Review Committee on 15<sup>th</sup> June 2023.

#### ***What are the current and future challenges facing local government?***

- 3.7 This part of the Overview report highlights that councils are operating in an increasingly volatile and uncertain landscape, as pressures increase after Covid-19 and funding is forecast to be reduced in real terms. Some

communities are facing crisis, with increasing poverty and financial hardship putting additional pressure on services at a time when councils have less capacity to support them.

3.8 The challenges facing council are summarised as

- Financial
- Local Needs
- National Policies
- Workforce
- Leadership

3.9 **Financial** - Budget constraints and increasing cost pressures are putting councils' finances under severe strain; councils' funding has been constrained for many years; funding is forecast to reduce in real terms; increasing cost pressures jeopardise the sustainability of local services; councils are relying on reserves to bridge budget gaps; and increasingly ring-fenced and directed budgets reduce financial flexibility.

3.10 The report acknowledges that the Scottish Government published its 2022 Resource Spending Review in May 2022, the first multi-year spending plan since 2013. This sets out high level spending plans up to the end of this Parliament in 2026/27, which show that /core' funding is set to reduce in real terms. However, whilst the multi-year spending plan is welcome it is not sufficiently detailed and does not provide individual council allocations to fully support long-term financial planning by local authorities.

3.11 The financial challenges faced by councils are dealt with in more detail in the Financial Bulletin 2021/22 published by the Accounts Commission in January 2023. This provides a high-level independent analysis of the financial performance of councils during 2021/22 and their financial position at the end of that year. It also sets out some of the longer-term financial challenges facing councils in the context of the Scottish Government's Resource Spending review and the cost of living crisis. The bulletin's key messages are summarised in Appendix 1.

3.12 Increasing cost pressures jeopardise the sustainability of local services. At a time when councils and their communities are still feeling the impact of the Covid-19 pandemic, councils are now also having to manage increasing cost pressures including:

- inflationary pressures, including rising energy costs, which are having a significant impact on the cost of providing services
- managing the ongoing recovery from Covid-19 and its longer-term impact, now that one-off Covid-19 funding has ended
- meeting the cost of new pay awards and Real Living Wage
- increasing demand for services from a population that is ageing, less healthy and facing increasing financial hardship

- higher costs of capital programmes as a result of inflation, slippage due to the pandemic and shortages in construction materials. These increased costs may affect councils' ability to deliver on capital transformation programmes, which are a necessary component of modernising services to deliver improved outcomes for local communities.
- 3.13 The Overview report concludes that these significant cost pressures alongside forecasted reductions to funding are leading some chief executives to be concerned about the sustainability of councils. This could lead to cuts to services and job losses, particularly in the absence of a radical reform of services.
- 3.14 **Local needs** – Changing demographics, the pandemic and the cost-of-living crisis increase pressure on council services and people already experiencing inequality are most affected. Examples of growing pressures include:
- Persistently high levels of child poverty
  - Increasing financial hardship for people living with a disability
  - Increasingly stark situation for low-income families
  - Increasing food insecurity
  - Increasing rent arrears
  - Ethnic minority households more likely to experience deeper levels of poverty
  - Increasing financial hardship for single parent families
  - Declining average levels of mental wellbeing
- 3.15 **National policies** - Councils are managing an increasing programme of national reform, including plans for a national care service, which comes with substantial funding implications and increased uncertainty. Plans for the new National Care Service are uncertain and divide opinion. Councils have a critical role in meeting national climate change goals.
- 3.16 **Workforce** – Increasing workforce challenges such as recruitment and retention in both senior and front-line roles in an increasingly competitive employment market and high sickness absence levels are putting councils and their staff under continued pressure.
- 3.17 **Leadership** - While many councils demonstrated strong collaborative leadership during the pandemic, ineffective leadership and high turnover identified at several councils present a risk. The following leadership risks have been identified in recent audit work:
- Ineffective strategic leadership: of the four Best Value Assurance Reports (BVARs) completed last year, in three (Moray, Shetland and Eilean Siar) we found that elected members were not demonstrating effective strategic leadership alongside senior management. This included leaders needing to better coordinate and drive forward plans, to have a stronger focus on strategic

issues and elected members needing to work better together to deliver priorities.

- Ineffective governance or scrutiny: our 2021/22 annual audit work identified leadership risks relating to ineffective leadership in nine councils, often linked to ineffective governance, scrutiny, or both.
- High levels of turnover: most councils reported changes in senior leadership during 2021/22. Six chief executive or depute positions saw changes. Recent BVARs highlight that some councils are experiencing persistent difficulties in recruiting to key leadership posts.

### ***How well placed are councils to deal with the current and future challenges?***

3.18 This section of the Overview report considers how councils are placed to respond to the challenges they face and move towards adopting a sustainable future model of local government under five themes.

- Finance and resources
- Leadership
- Collaboration
- Workforce
- Community needs and inequalities

3.19 The Accounts Commission has made recommendations for councils under each of these themes.

3.20 ***Finance and resources*** – Councils need to balance immediate financial pressures with planning for delivering long-term sustainable services. The achievement of recurring savings and a movement away from the reliance and use of non-recurring savings and reserves will be important to ensuring longer-term financial sustainability. Councils also need to focus on making increasingly difficult choices about their spending priorities and medium- to long-term financial planning must mature as councils look to make more fundamental change. Agreeing the New Deal between the Scottish Government and local government, including a fiscal framework to support greater transparency and accountability, will be an important step forward.

3.21 The report recommends that councils need to set out medium- to long-term financial plans that detail:

- how they will make recurring savings and reduce reliance on reserves to fill budget gaps
- how council resources are targeted to achieve their long-term policy and performance priorities

3.22 The Council's 2023/24 – 2027/28 Financial and Capital Strategies (approved by council, 13<sup>th</sup> December 2022) set out the Council's strategic approach to the management of its finances and outlines the wider context

within which these plans have been developed. They cover the 5-year period from 2023/24 and were developed against the backdrop of unprecedented challenges arising from the wider economic environment.

3.23 Given the scale of the financial challenges it faces, the Financial and Capital Strategies acknowledge that the Council will require to think very differently about how services are delivered and prioritised to best meet the needs of residents and local communities in the future.

3.24 The Financial Strategy recognises and sets out how the council has to make recurring savings and reduce reliance on reserves by supporting cost reduction, increasing income generation and delivering efficiencies to enable the development of a balanced budget through:

- Asset rationalisation and energy efficiency
- Income generation
- Transformation, service redesign and digitalisation
- Early intervention and prevention
- Service reduction

3.25 Although the council's General Services and HRA revenue and capital budgets are set to meet the council's priorities as established in the Council Plan the link between how resources are targeted to achieve the Council's policy and performance priorities could be more explicit. This will be taken up as an action in the 2024/25 Council Improvement Plan that is to be presented to Council in autumn 2023.

3.26 **Leadership** – The challenging context needs leaders to invest time and capacity into thinking about radical changes to their council's future operating model. It is important that leaders are clear about their long-term policy and performance priorities, are managing council resources effectively to deliver them, and are open with communities about what range and levels of services they can expect to receive in future. Leaders (elected members and senior officers) must respond to the immediate pressures while also providing a long-term vision for their local areas and how services will be delivered differently in future.

3.27 The report recommends that council leaders need to:

- be open and clear with communities and staff about the need for change, what that means for future service delivery and involve communities in making difficult decisions
- set out a clear vision for their long-term policy and performance priorities, and how it will be delivered and monitored
- work with the Scottish Government to rebuild an effective relationship

3.28 The 2022-2027 Council Plan details the financial and other challenges faced by the council and provides a coherent vision and set of priorities that aim to achieve the vision whilst addressing these challenges. The

Plan acknowledges that given the scale of the challenges and issues faced by East Lothian, the council has to look to how it can further harness the power of its citizens and communities; moving away from the traditional model of the local authority always being the 'provider of first resort'. The Plan recognise that the council and the people and communities of East Lothian can best deliver the solutions to these challenges in partnership. Central to this approach is the Council moving away from doing things for, and to, communities and individuals, to the Council and the communities and citizens of East Lothian working together to identify and then meet our needs in partnership and co-operation.

3.29 So the 2017-2022 Council Plan sets out the aspirations for the kind of council we want to be:

- ✚ ***an enabling and empowering authority*** that works with its citizens and communities, the business and third sectors and other public sector partners to deliver the solutions that work best for East Lothian

- ✚ ***a more enterprising authority***, using initiative and resourcefulness to develop new ways of ensuring services are provided in the most effective and efficient way possible

- ✚ ***a digital authority***, fully embracing and exploiting opportunities to use technology to deliver services.

3.30 The Council's messaging around its financial strategy and the budget consultation undertaken in December 2022 highlighted the challenges it faces and the difficult choices that will need to be made given the scale of the projected budget deficit. The council's all-party budget working group is provided with clear information about the scale of the financial challenge and the changes that are required.

3.31 Leadership is the focus of the Accounts Commission's annual Best Value thematic work in 2023 and will be covered in all council 2022/23 annual audit reports published in Autumn 2023. Any recommendations and actions arising from the audit will be included in the 2024/25 Council improvement Plan that is to be presented to Council in autumn 2023.

3.32 ***Collaboration*** – councils need to collaborate with communities, other councils and the wider public sector to tackle the challenges. As councils take steps to fundamentally change how they provide services, the involvement of service users and communities will be critical to redesigning services that meet community needs and tackle long-term issues such as climate change and inequalities while also being sustainable. Councils also need to work collaboratively with local public sector partners including their communities and the third sector. They also need to radically rethink how they work with other councils through shared services and shared professionals.

3.33 The report recommends Councils need to maximise the potential of collaboration by demonstrating they are:

- working with other councils, the wider public sector and the third sector to redesign and provide services
  - involving service users and local communities in the redesign of services
- 3.34 The Council has a very good relationship with its public sector partners, the third sector and business and community organisations. This is evidenced by the close working and mutual support given during the COVID-19 pandemic and through the east Lothian Partnership which has led on delivering the Recovery and Renewal Plan.
- 3.35 **Workforce** – workforce planning must improve so that councils have the staff, skills and leaders needed to bring about change and create a resilient workforce for the future. Effective workforce planning will be essential to:
- address current workforce challenges in recruitment, retention and skills shortages
  - look ahead at longer-term capacity and skills requirements as councils fundamentally change how they deliver services
  - ensure that councils reduce their workforce in an informed way so that skills and knowledge are not lost.
- 3.36 The report recommends that Councils need to improve workforce planning to effectively develop and deploy their existing workforce. This includes:
- building the capacity, skills, strategic thinking and comprehensive workforce data needed for effective workforce planning
  - updating workforce plans to reflect new models of service delivery and ways of working, including how they are:
    - identifying and addressing skills gaps, at operational and leadership levels
    - making best use of their existing workforce by collaborating with partners to overcome recruitment challenges
    - planning for the skills needed to deliver future services, focusing on collaborative and flexible working, including working with the higher education sector to plan and develop skills for the roles needed
- 3.37 The council's updated its workforce plan in 2022 and the new 2023-2027 Workforce Plan was approved by Cabinet on 17<sup>th</sup> January 2023. This details out the workforce related challenges faced by the council and provides a clear vision for the council and an action plan based around three themes:
- Sustain a skilled, flexible, high performing and motivated workforce
  - Support and initiate transformational change
  - Build and sustain leadership and management capacity.



The Plan includes over 30 actions, many of which reflect the recommendations made in the Overview Report.

- 3.38 Workforce planning will be the focus of the Accounts Commission's annual Best Value thematic work in 2023 and will be covered in all council 2023/24 annual audit reports published in Autumn 2024, followed by a national thematic report.
- 3.39 **Community needs and inequalities** – Councils have a clear focus on tackling inequalities and strengthening the use of data will help them to better understand community needs and focus fundamental change on improving long-term outcomes. Audit Scotland found evidence of data-driven approaches, partnership working, and community engagement being used to understand community needs and to develop plans and programmes to target inequalities and poverty. Positive findings include councils:
- setting up specific committees focusing on tackling poverty and inequalities
  - working with partners, especially community planning partnerships, to understand need and develop place-based plans to tackle inequalities
  - involving people with lived experience to better understand needs and demand.
- 3.40 The council and East Lothian Partnership adopted a new 2021-2023 Poverty Plan in late 2021. This is being delivered through a partnership Poverty Working Group, the friendly Food Network and the Financial Inclusion Network involving council services, public sector partners and voluntary and community sector representatives. People with lived experience are playing a key role in reviewing and revising the current Poverty Plan and determining the priorities and actions that will form the basis of a new Plan,
- 3.41 East Lothian's six Area Partnerships, supported by the Connected Communities service, have been heavily involved in supporting communities through the pandemic and the 'cost of living crisis'. Area Plan (Locality Plans) developed by Area Partnerships which are based on local needs, and priorities focus on reducing poverty.
- 3.42 The report recommends that councils should be more transparent with the public about scale of service demand, the extent of backlogs and changes to eligibility criteria necessary to ration access to services and any impact this has on unmet need. Also, councils should have a clear plan for strengthening their use of data to understand needs, make decisions and direct resources. This includes equalities data, and learning from those with lived experience.
- 3.43 The council has begun development of its 2024/25 budget and part of this work and communication with staff and the public will need to include information about the extent of the financial challenges faced by the council, the scale of growing service demand and the extent of changes in

services, eligibility criteria and access to services required to meet these challenges.

#### **4 POLICY IMPLICATIONS**

- 4.1 Councils are required under the Local Government in Scotland Act 2003 to achieve Best Value in regard to economy, efficiency, effectiveness, equal opportunities and sustainable development. 'Local Government in Scotland: Overview 2023' will assist the Council to recognise and respond to the challenges that it faces.

#### **5 INTEGRATED IMPACT ASSESSMENT**

- 5.1 This report is not applicable to the well-being of equalities groups and an Impact Assessment is not required.

#### **6 RESOURCE IMPLICATIONS**

- 6.1 Financial – none.  
6.2 Personnel – none.  
6.3 Other – none.

#### **7 BACKGROUND PAPERS**

- 7.1 Appendix 1: Key Messages from 'Local Government in Scotland: Financial Bulletin 2021/22', Accounts Commission, January 2023  
7.2 'Local Government in Scotland: Overview 2023', Accounts Commission, May 2023  
7.3 'Local Government in Scotland: Financial Bulletin 2021/22', Accounts Commission, January 2023

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## **Appendix 1: Key Messages from ‘Local Government in Scotland: Financial Bulletin 2021/22’, Accounts Commission, January 2023**

1. Despite additional Covid-19 funding, councils continued to face significant financial challenges during 2021/22, requiring significant savings to deliver balanced budgets and increasingly difficult choices to be made about spending priorities.
2. In 2021/22, councils’ savings performance continued to improve and total usable reserves increased, which councils have used to contribute towards meeting budget gaps arising from service demand and budget pressures.
3. In 2021/22, Scottish Government revenue funding to councils increased by 5.3 per cent in real terms. This represented the first real-terms increase on the 2013/14 revenue funding position since 2015/16 (excluding one-off Covid-19 money). In 2021/22, revenue funding levels for local government and other parts of the Scottish Government budget (excluding Covid-19 funding) have converged back to a level similar to eight years ago.
4. An increasing proportion of local government funding is now either formally ring-fenced or provided with the expectation it will be spent on specific services. We calculate this to be 23 per cent of total revenue funding in 2021/22. Ring-fenced and directed funding helps support delivery of key Scottish Government policies but removes local discretion and flexibility over how these funds can be used by councils.
5. Councils have noted that Covid-19 and inflationary costs are having an impact on capital projects. If these issues persist, they will present risks to councils’ capital programmes which form a necessary component of modernising services to deliver improved outcomes for local communities.

### **Outlook for local government finances**

6. Councils face the most difficult budget-setting context seen for many years with the ongoing impacts of Covid-19, inflation and the cost of living crisis. They will need to continue to make recurring savings and also make increasingly difficult choices with their spending priorities, including, in some cases, potential service reductions.
7. Two-thirds of councils intend to use reserves to help bridge the 2022/23 gap between anticipated expenditure and revenue (budget gap) of £0.4 billion but this reliance on non-recurring reserves is not sustainable in the medium to long term. Delivering recurring savings and reducing reliance on using reserves to fill budget gaps will be key to ensuring longer-term financial sustainability. This makes the case for a continued focus on service reform, based on strong engagement with communities, more important now than ever.

Local government in Scotland

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# Financial bulletin 2021/22



ACCOUNTS COMMISSION 

Prepared by Audit Scotland  
January 2023



# Contents

Key messages	<b>3</b>
About this report	<b>5</b>
1. Councils' financial summary 2021/22	<b>6</b>
2. Councils' financial outlook	<b>22</b>

## **Audit team**

The core audit team consisted of: Blyth Deans, Adam Bullough, Chris Lewis and Martin Allan under the direction of Carol Calder.

# Key messages

## Local government finances for 2021/22

- 1** Despite additional Covid-19 funding, councils continued to face significant financial challenges during 2021/22, requiring significant savings to deliver balanced budgets and increasingly difficult choices to be made about spending priorities.
- 2** In 2021/22, councils' savings performance continued to improve and total usable reserves increased, which councils have used to contribute towards meeting budget gaps arising from service demand and budget pressures.
- 3** In 2021/22, Scottish Government revenue funding to councils increased by 5.3 per cent in real terms. This represented the first real-terms increase on the 2013/14 revenue funding position since 2015/16 (excluding one-off Covid-19 money). In 2021/22, revenue funding levels for local government and other parts of the Scottish Government budget (excluding Covid-19 funding) have converged back to a level similar to eight years ago.
- 4** An increasing proportion of local government funding is now either formally ring-fenced or provided with the expectation it will be spent on specific services. We calculate this to be 23 per cent of total revenue funding in 2021/22. Ring-fenced and directed funding helps support delivery of key Scottish Government policies but removes local discretion and flexibility over how these funds can be used by councils.

- 5 Councils have noted that Covid-19 and inflationary costs are having an impact on capital projects. If these issues persist, they will present risks to councils' capital programmes which form a necessary component of modernising services to deliver improved outcomes for local communities.

## **Outlook for local government finances**

- 6 Councils face the most difficult budget-setting context seen for many years with the ongoing impacts of Covid-19, inflation and the cost of living crisis. They will need to continue to make recurring savings and also make increasingly difficult choices with their spending priorities, including, in some cases, potential service reductions.
  - 7 Two-thirds of councils intend to use reserves to help bridge the 2022/23 gap between anticipated expenditure and revenue (budget gap) of £0.4 billion but this reliance on non-recurring reserves is not sustainable in the medium to long term. Delivering recurring savings and reducing reliance on using reserves to fill budget gaps will be key to ensuring longer-term financial sustainability. This makes the case for a continued focus on service reform, based on strong engagement with communities, more important now than ever.
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# About this report

- 1.** This bulletin provides a high-level independent analysis of the financial performance of councils during 2021/22 and their financial position at the end of that year. It also sets out some of the longer-term financial challenges facing councils in the context of the Scottish Government's Resource Spending Review and the cost of living crisis.
- 2.** The Accounts Commission's wider local government overview report will be published in May 2023 and will include further analysis of the financial information presented in this bulletin along with wider commentary on the financial and performance challenges facing local government.
- 3.** Our primary sources of information for the financial bulletin are councils' 2021/22 audited accounts, including management commentaries and the 2021/22 external annual audit reports, where available. We have supplemented this with data collected as part of a data set request issued to local auditors in October 2022.
- 4.** The Covid-19 pandemic has again created challenges that have affected the preparation of this report. The rescheduling of audit timetables meant that audited accounts did not require certification until 30 November 2022. Ten sets of accounts were certified by the revised deadline, with a further 16 signed off thereafter. As at 20 December 2022, five councils' accounts are still to be certified; therefore, analysis in this report is based on 27 sets of audited accounts and five sets of unaudited accounts.
- 5.** We refer to 'real-terms' changes in this bulletin. This means that we are showing financial information from past and future years at 2021/22 prices, adjusted for inflation so that they are comparable. To make that comparison we use gross domestic product (GDP) deflators to adjust for inflation, which are published quarterly by HM Treasury. GDP deflators are the standard approach adopted by both the UK and Scottish governments when analysing public expenditure. As a result of the way that GDP is calculated, Covid-19 resulted in volatility across 2020/21 and 2021/22. To compensate for this, and to provide meaningful comparisons between years, we have used an average GDP growth rate across 2020/21 and 2021/22 in our calculations to separate inflation (changes in prices) from changes in outputs and those largely attributable to Covid-19 spending.
- 6.** We also refer to figures in 'cash terms' in this bulletin. When we use this term it means that we are showing the actual cash or money paid or received.



# 1. Councils' financial summary 2021/22

## Total revenue funding and income

**7.** Total revenue funding and income to councils was £20.3 billion in 2021/22, a £0.3 billion (or one per cent) decrease on the previous year in real terms (one per cent increase in cash terms) ([Exhibit 1, page 7](#)). The majority (55 per cent) of this funding comes from the Scottish Government, with the remaining balance from other sources, see Exhibit 1 for a full breakdown.

**8.** Councils have received a range of new and additional funding amounting to £1.3 billion in 2020/21 and £0.5 billion in 2021/22 to support them in dealing with the financial impacts of the Covid-19 pandemic. This additional Covid-19 funding has decreased as a proportion of overall council funding as the pandemic has progressed, from six per cent of total funding received in 2020/21 to three per cent in 2021/22.

**9.** The Scottish Government also provided councils with £90 million to allow them to freeze council tax levels in 2021/22.

**10.** Excluding Covid-19 related funding, revenue funding and income saw a £0.5 billion (or three per cent) real-terms increase in 2021/22 on the previous year, from £19.3 billion to £19.8 billion.

### **The average Council Tax collection rate across Scotland increased during 2021/22. It is now more in line with pre pandemic levels**

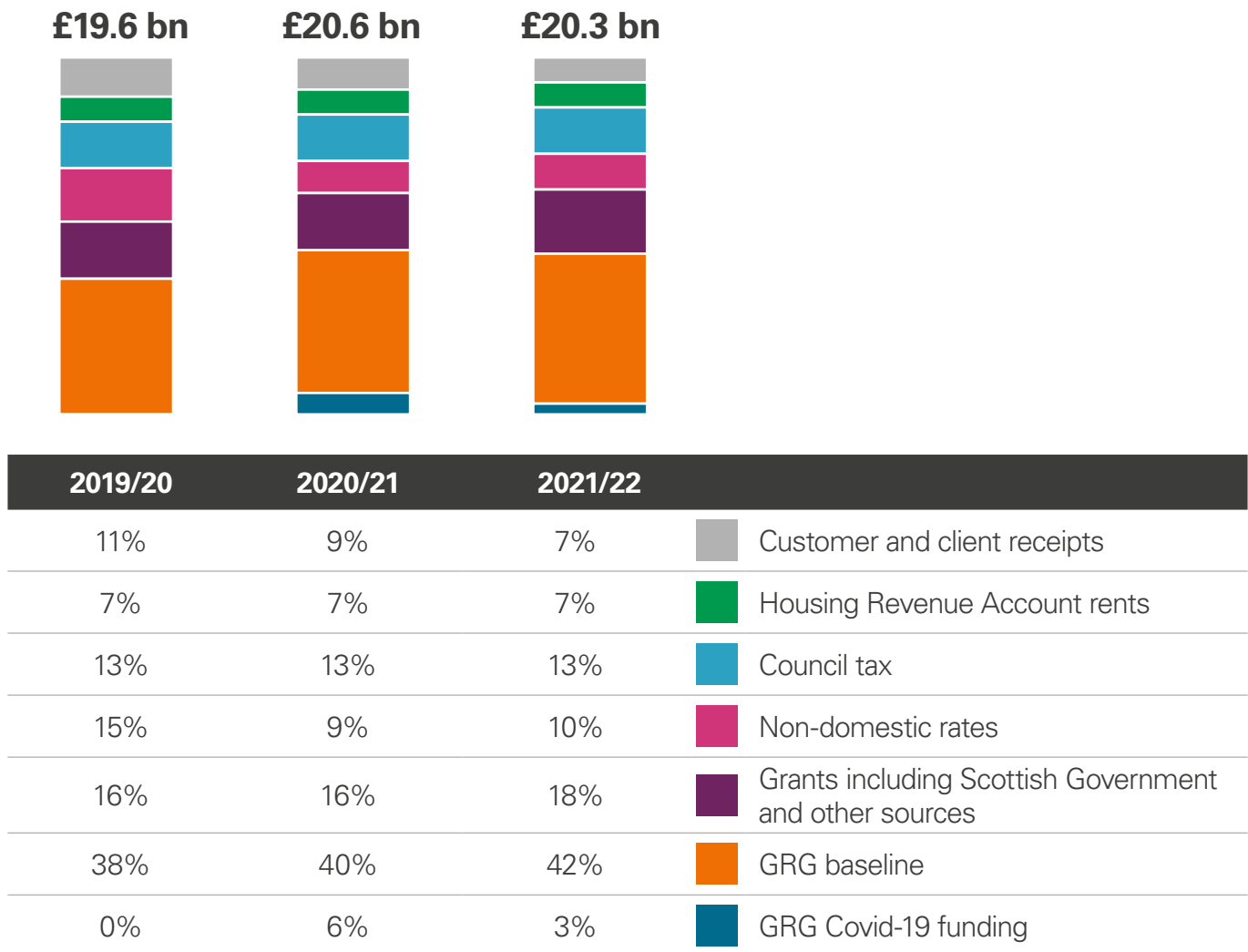
**11.** The in-year collection rate (for 2021/22 charges) increased from an average of 94.8 per cent in 2020/21 to 95.7 per cent, which is broadly in line with pre-pandemic collection rates (95.8 per cent in 2019/20). Collection rates rose across all councils apart from Midlothian which remained static and Orkney which fell by 2.5 per cent. The total amount of council tax billed, taking account of council tax reductions, was £2.7 billion. Of this total, £2.6 billion was collected by 31 March 2022.

Revenue funding and income saw a 3 per cent real terms increase in 2021/22, once Covid-19 related funding is excluded

## Exhibit 1.

### Sources of funding and income 2019/20 and 2021/22

Total revenue funding and income to councils was £20.3 billion in 2021/22, a £0.3 billion (or one per cent) decrease on the previous year in real terms (one per cent increase in cash terms).



Source: Audited financial statements 2019/20, 2020/21 and 2021/22

## Scottish Government funding

**12.** In 2021/22 councils received total revenue funding of £12.1 billion from the Scottish Government. This consisted of General Revenue Grant funding of £8.7 billion; Non-Domestic Rates distribution (NDR) of £2.1 billion, specific grants of £0.8 billion and non-recurring Covid-19 funding of £0.5 billion. Total revenue funding to councils from the Scottish Government increased by 1.1 per cent in cash terms and decreased by 1.6 per cent in real terms in 2021/22 compared to the previous year ([Exhibit 2, page 8](#)).

## Exhibit 2.

### Changes in Scottish Government revenue funding in 2021/22

Scottish Government revenue funding fell by 1.6 per cent in real terms in 2021/22, although when non-recurring Covid-19 funding is taken out there is an increase of 5.3 per cent.

	2020/21 £ million	2021/22 £ million	Cash change %	Real terms change %
General revenue grant	8,099	8,682	7.2	4.4
Non-domestic rate income	1,868	2,090	11.9	8.9
Specific revenue grants	710	776	9.3	6.5
Non-recurring Covid-19 funding	1,254	515	-58.9	-60.0
<b>Total revenue funding</b>	<b>11,931</b>	<b>12,063</b>	<b>1.1</b>	<b>-1.6</b>
Total revenue excluding Covid-19	10,677	11,549	8.2	5.3

Source: Finance circulars and Scottish Government budget documents

**13.** When non-recurring Covid-19 funding is excluded, the increase in funding from the previous year is 8.2 per cent in cash terms and 5.3 per cent in real terms.

### An increasing proportion of local government funding is now either formally ring-fenced or provided with the expectation it will be spent on specific services

**14.** Within the £12.1 billion Scottish Government revenue funding, an element is identified by the Scottish Government as specific revenue grants, set out in the annual settlement to councils. This ring-fenced funding, totalling £0.8 billion in 2021/22 (£0.7 billion in 2020/21), must be used to fund identified policies, such as:

- Early Learning and Childcare Expansion (£546 million)
- Pupil Equity Fund (£120 million)
- Criminal Justice Social Work (£86 million).

**15.** In addition to specific revenue grants, other funding is directed for national policy initiatives, though not formally ring-fenced, this funding is provided with the expectation that it will be spent on specific services.

**16.** Collectively, ring-fenced and directed funding totalled £2.7 billion, representing 23 per cent of total revenue funding (18 per cent in 2020/21). £1.61 billion of this was allocated at the start of the year with a further £1.04 billion allocated throughout the year through budget revisions ([Exhibit 3, page 10](#)). A large amount of this was to support elements of education and social care service provision.

### **2021/22 funding levels from the Scottish Government to local government (excluding Covid-19 funding) increased in real terms for the first time since 2015/16 and converged with other Scottish Government revenue funding**

**17.** In previous overview reports, we have commented that Scottish Government funding to local government has not kept pace with relative increases in the levels of funding allocated to other parts of the Scottish Budget. Previous overview reports have also highlighted that for many years now councils have had to make efficiency savings, redesign services, and use reserves to meet budget gaps arising from service demand and budget pressures.

**18.** Revenue funding from Scottish Government to local government between 2013/14 and 2021/22 increased by 6.1 per cent (in real terms) whereas Scottish Government revenue funding to other parts of the Scottish Government budget increased by a significantly higher figure of 27.2 per cent over the same period. This, and previous differences in relative funding, has largely arisen as a result of Scottish Government policy to protect funding for the NHS.

**19.** Over the period 2013/14 to 2021/22, after two years of relatively static funding local government saw its real-terms revenue funding fall between 2015/16 and 2020/21 (excluding Covid-19 funding) with 2021/22 being the first year of real-terms growth (excluding Covid-19 funding) since 2015/16. In 2021/22 funding levels for local government and other parts of the Scottish Government budget (excluding Covid-19 funding) have converged back to a level similar to eight years ago.

**20.** The large increases in the Scottish budget in 2020/21 and 2021/22 were a result of Covid-related **Barnett consequentials**. Given these were exceptional sources of funding we have analysed the underlying Scottish Government and local government revenue funding position with Covid-19 funding excluded ([Exhibit 4, page 11](#)). Under this analysis, over the same period, Scottish Government revenue funding to local government increased by 1.6 per cent and Scottish Government revenue funding to other parts of the Scottish Government budget increased by 0.8 per cent.


#### **Barnett consequentials**

The Barnett formula is the way the UK Government ensures that a share of additional funding – allocated only to England – is provided fairly to Scotland, Wales, and Northern Ireland. The formula delivers a fixed percentage of additional funding allocated in England to services which are devolved. Each devolved administration can allocate these funds as it believes appropriate.

## Exhibit 3.

### Ring-fenced elements of Scottish Government revenue funding

The proportion of funding which is ring-fenced and directed or provided for specific services has increased, with around £1 billion allocated during the year in 2021/22.

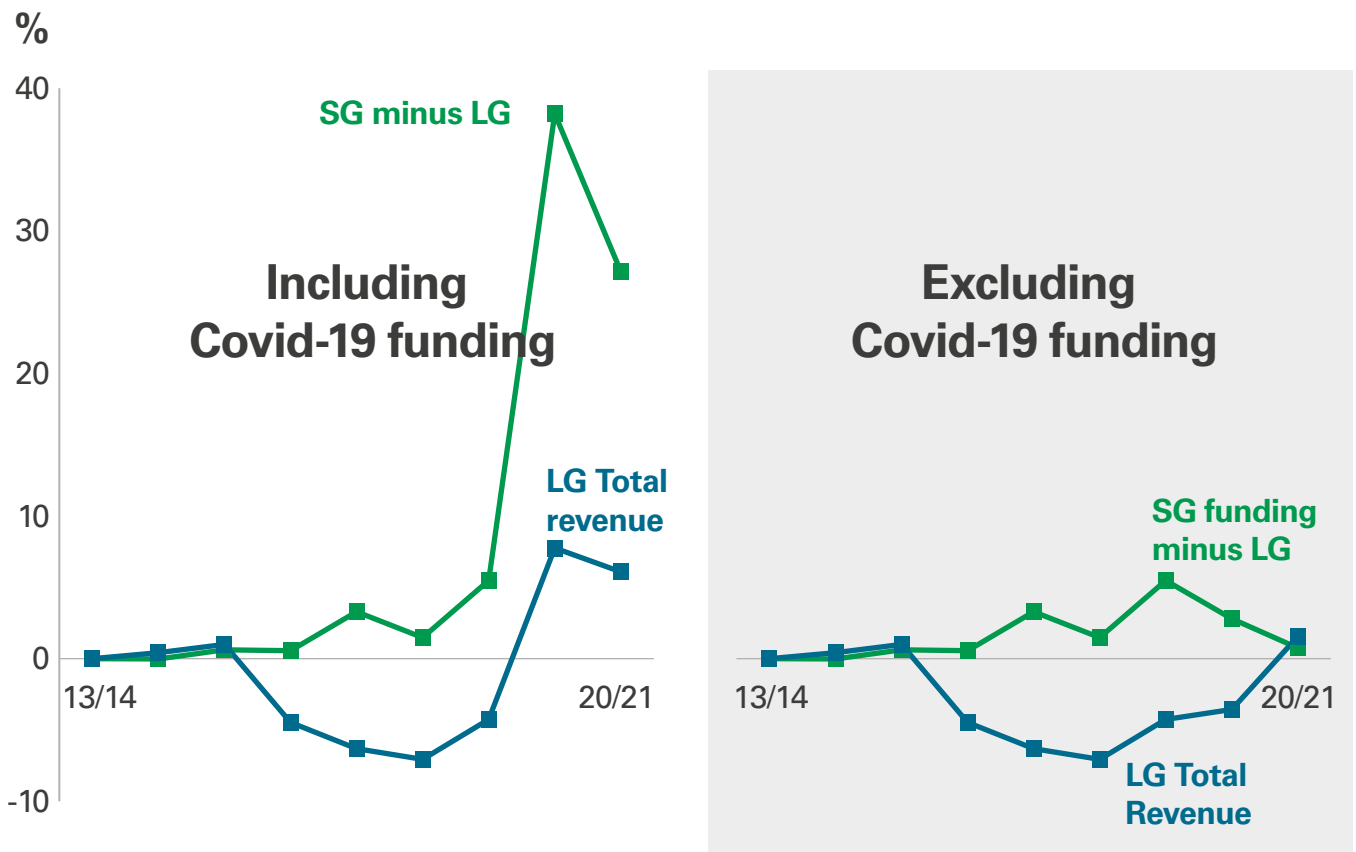
 Source	2020/21 £ million	2021/22 £ million
Specific Revenue Grant from finance circular	709.8	775.9
Measures outlined in initial circular narrative	606.3	347.4
Transfers from other portfolios in Scottish Budget	188.1	488.1
Redeterminations in further circulars	48.0	544.8
Transfers from other portfolios in Autumn budget revision	350.5	395.7
Transfers from other portfolios in Spring budget revision	42.9	104.0
<b>Total ring-fenced/expected to be spent on specific services</b>	<b>1,945.5</b>	<b>2,655.8</b>
Total revenue funding	10,667.8	11,549.0
<b>Percentage ring-fenced/expected to be spent on specific services</b>	<b>18.2%</b>	<b>23.0%</b>

Source: Scottish Local Government Finance Circulars and budget documents. Some elements of funding appear in circulars and Scottish Budget so have been removed to avoid double counting.

## Exhibit 4.

### A comparison of real-terms changes in revenue funding in local government and other Scottish Government areas (including and excluding Covid-19 funding)

Revenue funding from Scottish Government to local government between 2013/14 and 2021/22 increased by 6.1 per cent when Covid-19 funding is included, and by 1.6 per cent when Covid-19 funding is excluded.



Source: Finance circulars and Scottish Government budget documents

## Council budgets and outturn 2021/22

### In 2021/22, budget gaps were largely consistent with previous years

**21.** In 2021/22, Scotland's 32 councils had a budgeted net expenditure of £15.2 billion. At the time of budgeting, councils identified **budget gaps** totalling £0.4 billion (three per cent), which was broadly consistent with the gap identified in the two previous years (£0.5 billion in 2020/21 and 2019/20). The budget gap at a council level varied between one per cent and 22 per cent ([Exhibit 5, page 12](#)).

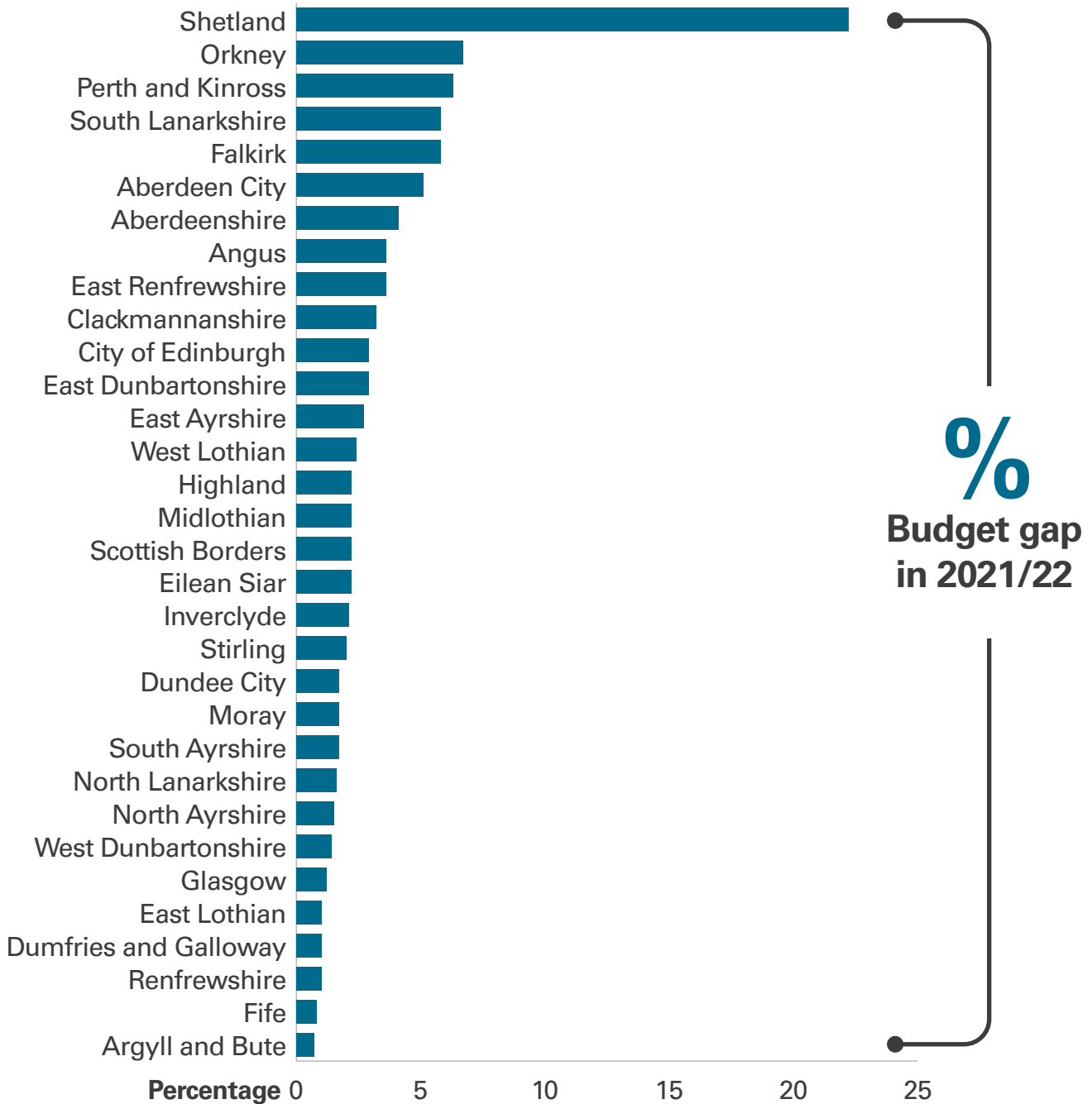
#### Budget gap

This describes the difference between anticipated expenditure and revenue at the time of setting the budget.

## Exhibit 5.

### Budget gap as a proportion of net cost of services for all 32 councils in 2021/22

The budget gap at a council level varied between one per cent and 22 per cent.



Source: Council budget papers, Auditor data return

**22.** Recurring savings were expected to contribute 37 per cent of the £0.4 billion budget gap in 2021/22 along with Scottish Government funding to allow councils to freeze council tax (20 per cent), use of reserves (17 per cent), non-recurring savings (eight per cent), financial flexibilities (four per cent) and a range of other specific actions (12 per cent).

### **Savings performance improved in comparison to previous years**

**23.** Councils had set themselves savings targets totalling £0.2 billion in 2021/22. Ninety-four per cent of these savings were achieved (84 per cent in 2020/21), with 76 per cent on a recurring basis. Fourteen councils achieved their savings targets in full on a recurring basis, whereas five councils had over half of their savings being delivered on a non-recurring basis. Four councils had no savings targets in place for 2021/22 ([Exhibit 6, page 14](#)).

### **Total usable reserves increased by £0.3 billion to £4.1 billion in 2021/22**

**24.** In 2021/22, almost three quarters of councils (23) reported an increase in usable reserves. This compares to all 32 councils reporting an increase in 2020/21, largely as a result of additional Covid-19 funding carried forward. Total usable reserves now stand at £4.1 billion, representing an increase of £0.3 billion (seven per cent) on the previous year. This compares to an increase of £1.2 billion in 2020/21 compared to 2019/20. [Exhibit 7 \(page 15\)](#) details the increase in councils' usable reserves during 2021/22.

**25. General fund reserves**, excluding Housing Revenue Account (HRA), have increased by £0.3 billion to £2.7 billion. The vast majority of this relates to increases in committed balances (that is reserves have been allocated for a specific purpose) which increased by £0.3 billion to £2.3 billion in 2021/22, and is more than half of the total usable reserves balance. Uncommitted reserves (money not earmarked for a specific purpose) have decreased from £0.5 billion in 2020/21 to £0.4 billion in 2021/22. These reserves are used to mitigate the financial impact of unforeseen circumstances. [Exhibit 8 \(page 16\)](#) shows the nature and value of usable reserves in 2021/22.

#### **General fund reserves**

This is the main revenue account which summarises the cost of all services provided by a council.

### **Councils have improved the way in which Covid-19 funds are disclosed in their accounts, but the level of detail varies**

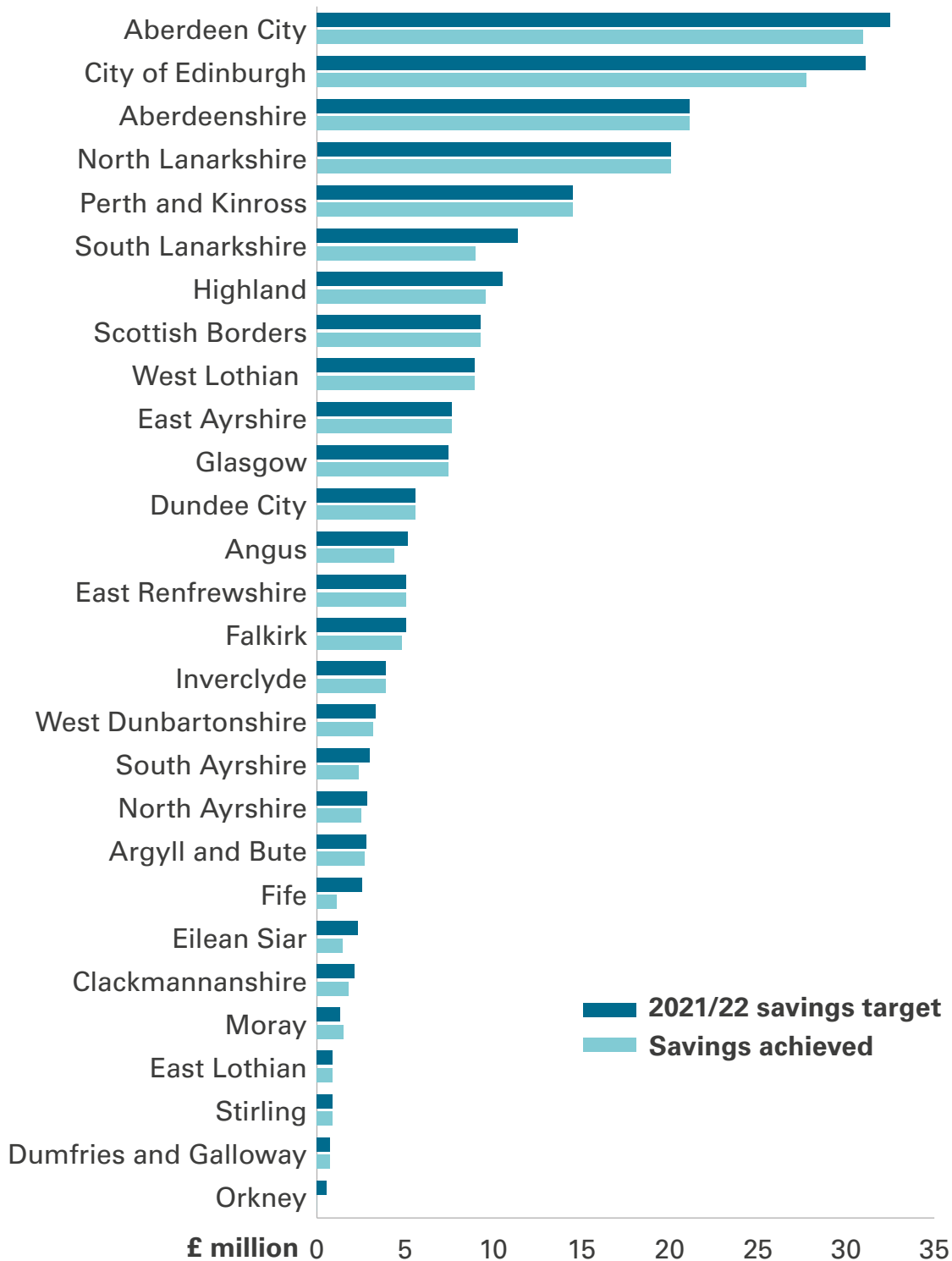
**26.** Elements of Covid-19 funding that have been carried forward in general committed and uncommitted reserves total £0.6 billion, 23 per cent of the total general fund balance. However, at a council level this varies between 49 per cent of the total general fund balance (Moray and West Lothian) to eight per cent (Dumfries and Galloway), ([Exhibit 9, page 17](#)).



## Exhibit 6.

### Councils' savings targets compared with savings achieved in 2021/22

Fourteen councils achieved their savings targets.



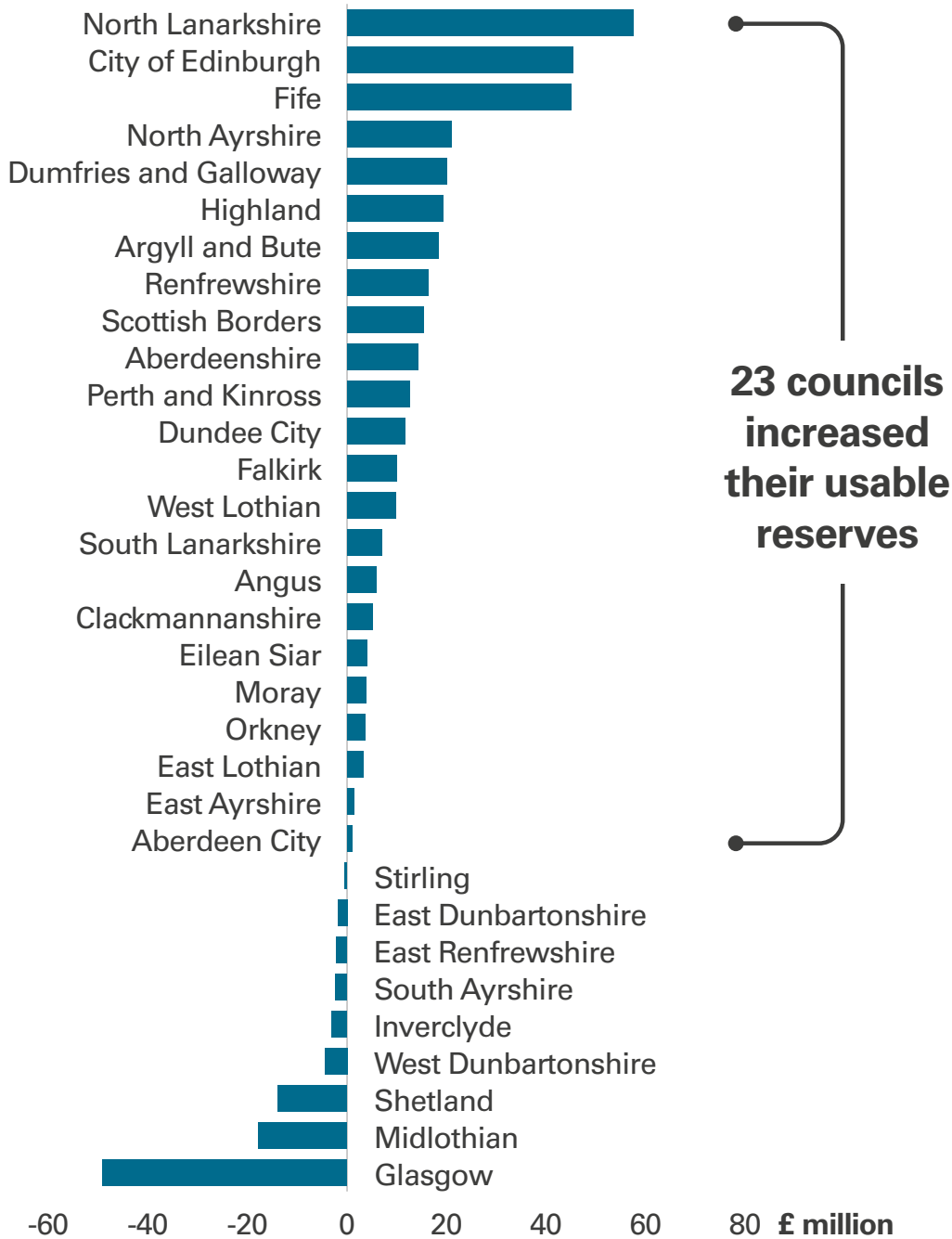
Note: Excludes East Dunbartonshire, Midlothian, Renfrewshire and Shetland due to not having savings targets in place for 2021/22.

Source: Audited financial statements 2021/22

## Exhibit 7.

### Changes in councils' usable reserves during 2021/22

Twenty-three councils increased their usable reserves.

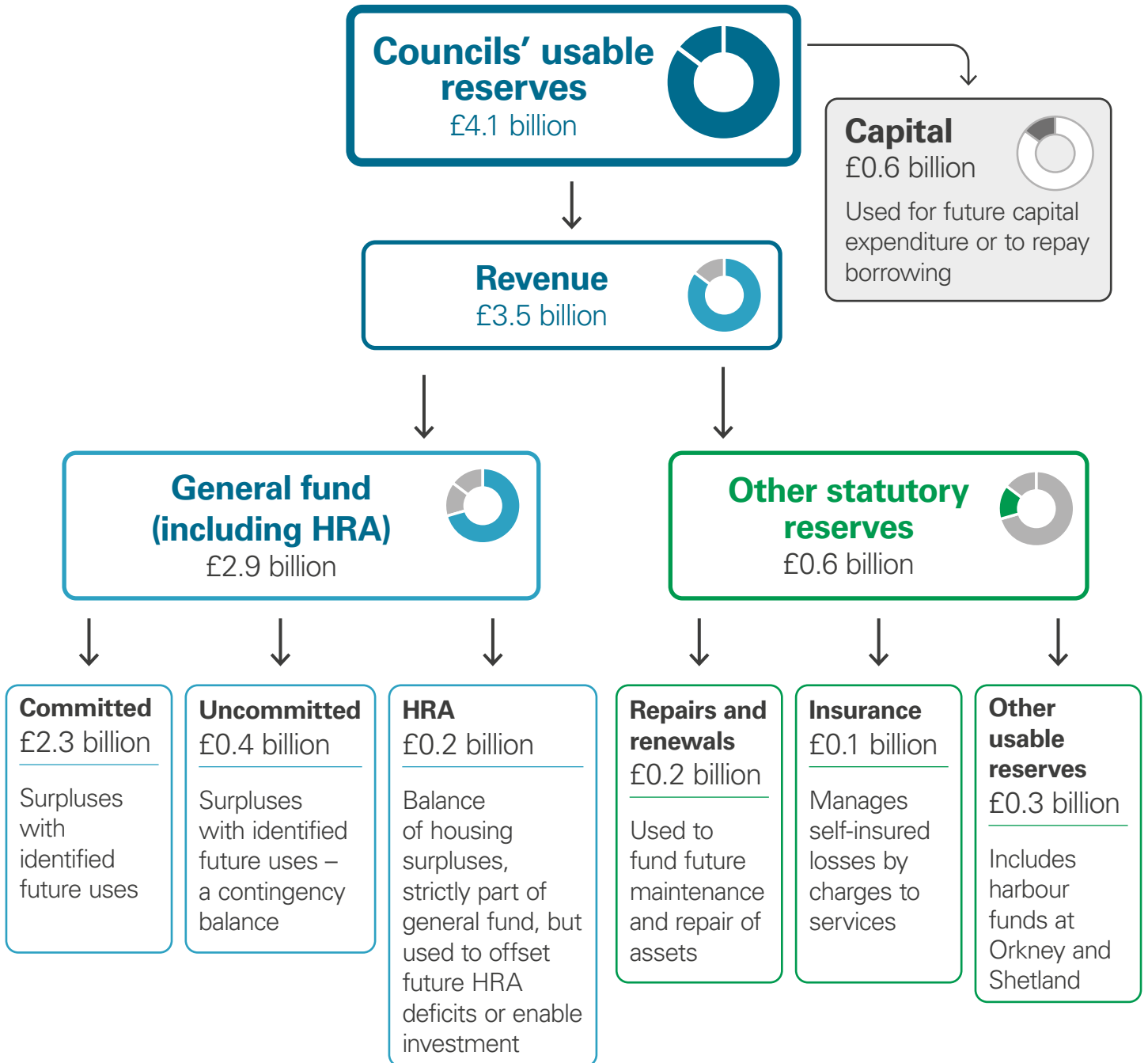


Source: Audited financial statements 2021/22

## Exhibit 8.

### The relative size and nature of councils' usable reserves

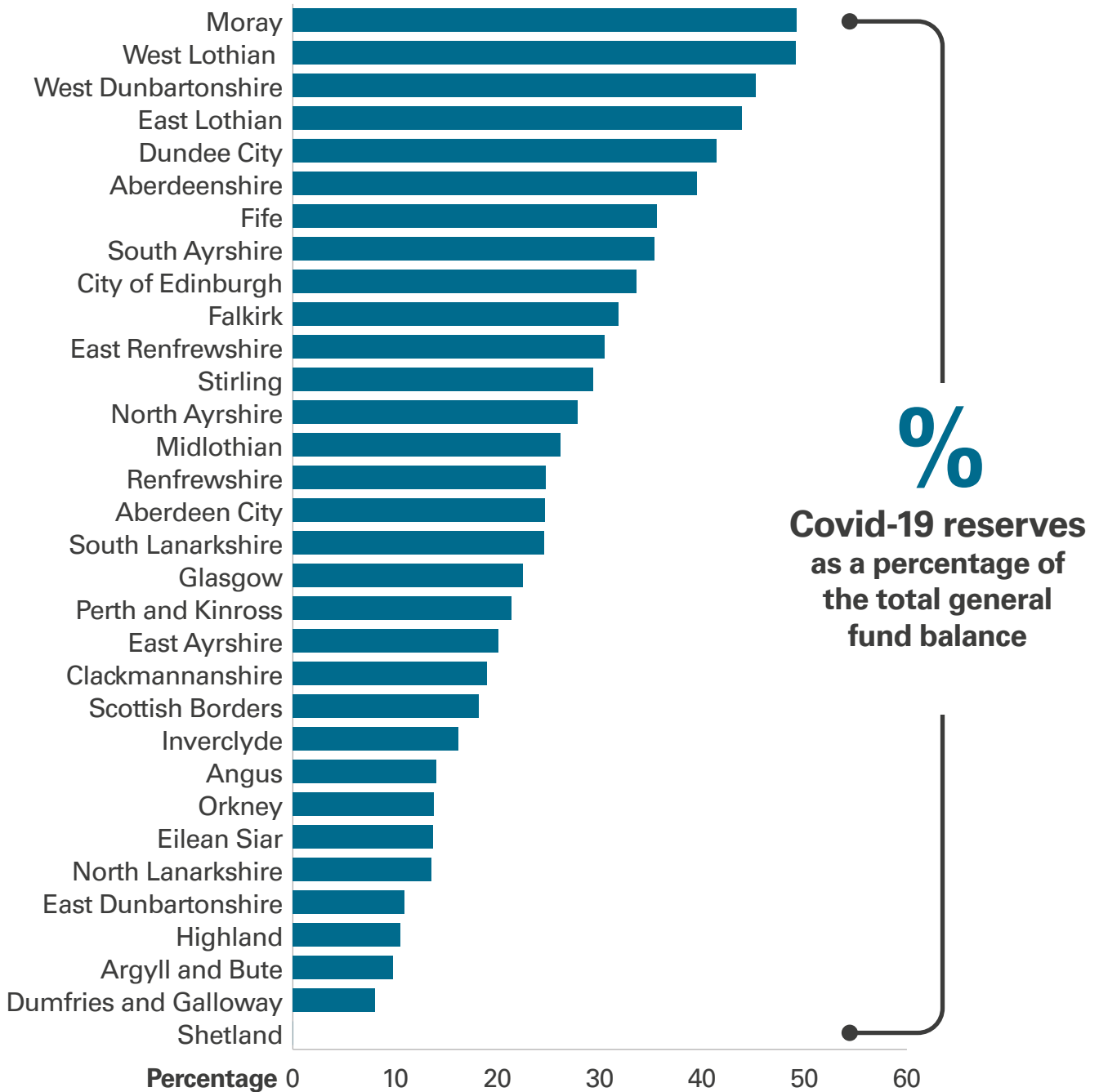
In 2021/22, usable reserves held by councils totalled £4.1 billion.



Source: Audited financial statements 2021/22

## Exhibit 9.

### Total Covid-19 reserves as a percentage of the total general fund balance for 2021/22



Note: Excludes Shetland as they do not have any Covid-19 related reserves carried forward.

Source: Audited financial statements 2021/22

**27.** In last year's [Local government in Scotland: Financial overview 2020/21](#) we noted that within the general fund, councils' accounts had not always clearly identified the element arising from Covid-19 funding and recommended that elements of Covid-19 funding that are being carried forward into general reserves should be clearly identified. Councils have improved the way in which Covid-19 reserves are disclosed in their accounts. However, this varies, with nine councils only providing a single line narrative and the remaining councils providing varying levels of detail as to how the funds have been allocated (eg, education, housing, business support, mental health and equalities). Eilean Siar and Aberdeen City had the most detailed breakdowns.

### Local government in Scotland: Financial overview 2020/21

Accounts  
Commission  
March 2022



## Capital

### Capital expenditure increased in 2021/22 though was still below the level in 2019/20

**28.** Capital spending across Scotland increased by £0.7 billion in 2021/22, from £2.4 billion in 2020/21 to £3.1 billion ([Exhibit 10, page 19](#)). Capital spending in 2019/20 was £3.6 billion.

**29.** Twenty-six councils (81 per cent) reported higher capital expenditure in 2021/22 than in 2020/21. Only six councils spent less on their capital programmes in 2021/22 than 2020/21.

**30.** The main sources of capital financing are still government grants. These were largely unchanged from 2020/21 (£1.1 billion in 2021/22 compared to £1.2 billion the previous year), however, the overall increase in capital expenditure means that an increasing amount is financed by borrowing.

### Covid-19, inflationary costs and shortages in construction materials had an impact on capital projects

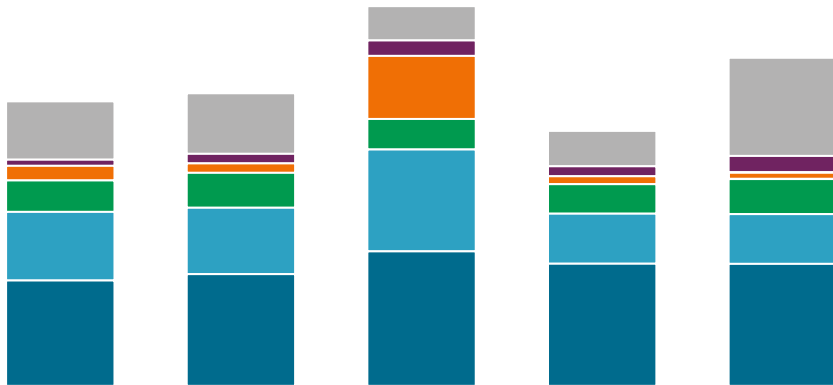
**31.** Auditors in councils reported slippage against capital projects and cited Covid-19, inflationary costs and shortages in construction materials as reasons for this. If these issues persist they will present risks to councils' capital programmes which are a necessary component of modernising services to deliver improved outcomes for local communities. There were some exceptions, for example in West Lothian where expenditure on capital was £141.3 million, an increase of £14.8 million against its original budget. Acceleration of £13.1 million for new developer-funded schools at Winchburgh was the most notable example.

Capital spending across Scotland increased in 2020/21 to £3.1 billion

## Exhibit 10.

### Capital expenditure analysed by sources of finance 2017/18 to 2021/22

Capital expenditure increased in 2021/22 although an increasing proportion was funded through an increase in borrowing.



2017/18	2018/19	2019/20	2020/21	2021/22	
21%	21%	9%	14%	30%	An increase in borrowing
2%	3%	4%	4%	5%	Other contributions and Public Private Partnership (PPP)
5%	3%	17%	3%	2%	Capital receipts
11%	12%	8%	12%	11%	Capital Funded from Current Revenue (CFCR)
24%	23%	27%	20%	15%	Internal Loans fund repayments available to reinvest
37%	38%	35%	48%	37%	Government grants
<b>2,687</b>	<b>2,749</b>	<b>3,605</b>	<b>2,408</b>	<b>3,099</b>	<b>Total expenditure (£ million)</b>

Source: Audited financial statements 2017/18 – 2021/22

Further information about how councils may borrow money to fund capital expenditure can be found at [Local government borrowing: factsheet](#).

**32.** Slippage against capital projects was noted at some councils in 2021/22:

- **Dundee City Council:** Capital works costing £57 million were completed in 2021/22 against a budget of £117 million, representing slippage of 51 per cent. This was highlighted as a risk to the council delivering against strategic objectives.
- **East Dunbartonshire Council:** General services capital spending was £69 million compared with an initial budget of £96.3 million, which was subsequently revised downwards to £76.1 million for projects impacted by Covid-19. The main area of slippage was related to a new additional support needs school (£3.5 million) which has been rescheduled to 2022/23. Housing capital expenditure totalled £15.9 million against a revised budget of £17.5 million.
- **East Lothian Council:** The general services capital budget for 2021/22 was £97.7 million. A significant element of the £32.7 million underspend has been reprofiled to 2022/23. In addition to the issues and challenges arising from Covid-19, supply chain problems and the war in Ukraine were reported as having increased certain costs as well as the council's risk exposure for capital investment. The HRA capital budget for 2021/22 was £29.7 million. The overspend of £1.2 million reflects accelerated new build council housing, the costs of which have been partially offset by additional grant funding above the budgeted figure.

### **Net debt has increased by £0.2 billion since 2020/21**

**33.** Total net debt (total debt less cash and investments) has increased across councils by £0.2 billion to £16.4 billion. Fifteen councils have increased their net debt in 2021/22. This compares to eight councils in 2020/21.

**34.** Councils' total debt has increased by £0.3 billion to £19 billion; this may be related to the increased need to borrow to fund capital expenditure, with 19 out of 32 councils having increased long-term borrowing from the previous year and 15 councils with increased short-term borrowing compared to the previous year.

## Local government pension funds

### 2021/22 Pension Fund investment returns, although largely positive, were 62 per cent lower than in the previous year

**35.** Ten of the 11 main Scottish Local Government Pension Funds experienced positive investment returns in 2021/22. Orkney Islands Pension Fund recorded a loss on investment activity, representing 2.7 per cent of the net investment assets brought forward into 2021/22.

**36.** Although Pension Fund investment returns were largely positive, net returns on investments were 64 per cent lower than in 2020/21 (in cash terms). The net returns on investments, as a proportion of the brought forward net investment assets total, varied between a reduction of 2.7 per cent and an increase of 11 per cent in individual funds.

### Scottish Pension Fund's funding positions have generally improved since the last triennial valuation

**37.** Scottish Pension Funds recorded a cumulative **funding level** of 104 per cent, ranging from 92 per cent to 118 per cent, per the triennial actuarial review figures as at 31 March 2020. At the time of this valuation, four of the 11 Scottish Local Government Pension Funds recorded liabilities as being greater than assets. Although four of the funds recorded liabilities in excess of assets, the 2020 position represented an improvement since the 2017 triennial valuation.

**38.** Auditors reported that the Covid-19 pandemic had a significant impact on Scottish Pension Fund's funding position and asset valuations, as indicated in the **triennial valuation** as at 31 March 2020. Auditors have indicated that since the valuation, asset values have largely recovered.

**39.** Preparation is under way for the next triennial valuation covering the period to 31 March 2023. Any changes to employer contributions as a result of the next valuation will not take effect until 2023/24.

#### Funding Level

This describes the pension fund assets as a proportion of the liabilities, arising from pension benefits payable.

#### Triennial valuation

Every three years an actuarial valuation is carried out to monitor the assets of the fund against the liabilities of the pension benefits payable.



## 2. Councils' financial outlook

### Councils are having to deal with a number of significant financial challenges and will need to make some difficult decisions with their spending priorities

**40.** In last year's [Local government in Scotland: Financial overview 2020/21](#) we noted that the longer-term funding position for councils remained uncertain, with significant challenges ahead as councils continued to manage and respond to the impact of Covid-19 on their services, finances and communities.

**41.** At a time when councils and their communities are still feeling the impact of the Covid-19 pandemic, councils are now having to deal with the cost of living crisis and inflationary pressures. Councils consistently identified short- and long-term cost pressures in their initial 2022/23 budget papers, including:

- pay inflation and living wage costs
- costs associated with Covid-19 recovery
- energy inflation
- non-pay inflation (including cost of materials, construction costs and contract inflation)
- demand for and price sensitivity of chargeable services and the related impact on income from fees and charges.

**42.** Common themes across management commentaries from councils unaudited accounts for 2021/22 are that councils continue to face significant financial challenges going forward and will need to deliver consistent recurring savings and use reserves to deal with the immediate and on-going financial impacts. They also note that elected members will need to make increasingly difficult choices, which could include having to consider service reductions. Further commentary and analysis on the future funding position of councils and the associated challenges will be included in the wider local government overview being published in May 2023.

[Local government in Scotland: Financial overview 2020/21](#)

Accounts  
Commission  
March 2022



### **The future funding settlements set out in the Scottish Government's Resource Spending Review reflects flat cash funding settlements for 2022/23 to 2025/26**

**43.** In May 2022 the Scottish Government published the first multi-year Resource Spending Review (RSR) in Scotland since 2011, outlining its resource spending plans to the end of this Parliament in 2026/27. The RSR assumes an overall cash-terms increase to the Scottish Government spending envelope of £5.7 billion over the period 2022/23 to 2026/27. The estimated increase in local government funding over this period would be £0.1 billion. This reflects flat cash funding levels for 2022/23 to 2025/26, with a small uplift in 2026/27. However, the outlook of the RSR may look different after the Scottish Government's 2023/24 budget.

**44.** The Fraser of Allander Institute [reported](#) in May 2022 that the RSR provides welcome insight on government priorities, and highlights a scale of challenges facing public services. However, spending plans are expressed at 'level 2' for the four years of the Spending Review period. That means financial information is at a less detailed level than public bodies would ideally like for planning purposes. It also noted that at the time of their review the RSR implies that the local government budget will decline by seven per cent in real terms between 2022/23 and 2026/27. The Convention of Scottish Local Authorities (COSLA) has expressed concerns that a flat cash settlement will result in fewer jobs and cuts to services.

**45.** Following the RSR, in December 2022, the Scottish Government presented their [proposed spending and tax plan for 2023/24](#) to the Scottish Parliament. In this updated position, the Scottish Government sets out that there will be an increase of over £570 million in additional revenue and capital funding available to councils for 2023/24. They also confirmed that they would not seek to freeze or set a cap on council tax increases, giving council's full flexibility to vary rates locally.

**46.** The recent Scottish Parliament Information Centre (SPICe) [publication](#) reports that, once adjustments are made for the in-year funding councils will receive for free school meals, the additional funding for 2023/24 was just under £640 million. SPICe report that this will represent a £223 million real terms increase in funding, based on 2022/23 prices.

**47.** COSLA had previously estimated a [£1 billion gap](#) for councils in 2023/24 and argue that the uplift amounts to £71 million once national policy commitments are taken into account. They welcome the flexibility to set their own council tax rates but state that the scope to do this will be limited due to the cost of living crisis.

## Budgets for 2022/23

### Councils intend to bridge the budget gap of £0.4 billion for 2022/23 with planned savings and reserves, but the reliance on non-recurring reserves is not sustainable in the medium to long-term

**48.** At the time of budgeting, councils identified budget gaps totalling £0.4 billion in real terms, which represented three per cent of the 2021/22 net cost of services. This is consistent with the gap identified in the previous years. The 2022/23 estimated budget gap as a proportion of 2021/22 net cost of services varied across councils from an anticipated surplus of 0.2 per cent to a gap of 23 per cent ([Exhibit 11, page 25](#)).

**49.** The majority of the estimated budget gap for 2022/23 was planned to be funded through the following ([Exhibit 12, page 26](#)):

- agreed recurring savings (36 per cent)
- use of reserves (32 per cent)
- increases in Council Tax (16 per cent).

**50.** Sixty-six per cent of councils intended to use reserves to help bridge the 2022/23 budget gap, however, the use of reserves is not sustainable in the medium to long term. The achievement of recurring savings and a movement away from the reliance and use of non-recurring reserves will be key to ensuring longer-term financial sustainability. This makes the case for a continued focus on service reform, based on strong engagement with communities, more important now than ever.

## 2022/23 funding settlement

### Scottish Government revenue funding in 2022/23 decreased by 0.1 per cent in real terms when non-recurring funding elements are excluded

**51.** In [paragraphs 43 to 47](#) we have outlined the longer-term Scottish Government spending plans which were set out in the RSR. The initial local government revenue settlement from the Scottish Government in 2022/23, before taking into account non-recurring elements, increased by 3.9 per cent (cash terms) from 2021/22 to £12.0 billion. This was a real terms decrease of 0.1 per cent ([Exhibit 13, page 27](#)).

**52.** Non-recurring Covid-19 funding provided to councils in 2021/22 was £0.5 billion, the last year of this funding. In 2022/23, an additional £0.25 billion has been allocated to reduce council tax bills.

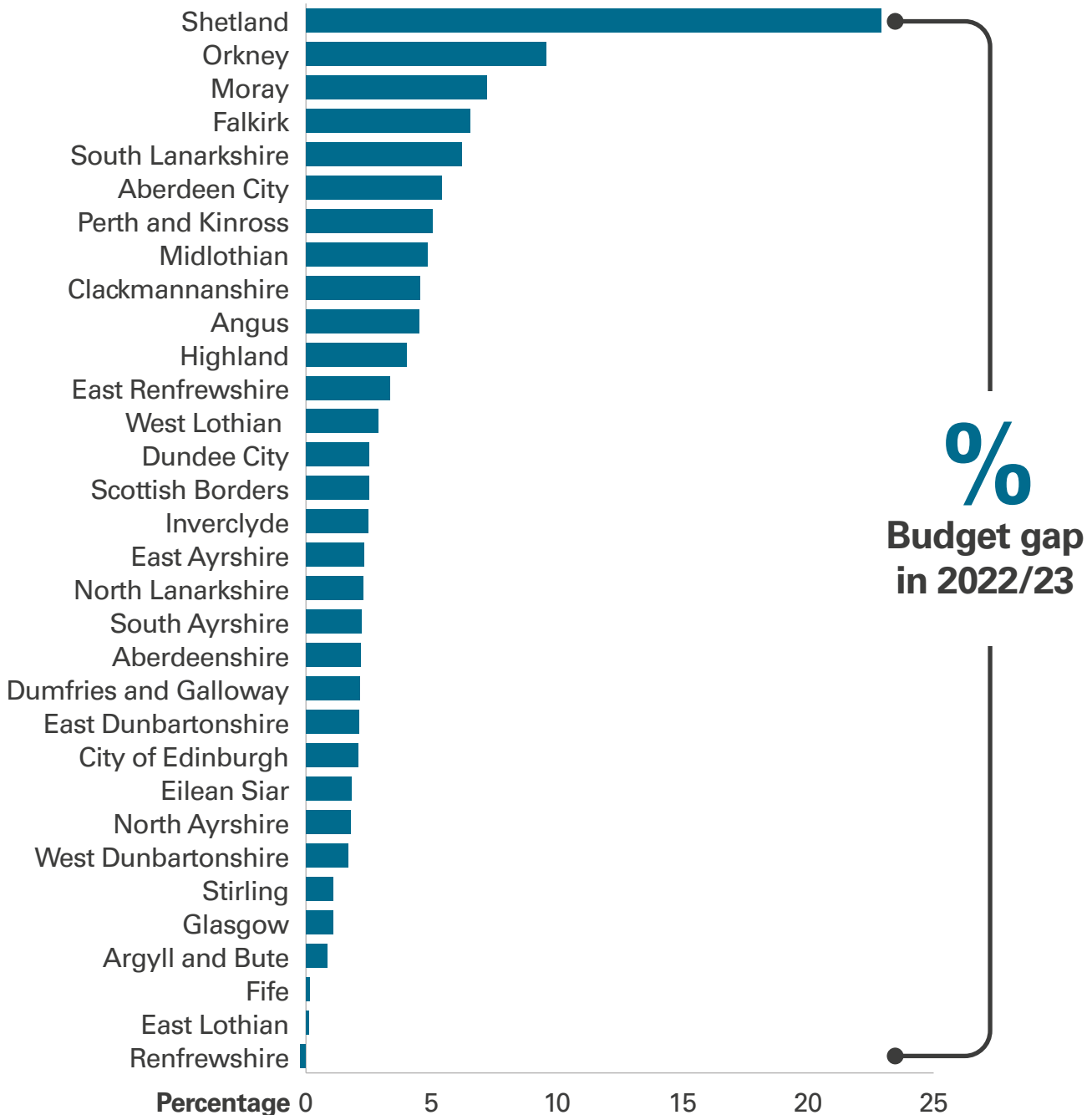
**53.** Total revenue funding in 2022/23 was £12.3 billion. This is a 2.4 per cent real-terms reduction on the 2021/22 position.

Councils identified budget gaps totalling £0.4 billion (3%) in real terms, of the 2021/22 net cost of services

## Exhibit 11.

### Budget gap as a proportion of net cost of services for all 32 councils in 2022/23

The budget gap at a council level varied between a 0.2 per cent surplus and a 22 per cent gap.

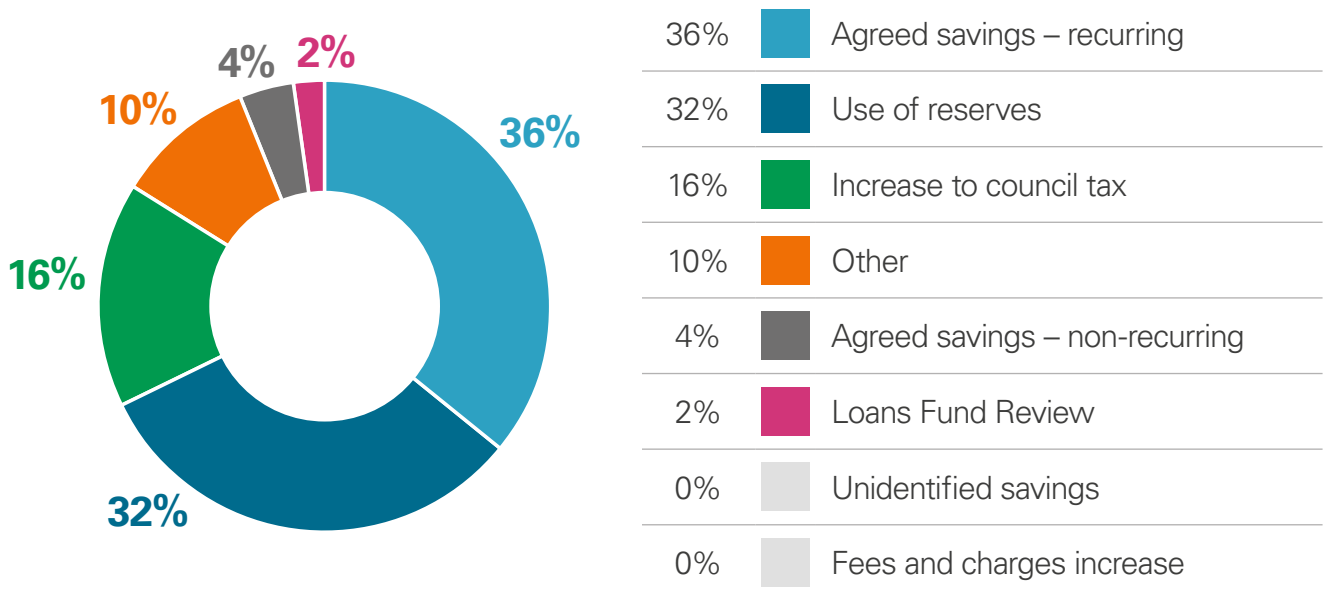


Source: Council budget papers, Auditor data returns

## Exhibit 12.

### Aggregate analysis of all 32 councils' proposed ways to meet the budget gap for 2022/23

The majority of the estimated budget gap for 2022/23 was planned to be funded through agreed recurring savings, use of reserves and increases in Council Tax.



Source: Auditor data returns

## Exhibit 13.

### Changes in Scottish Government initial revenue funding from 2021/22 to 2022/23

Total revenue funding will fall by 2.4 per cent in real terms in 2022/23.

	2021/22 £ million	2022/23 £ million	Cash change %	Real terms change %
General revenue grant	8,682	8,450	-2.7	-6.5
Non-domestic rate income	2,090	2,766	32.3	27.2
Specific revenue grants	776	785	1.1	-2.8
Non-recurring Covid-19 funding	515			
Cost of living funding		250		
<b>Total revenue funding</b>	<b>12,063</b>	<b>12,250</b>	<b>1.5</b>	<b>-2.4</b>
Total revenue excluding Covid-19/ cost of living	11,548	12,001	3.9	-0.1

Source: Finance circulars and Scottish Government budget documents

**54.** Scottish Government funding will not include Covid-specific allocations from the UK Government in 2022/23, however, there will be an increase in the overall Scottish Government budget. If we remove Covid-19 funding in 2021/22 from our analysis, the Scottish Government budget is set to increase by seven per cent in real terms, as opposed to a real-terms cut in local government funding of 0.1 per cent. However, if we include Covid-19 funding in the 2021/22 Scottish Budget, in 2022/23 it falls in real terms by ten per cent, a bigger fall than local government.

## Capital funding

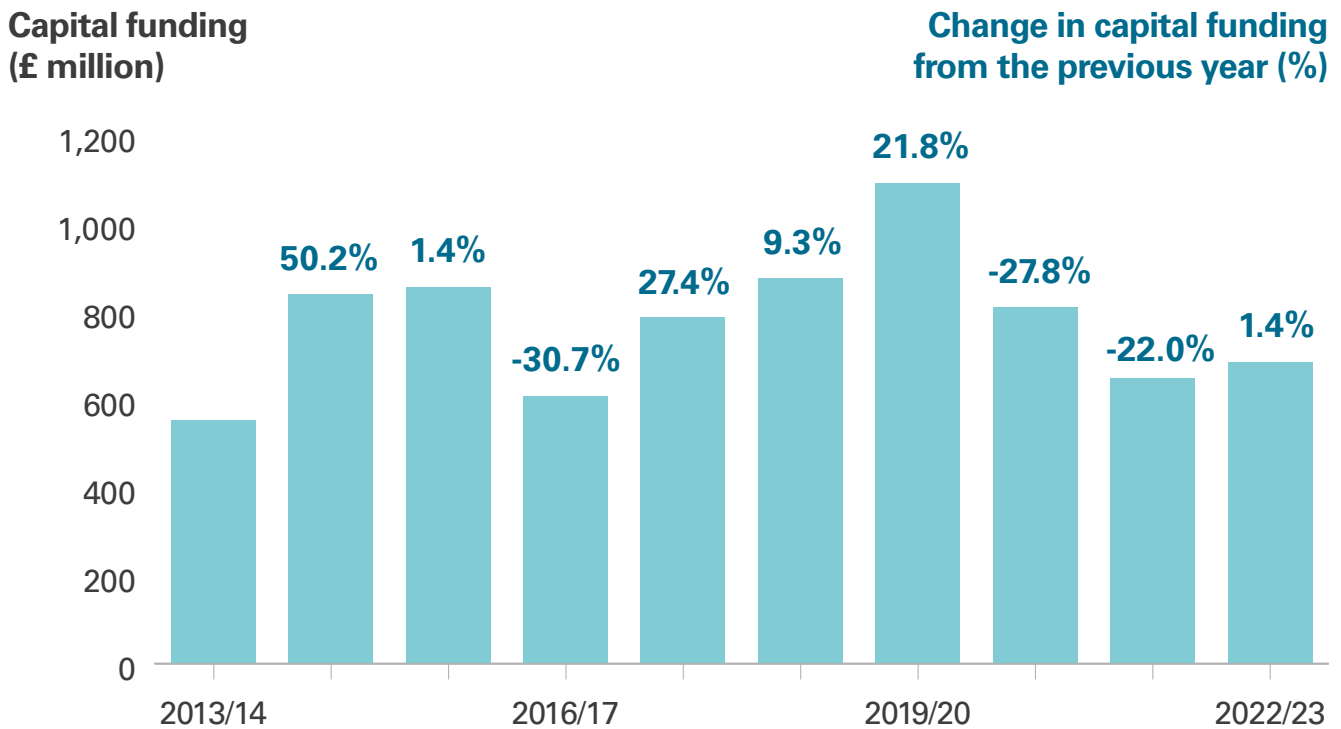
### The Local Government capital settlement in 2022/23 increased from £649 million in 2021/22 to £685 million

**55.** Capital funding has increased by 1.4 per cent in real terms between 2021/22 and 2022/23. Capital funding had experienced significant increases up to 2019/20 before falling in 2020/21 and 2021/22. Real-terms total capital funding has now returned to levels closer to those seen in 2016/17 ([Exhibit 14, page 28](#)).

## Exhibit 14.

### Real-terms Scottish Government capital funding between 2013/14 and 2022/23

Scottish Government capital funding will increase slightly in 2022/23, but this follows two years of decreases over 20 per cent.



Source: Finance circulars and Scottish Government budget documents

**56.** Higher interest rates and inflationary costs will present risks to councils' capital programmes going forward. The affordability of capital spend will be significantly impacted by changes in interest rates. Some councils have anticipated costs will double, which has meant they will need to consider the affordability of their capital programmes going forward.

# Local government in Scotland

# Financial bulletin

## 2021/22

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# Local government in Scotland

Overview 2023



ACCOUNTS COMMISSION 

Prepared by Audit Scotland  
May 2023

# Who we are

## The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

### **Our work includes:**

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website:

[www.audit-scotland.gov.uk/about-us/accounts-commission](http://www.audit-scotland.gov.uk/about-us/accounts-commission)

# Contents

Key messages and recommendations	<b>4</b>
Background	<b>7</b>
The impact of the pandemic on councils' performance	<b>8</b>
What are the current challenges facing local government?	<b>14</b>
How are councils responding?	<b>27</b>

# Key messages and recommendations

Councils have never faced such a challenging situation, with demand and workforce pressures deepening after the Covid-19 pandemic and funding forecast to reduce in real terms. Radical change, achieved through greater collaboration, is urgently needed if councils are to maintain services.

## 1 Finances and resources

Budget constraints and increasing cost pressures are putting councils' finances under severe strain. An increasing proportion of funding is ringfenced or directed for national policy initiatives. While this is important to help deliver national priorities, it prevents councils from making decisions about how funds can be used at a local level, to meet local need. Councils have had to make significant savings to balance their budgets. Increasingly difficult choices about spending priorities and service provision are having to be made.

### Recommendations:

The **Scottish Government and COSLA** need to take urgent action to finalise the New Deal for local government ([paragraphs 71–73](#)) and agree:

- a new partnership agreement with councils that supports collaboration
- a fiscal framework for local government that supports sustainable funding and greater financial flexibility and transparency.

The **Scottish Government** needs to provide more detailed financial information (eg, breakdown of type of funding and individual council allocations) to support councils longer-term financial planning.

**Councils** need to set out medium- to long-term financial plans that detail:

- how they will make recurring savings and reduce reliance on reserves to fill budget gaps
- how council resources are targeted to achieve their long-term policy and performance priorities.

## 2 Community needs and inequalities

The pandemic has affected performance across all service areas. There are signs of growing backlogs and declining performance in some service areas. Councils have a clear focus on tackling inequalities but the extent and impact of needs not being met is unclear. Some communities are facing crisis, with persistently high levels of poverty and increasing financial hardship putting additional pressure on services, at a time when councils have less capacity to support them.

### Recommendations:

- **Councils** should be more transparent with the public about scale of service demand, the extent of backlogs and changes to eligibility criteria necessary to ration access to services and any impact this has on unmet need.
- **Councils** should have a clear plan for strengthening their use of data to understand needs, make decisions and direct resources. This includes equalities data, and learning from those with lived experience.

## 3 Collaboration

The scale of the challenges ahead means that radical change is needed. It is only by working more collaboratively that councils and their local partners, communities and the third sector will be able to provide sustainable local services and deliver a significant programme of national reform to tackle issues such as climate change, child poverty and inequalities.

The pandemic demonstrated the benefits of partnership working and shared local goals. This needs to continue. Few councils provide services jointly or share professional support services. Many councils engage well with communities and local partners to better understand local priorities and needs. Now councils must better involve service users and communities, including those with lived experience, as they redesign services.

### Recommendations:

**Councils** need to maximise the potential of collaboration by demonstrating they are:

- working with other councils, the wider public sector and the third sector to redesign and provide services
- involving service users and local communities in the redesign of services.

## 4 Leadership

Leaders must think radically and make fundamental changes to how councils operate in future, building on the collaborative and innovative ways of working many demonstrated during the pandemic. Leaders need to be open with their staff, communities and local partners about the difficult decisions ahead and be clear about how change will be achieved. The level of volatility, uncertainty (such as plans for a national care service) and immediate financial pressures make planning and delivering sustainable change more difficult. Ineffective leadership and high turnover identified at several councils, alongside tensions with central government present risks to their ability to make fundamental changes at the pace needed.

### Recommendations:

**Councils' leaders** need to invest time and capacity in thinking radically about their future operating model, and:

- be open and clear with communities and staff about the need for change, what that means for future service delivery and involve communities in making difficult decisions
- set out a clear vision for their long-term policy and performance priorities, and how it will be delivered and monitored
- work with the Scottish Government to rebuild an effective relationship.

## 5 Workforce

Increasing workforce challenges, including a competitive labour market and high sickness absence levels, are putting councils under continued pressure. Councils need to innovate by developing the skills and building on the agility, flexibility and joint working demonstrated during the pandemic to make best use of their existing workforce. Wellbeing initiatives must continue and councils should monitor the impact of new ways of working such as hybrid working on both performance levels and staff wellbeing.

### Recommendations:

**Councils** need to improve workforce planning to effectively develop and deploy their existing workforce. This includes:

- building the capacity, skills, strategic thinking and comprehensive workforce data needed for effective workforce planning
- updating workforce plans to reflect new models of service delivery and ways of working, including how they are:
  - identifying and addressing skills gaps, at operational and leadership levels
  - making best use of their existing workforce by collaborating with partners to overcome recruitment challenges
  - planning for the skills needed to deliver future services, focusing on collaborative and flexible working, including working with the higher education sector to plan and develop skills for the roles needed.

# Background

## About this report

In August 2020, the Accounts Commission agreed a strategic medium-term approach to reporting on the impact of the Covid-19 pandemic. This approach committed to producing a series of annual overview reports over a three-year period.

This report:

- is the third and final overview report in the series
- builds on the previous reports in the series and examines:
  - how has the pandemic affected councils and their performance?
  - what are the current and future challenges facing local government?
  - how well placed are councils to deal with the current and future challenges?
- draws on findings from the financial bulletin, considering these in the context of the wider overview.

The findings of this report are drawn from 2021/22 annual audits, performance and best value audit work carried out during 2022 and from specific research and analysis of available data and intelligence.

## Web resources



To support improvement, we have developed a set of resources for councils which are available on our [website](#). These resources include two supplements:

- a collection of [case studies](#) to illustrate issues and practice across councils
- a checklist with [questions for elected members](#), to help in their scrutiny and decision-making roles and in their work with council executives.

## Previous reports



This report follows the first two reports in the series:

- [Local government in Scotland: Overview 2021](#) considered councils' response to and management of the initial phase of the Covid-19 pandemic.
- [Local government in Scotland: Overview 2022](#) considered the ongoing impact of the pandemic and councils' progress towards recovery and renewal.

Each year we publish a financial overview. The most recent one, [Local government financial bulletin 2021/22](#), was published in January 2023.

# The impact of the pandemic on councils' performance

Service performance was beginning to stall before the pandemic as a result of long-term reductions in funding and wider pressures. The pandemic has affected performance across all service areas. Some services are showing signs of recovery, but there are also signs of growing backlogs, declining performance in some areas and services at capacity. The extent and impact of needs not being met is not clear.

## The pandemic has adversely impacted performance across all service areas and there are signs of growing backlogs, declining performance in some areas and services at capacity

1. In our [Local government in Scotland: Overview 2020](#), we reported that service improvement had begun to stall or even decline as councils dealt with increasingly challenging pressures and long-term reductions in funding. For example:

- performance in many areas of adult social care including delayed discharge, satisfaction and service quality had all slowed or started to decline
- some educational attainment and early years indicators had declined

- improvements to recycling levels had stalled and satisfaction with street cleaning and waste collection had reduced
- costs for culture and leisure services had reduced and the number of attendances had increased, but satisfaction had declined across all service areas.<sup>1</sup>

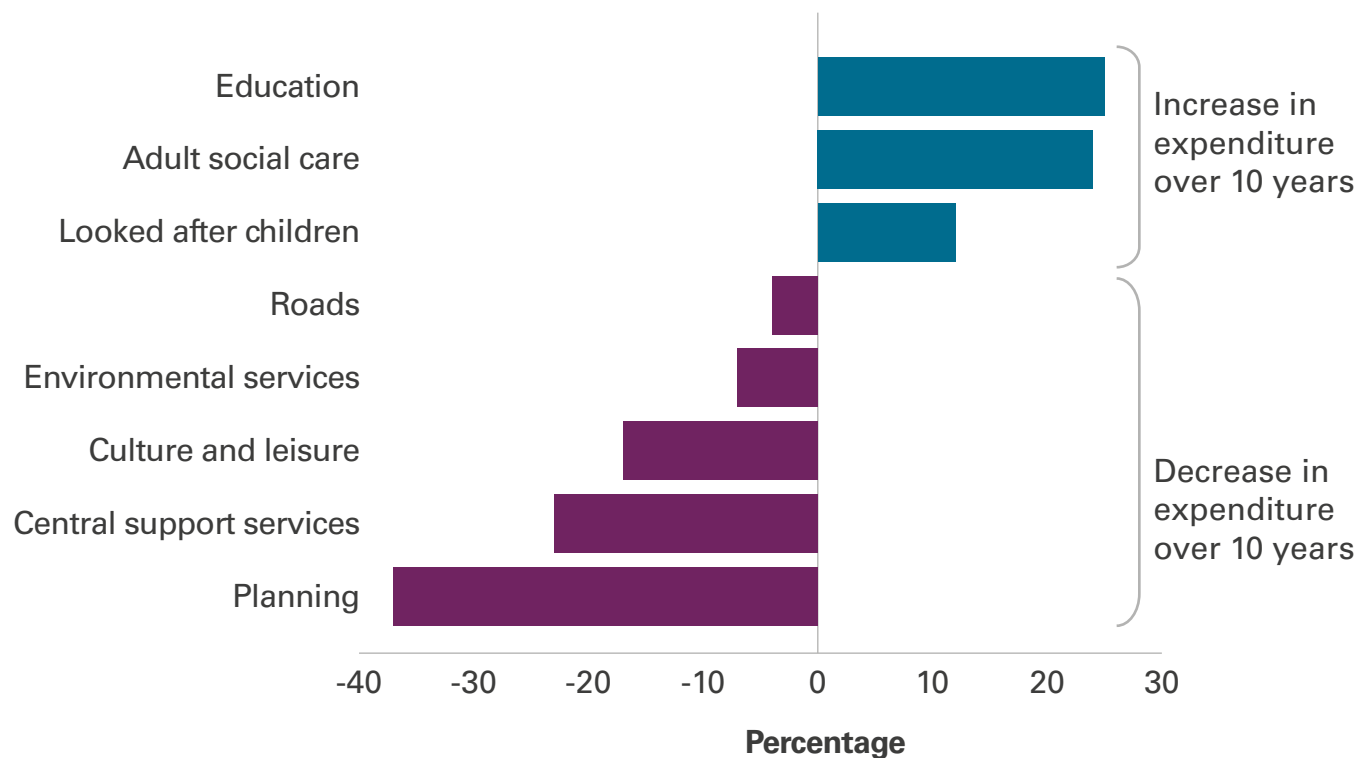
2. Over the last decade, there is a clear divergent pattern of spend. Spending on children's services (education and looked after children) and adult social care has been protected and increased because of national policy directives. This means that the remaining 'unprotected' services have borne a disproportionate level of spending reductions ([Exhibit 1, page 9](#)) and some services entered the pandemic already under pressure.

<sup>1</sup> Local Government Benchmarking Framework 2018/19



## Exhibit 1.

### Percentage change in expenditure (in real terms) over ten years from 2012/13 to 2021/22



Note: Economic development and Tourism services have seen a 43 per cent increase over the period. We have excluded this from the chart as year-to-year expenditure is volatile and there is not a consistent trend in spending over this period.

Source: Local Government Benchmarking Framework, 2021/22

**3.** Since March 2020, the context councils have been operating in has been unprecedented. While staff worked hard and adapted to maintain the delivery of key services during the Covid-19 pandemic, performance across all services areas was adversely impacted.

**4.** During the pandemic, councils gave priority to providing essential front-line services to support the most vulnerable. Other services such as culture and leisure were closed for extended periods in line with Scottish Government guidance. Although councils report that all services have restarted, some are not available to the same extent as before the pandemic, and backlogs remain.

**5.** Councils state that they have a clear understanding of where increased demand and backlogs exist and report on these publicly through committees. We found some good approaches to managing service level demands and backlogs, such as including them in strategic planning and budgeting as well as joint working with local partners.





**6.** A lack of publicly available data means that we do not know the scale of service demand, backlogs and, in particular, unmet need – and nor does the public. Councils need to be more transparent with the public about the impact of the pandemic, and pressures more widely, on service performance, the extent of backlogs and changes to eligibility criteria necessary to ration access to services.

**7. [Exhibit 2 \(page 11\)](#)** shows Local Government Benchmarking Framework performance indicators two years on from the start of the pandemic but before the recent cost-of-living crisis and inflationary cost pressures. Nationally, performance in some services is showing signs of recovery, eg education, but it is concerning that there are signs of backlogs, declining performance, and systems at capacity in some of the services that will be most in demand during the cost-of-living crisis, eg housing, homelessness and social care.

**8.** Councils can make different policy choices about their service and performance priorities. Councils also operate in different environments and these different local factors such as levels of deprivation, population distribution, size of council area and geography affect service demand and performance. An ageing population increases demand for social care services, rurality can make it more difficult to deliver services cost-effectively, and deprivation and poverty have wide-ranging impacts which can affect council services.

## Exhibit 2.

### Service performance during the covid-19 pandemic against selected Local Government Benchmarking Framework indicators up to 2021/22

Performance at risk or declining	
 <b>Adult social care</b>	<p><b>There are signs that the sector is in crisis, with growing backlogs, declining satisfaction and no clear picture of demand or unmet need.</b> Spending increased during the pandemic, continuing the longer-term trend. Homecare hours dropped slightly in 2020/21 before increasing to the highest levels ever recorded in 2021/22. Satisfaction continued to decline, and 2021/22 saw a drop of eight per cent in care services graded 'good' or 'better'.<sup>1</sup> Concerns have been raised about day centres not fully reopening. Delayed discharges, an indicator of capacity in the system, dropped at the start of the pandemic but are now at their highest levels since the current guidance came into place in 2016 (delays due to the non-availability of home care are also at their highest).</p>
 <b>Housing and homelessness<sup>2</sup></b>	<p><b>Housing performance indicators fell during the pandemic as a result of increasing financial hardship and Covid-19 restrictions limiting access to properties.</b> Loss of income increased from rising rent arrears and voids. Maintenance performance fell. There was a large drop in housing quality in 2021/22 but overall energy efficiency continues to improve. This reflects Covid-19 related delays in carrying out electrical safety inspections, installing smoke and heat detectors, and upgrading work to improve energy efficiency.<sup>3</sup></p> <p><b>During the first year of the pandemic homelessness fell as a result of emergency extra protections but it is rising again.</b> Some councils are not meeting their statutory duties in terms of homelessness. Performance in providing temporary accommodation is worsening, with record levels of children living in temporary accommodation. Social housing supply is insufficient to meet demand.</p>
 <b>Environmental services</b>	<p><b>Performance declined during the pandemic.</b> Recycling rates fell during 2020/21 and have not recovered. Cleanliness levels continued their long-term decline, especially in councils with the highest levels of deprivation. Against the long-term trend, parks expenditure increased in 2021/22 largely due to reinstatement of works, following reduced expenditure/income in 2020/21 during lockdowns.</p>
 <b>Culture and leisure</b>	<p><b>Services were severely affected by the pandemic and future risks are significant.</b> The impact on these services was severe in 2020/21 and into 2021/22 as many facilities closed in accordance with Scottish Government guidelines. This impact can be seen in lower attendances and increased costs per visit: leisure services and museums saw a partial recovery in 2021/22 but library services saw little rebound. With little resilience in these services owing to long-term funding reductions, future challenges are significant. A recent survey of leisure trusts suggests a high risk of closures as a result of inflationary cost pressures.<sup>4</sup></p>

Cont.

## Performance mixed or recovering



### Children's services

**Performance during the pandemic was mixed, attainment and progress towards closing the poverty-related attainment gap stalled but has shown some recovery.** Spending increased during the pandemic, continuing the longer-term trend. This was driven by the expansion of early learning provision. Primary schoolchildren's attainment improved in 2021/22 compared with 2020/21 but has not yet recovered to its pre-pandemic level. A similar trend is seen in the poverty-related attainment gap, which narrowed in 2021/22 compared with 2020/21 but remains larger than pre-pandemic. S3 pupils' attainment fell in 2021/22 compared with pre-pandemic, and the attainment gap widened. The improvement in senior secondary school pupils' attainment seen during the pandemic was sustained in 2021/22 when exams resumed, most strongly in councils with high levels of deprivation. It is concerning that the quality ratings of early learning provision continued to decline and developmental concerns for pre-school children have risen.



### Economic development and tourism

**Performance declined during the first year of the pandemic, as activity was refocused on Covid-19 financial support, but shows signs of recovery.** Investment in economic development dropped during 2020/21 before rebounding to its highest level in 2021/22. That period also saw a huge increase in those helped into work by council employability programmes, reversing the previous trend. Councils' support for business start-ups, a measure of investment in wider economic development, fell early in the pandemic but has shown some recovery. Performance is likely to reflect the impact of councils redeploying staff from traditional employability and business support to focus on the distribution of Covid-19 support grants as well as wider uncertainty in the economy, labour shortages and disrupted supply chains.

## Performance maintained



### Corporate services

**Performance dipped slightly but activity significantly increased, as corporate support services had a critical role in delivering Covid-19 grants, supporting financial hardship and facilitating homeworking for councils' workforce.** Spending on the Scottish Welfare Fund and Discretionary Housing Payment rose significantly in 2020/21 and again in 2021/22. Councils processed £72.8 million in self-isolation support grants, mainly in 2021/22.

#### Notes:

Indicators capture national performance before the recent cost-of-living crisis and inflationary cost pressures. The Improvement Service advises that the methodology for measuring satisfaction indicators through the Scottish Household Survey has changed, so we do not have trends available for comparison.

1. Care service quality figures should be interpreted with caution, as the Care Inspectorate states that this may be due to a focus during the pandemic on higher-risk or failing services.

2. Homelessness statistics are not part of the LGBF. Source is Scottish Government homelessness statistics publication.

3. The decrease in performance against housing quality should be interpreted with caution as higher Scottish Housing Quality Standards were introduced in this time period.

4. [Current Landscape for Leisure and Culture Charities in Scotland](#), Community Leisure UK (Scotland), November 2022.

Source: Improvement Service's Local Government Benchmarking Framework 2021/22 and Scottish Government homelessness statistics

**9.** The impact of the Covid-19 pandemic on performance at a local level varied as these local factors affected the levels of need and demand, and councils' responses and solutions. Councils should use the Local Government Benchmarking Framework (LGBF) alongside local data and intelligence to compare their performance with neighbouring or similar councils to assess the effectiveness of new ways of working and to help inform them where improvements and better outcomes for communities can be achieved ([Case study 1](#)).

**10.** Given the service demand and cost pressures facing councils it is unlikely that they will be able to maintain performance across all of the services they currently provide without radical change.

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Councils will need to make difficult choices about what their service and performance priorities are. Strengthening the use of data and consulting and involving communities, especially the experience of service users, will be critical to informing these decisions.

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## Case study 1.

### Use of LGBF data to inform improvement

**South Lanarkshire Council worked collaboratively with the Improvement Service to achieve the most value from the LGBF indicators in a way that helps drive its improvement based on its strategic priorities.**

In December 2021, the Improvement Service provided a bespoke analysis of LGBF indicators for the council, structured around the council's new Connect Plan. Each of the council's services considered which LGBF indicators added value for inclusion in a subset of indicators for future reporting. Of the 95 LGBF indicators available, 33 were identified as aligning with the outcomes of the council's new Connect Plan. These were embedded within the Connect Plan's reporting and used to focus attention on how well the council is performing in achieving its strategic outcomes. The bespoke approach aims to provide greater opportunities for elected members to scrutinise the LGBF within a council specific context and should allow for more meaningful use when making strategic decisions.

Source: [South Lanarkshire Council's annual audit report 2021/22](#)

In March 2023, the Improvement Service launched a newly developed [dashboard](#) that allows councils to explore and analyse all the LGBF performance indicators in an interactive data tool. This is intended to help councils better assess and benchmark their performance.



# What are the current challenges facing local government?

Councils are operating in an increasingly volatile and uncertain landscape, as pressures increase after Covid-19 and funding is forecast to be reduced in real terms. Some communities are facing crisis, with increasing poverty and financial hardship putting additional pressure on services at a time when councils have less capacity to support them.



## Financial

Budget constraints and increasing cost pressures are putting councils' finances under severe strain.



## Local needs

Changing demographics, the pandemic and the cost-of-living crisis increase pressure on council services and people already experiencing inequality are most affected.



## National policies

Councils are managing an increasing programme of national reform, including plans for a national care service, which comes with substantial funding implications and increased uncertainty.



## Workforce

Increasing workforce challenges such as difficulty recruiting and high sickness absence levels are putting councils under continued pressure.



## Leadership

While many councils demonstrated strong collaborative leadership during the pandemic, ineffective leadership and high turnover identified at several councils present a risk.



## Budget constraints and increasing cost pressures are putting councils' finances under severe strain

### Councils' funding has been constrained for many years

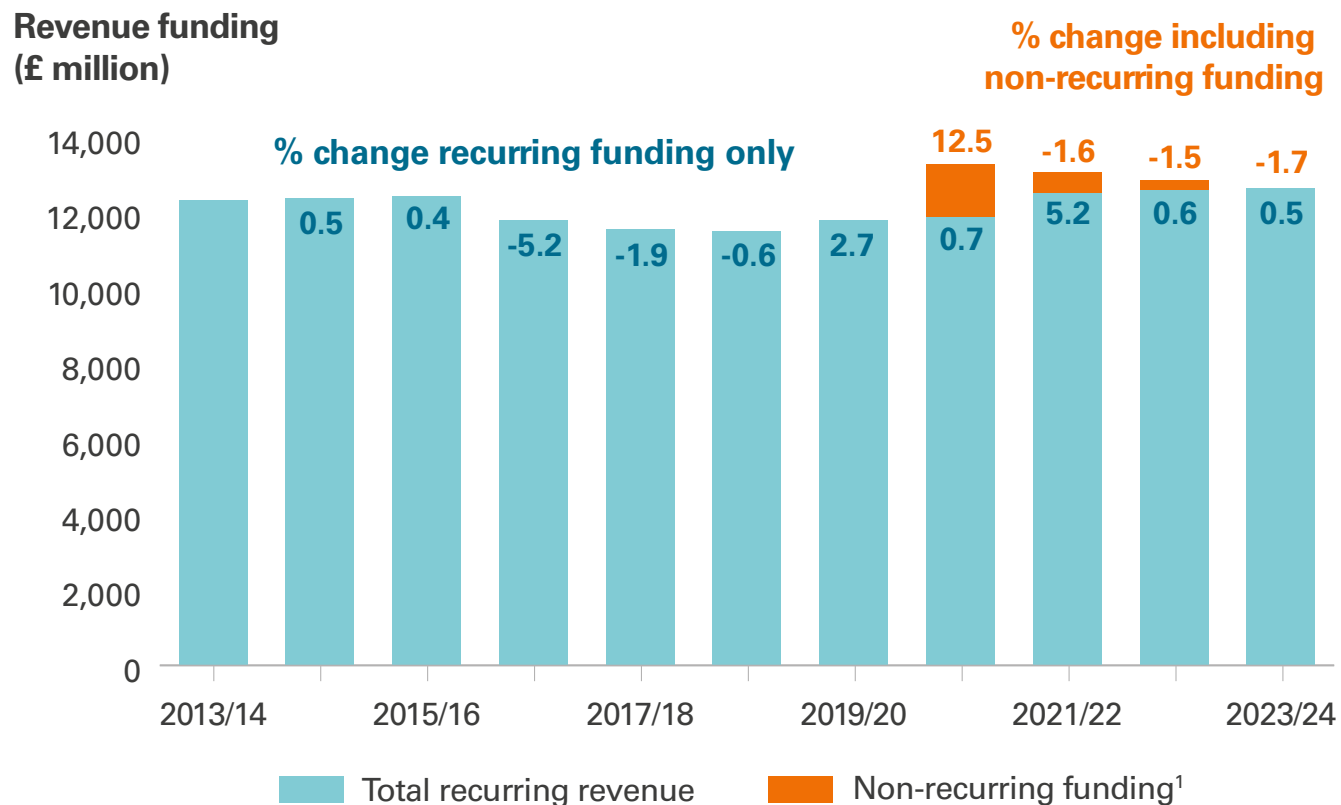
- 11.** Councils receive the majority (over 70 per cent) of their funding from the Scottish Government.
- 12.** [Exhibit 3 \(page 16\)](#) shows funding from the Scottish Government over the last decade. Over this period (comparing 2023/24 to 2013/14), revenue funding to local government has increased by 2.6 per cent in real terms.
- 13.** In 2021/22 (excluding Covid-19 funding elements which are non-recurring) revenue funding from the Scottish Government to councils increased by 5.2 per cent in real terms compared to 2020/21. This increase brought funding back to a level similar to what it was in 2015/16.
- 14.** Total revenue funding saw small real terms increases in both 2022/23 and 2023/24 when non-recurring elements of the settlement are removed.
- 15.** Despite additional Covid-19 funding amounting to £1.8 billion during the first two years of the pandemic, councils continued to face significant financial challenges, requiring substantial savings to deliver balanced budgets and increasingly difficult choices to be made about spending priorities.
- 16.** An additional pressure is that the funding of local government has not kept pace with other parts of the Scottish budget for many years.
- 17.** Our [Local Government in Scotland: Financial Bulletin 2021/22](#) provides further detail on councils' financial position.

### Funding is forecast to reduce in real terms

- 18.** In May 2022, the Scottish Government published its Resource Spending Review 2022. This is the first multi-year spending plan in Scotland since 2013. It set out high level spending plans up to the end of this parliament in 2026/27, which show that 'core' funding is set to reduce in real terms ([Exhibit 4, page 17](#)).
  - 19.** The recent 2023/24 Scottish Budget allocated £10,933 million 'core' funding to local government for 2023/24 which is higher than what was forecast in May 2022. There was no update on whether future years will also see similar uplifts.
- 
- We expect an updated funding outlook for 2024/25 and subsequent years to be published as part of the Scottish Government's medium-term financial strategy in May 2023.*
- 
- 20.** While a multi-year spending plan is welcome, the financial information within the plan is not sufficiently detailed (nor is it broken down to individual council allocation) to fully support long-term planning purposes.

## Exhibit 3.

### Scottish Government revenue funding to local government (in real terms) and year-on-year percentage change, 2013/14 to 2023/24



Notes:

1. Non-recurring funding refers to Covid-19 related funding in 2020/21 and 2021/22 and cost-of-living support for council tax bills in 2022/23.

2. We use the finance circulars to compare the funding position year-on-year as we believe this is the most accurate comparison. These figures include funding for national policy initiatives and transfers from other portfolios. Figures calculated at 2023/24 prices.

Source: Scottish Local Government Finance Circulars



## Exhibit 4.

### Resource Spending Review financial outlook to 2026/27

The plan projected real-term reductions to 'core' funding for local government.

(£000s)	2023/24	2024/25	2025/26	2026/27	2027/28
Cash terms	10,616 <sup>1</sup>	10,616	10,616	10,616	10,716
Real terms	10,616 <sup>1</sup>	10,452	10,352	10,230	10,158
Percentage change cash		0.0%	0.0%	0.0%	0.9%
Percentage change real		-1.5%	-1.0%	-1.2%	-0.7%

Notes:

1. Since publication of the Resource Spending Review the 2023/24 Budget has been agreed which saw local government's allocation increased to £10,933 million for that year.

2. These figures represent funding before transfers from other portfolios. Real terms figures calculated at 2023/24 prices.

Source: Audit Scotland using the Resource Spending Review, May 2022 and the Scottish Budget 2023/24

### Increasing cost pressures jeopardise the sustainability of local services

**21.** At a time when councils and their communities are still feeling the impact of the Covid-19 pandemic, councils are now also having to manage increasing cost pressures including:

- inflationary pressures, including rising energy costs, which are having a significant impact on the cost of providing services
- managing the ongoing recovery from Covid-19 and its longer-term impact, now that one-off Covid-19 funding has ended
- meeting the cost of new pay awards and Real Living Wage
- increasing demand for services from a population that is ageing, less healthy and facing increasing financial hardship
- higher costs of capital programmes as a result of inflation, slippage due to the pandemic and shortages in construction materials. These increased costs may affect councils' ability to deliver on capital transformation programmes, which are a necessary component of modernising services to deliver improved outcomes for local communities. We report further on capital pressures in our [Local Government in Scotland: Financial Bulletin 2021/22](#).

**22.** These significant cost pressures alongside forecasted reductions to funding are leading some chief executives to be concerned about the sustainability of councils. This could lead to cuts to services and job losses, particularly in the absence of a radical reform of services.

**23.** A UK-wide survey by the Society of Local Authority Chief Executives (SOLACE) found that 78 per cent of council chief executives and senior managers responding to the survey stated that they were facing a large or very large budget gap in 2023/24.<sup>1</sup> Those services they identified as at risk of cuts included:

- Environmental service (identified by 75 per cent of respondents)
- Libraries, leisure and tourism (67 per cent)
- Regeneration (50 per cent)
- Adult social care (44 per cent)
- Transport (38 per cent)
- Children’s services (37 per cent)
- Housing (33 per cent).

**24.** While there is no doubt that cost pressures and budget constraints are putting pressure on services, there is no clear picture yet of the scale and impact of service cuts or reductions.

### **Councils are relying on reserves to bridge budget gaps**

**25.** In 2022/23 councils’ total budget gap stood at £0.4 billion. COSLA estimates that the budget gap for 2023/24 will be £1 billion. There is a large gap between what COSLA states councils need and the Scottish Government’s funding allocation and it warns this could mean fewer jobs and cuts to services.

**26.** Two-thirds of councils intended to use reserves to bridge the 2022/23 budget gap and target recovery activity. While this is understandable as some of this was Covid-19 funding carried forwards via reserves to spend in the following year, these funds were one-off payments. It is not sustainable to keep using reserves to meet financial pressures.

**27.** It is important that councils maintain overall reserve levels in line with local strategies to ensure longer-term resilience and sustainability. Having robust medium- and longer-term financial plans in place will continue to be key to maintaining financial sustainability. Councils will also need to make difficult choices about spending priorities.

### **Increasingly ring-fenced and directed budgets reduce financial flexibility**

**28.** An increasing proportion of local government funding is now either formally ring-fenced or provided with the expectation it will be spent on specific services.

**29.** In our [Local Government in Scotland: Financial Bulletin 2021/22](#), we calculated this to be 23 per cent of total revenue funding in 2021/22 compared to 18 per cent in the previous year. Ring-fenced and directed funding helps support the delivery of key Scottish Government policies but limits local discretion and flexibility over how these funds can be used locally by councils.

**30.** [Exhibit 5 \(page 19\)](#) details how we calculated ring-fenced and directed funding and how the Scottish Government and COSLA interpretations differ.

<sup>1</sup> SOLACE [Autumn statement survey](#), November 2022.

## Exhibit 5.

### Views on ring-fenced or directed elements of the Scottish Government's revenue funding to local government



#### Scottish Government's view

Only the specific revenue grant is formally ring-fenced to fund identified policies. Other funding commitments are directed for national policy commitments but are not formally ringfenced.

In 2021/22, the specific revenue grant was £776 million, representing seven per cent of total revenue funding for local government. This included funding for early learning and childcare expansion, Pupil Equity Fund and criminal justice social work.



#### COSLA's view

Includes the specific revenue grant plus obligations created by current and past Scottish Government policy initiatives and fixed obligations such as loan charges.

In 2021/22, COSLA estimated that these represented 65 per cent of local government revenue funding. As part of their estimate COSLA include all school teaching staff costs (due to the national commitment to maintain teacher numbers), all adult social work costs devolved to IJBs alongside other policies such as universal Free School Meal provision for P1–5.



#### Our calculation

We include the specific revenue grant and funding outlined in local government finance circulars and Scottish Government budget documents as being directed for national policy initiatives.

For 2021/22, we estimated that ring-fenced and directed funding totalled £2.7 billion, representing 23 per cent of total revenue funding for local government. A large amount of this was to support elements of education and social care service provision.

Source: [Local government in Scotland: Financial overview 2018/19](#), [Local government in Scotland: financial bulletin 2021/22](#) and information from COSLA including their [submission](#) to the Scottish Parliament's Finance and Public Administration Committee work on The Impact of the Cost of Living and Public Service Reform, August 2022



## Changing demographics, the pandemic and the cost-of-living crisis increase pressure on council services and people already experiencing inequality are most affected

**31.** While the local impact of national demographic trends varies, for many years we have been reporting how changes in the structure of the population affect the need for and demands on many council services. These changes include:

- a declining population that is also ageing, with the proportion aged over 65 projected to increase by a third by mid-2045<sup>2</sup>
- falling life expectancy and falling healthy life expectancy. The gap in healthy life expectancy between the top and bottom socio-economic groups is about 25 years.<sup>3 4</sup>

**32.** The legacy of the Covid-19 pandemic and now the cost-of-living crisis have brought new pressures or exacerbated existing ones ([Exhibit 6, page 21](#)). The situation faced by some is stark, with increasing financial hardship and a decline in levels of mental wellbeing. Low-income households and people already experiencing inequalities are most affected.

**33.** Child poverty remains persistently high. In 2019–22, 24 per cent of children were living in relative poverty, the same level as five years ago.<sup>5</sup> Two issues should be taken into consideration when considering this year's child poverty statistics:

- As noted in our [Tackling child poverty](#) briefing paper the main indicator – relative poverty – is based primarily on income rather than outgoings and so does not fully capture the impact of the cost-of-living crisis on children and families.
- Two key policies that may have a positive impact on child poverty figures – the rollout and increase in value of the Scottish Child Payment and the expansion of funded early learning and childcare to 1,140 hours – are not yet fully captured in the data.

**34.** Councils have a key role in tackling these issues and providing support. These growing pressures affect:

- the demand for services, including social care, education, financial support such as Scottish Welfare Fund grants and discretionary housing payments, housing and homelessness, and employability
- council income in terms of rent and council tax arrears.

**35.** At a time when councils are under severe financial strain, finding the capacity and resources to respond to these pressures in the short and longer term will be a challenge.

<sup>2</sup> [Projected Population of Scotland \(2020-based\)](#), National Records of Scotland.

<sup>3</sup> [Life Expectancy in Scotland, 2019–2021](#), National Records of Scotland.

<sup>4</sup> [Healthy Life Expectancy 2019–2021](#), National Records of Scotland.

<sup>5</sup> [Poverty and Income Inequality in Scotland 2019–22](#), March 2023.

## Exhibit 6. Examples of growing pressures



### **Persistently high levels of child poverty**

In 2019–22, 24 per cent of children were living in poverty, affecting every aspect of their wellbeing and life chances. This is at the same level as five years ago, and the ongoing increases in the cost-of-living crisis risk more children experiencing poverty.

### **Increasing financial hardship for people living with a disability**

Sixty-four per cent of respondents to a small survey by Inclusion Scotland in September 2022 said that they are cutting down on or going without items or services used directly to manage their impairment or health condition.

### **Increasingly stark situation for low-income families**

Almost one in five low-income families are unable to afford food or heating. Eighteen per cent of low-income households have skipped or reduced the size of meals and not heated their home due to the cost-of-living crisis (Poverty in Scotland 2022, Joseph Rowntree Foundation).

### **Increasing food insecurity**

In 2021, nine per cent of adults were worried about running out of food, six per cent were eating less, and three per cent were running out of food (The Scottish Health Survey, 2021). 45 per cent of children living in poverty live in households that lack food security (2019–22 Child Poverty Statistics).



### **Increasing rent arrears**

Over 110,000 council tenants were in arrears as of March 2022 (an increase of 6.6 per cent since March 2021).

### **Ethnic minority households more likely to experience deeper levels of poverty**

Ethnic minority households are likely to spend a greater proportion of their income on essentials that are subject to inflation. The proportion of children in relative poverty after housing costs in minority ethnic households is 39 per cent (2019–22 Child Poverty Statistics).

### **Increasing financial hardship for single parent families**

Three in five single parents find it extremely difficult or are no longer able to afford utility payments, and two out of five say the same about food (One Parent Families Scotland research, March 2022).

### **Declining average levels of mental wellbeing**

Levels were lower in 2021 than in 2019, following a decade in which levels had remained fairly constant. Women's average mental wellbeing fell by more than men's during the pandemic, and those people living in more deprived areas continue to report lower wellbeing. The lowest mental wellbeing scores were reported for young adults in the most deprived areas (Scottish health survey, 2021).



## Councils are managing an increasing programme of national reform, including plans for a national care service, which comes with substantial funding implications and increased uncertainty

**36.** Councils have a unique role in shaping local communities. They provide many of the key local services that individuals and communities rely on. They also have a key local and, in many cases, regional role working with partners to set local priorities and improve long-term outcomes for their communities.

**37.** Alongside local priorities, councils play a leading role in delivering many national policies. Current areas of national policy or reform affect nearly every aspect of local government, such as education, early learning provision, tackling child poverty, adult social care and achieving net zero targets.

**38.** These policy initiatives will see fundamental changes in how council services are provided, come with substantial funding implications, and increased uncertainty. National policy initiatives also take up an increasing amount of council budgets which brings challenges in delivering local priorities and sustaining other service areas. This context makes longer-term financial planning challenging yet vital to ensure financial and service sustainability.

### **Plans for the new National Care Service are uncertain and divide opinion**

**39.** The social care sector is under severe pressure from high demand and persistent workforce challenges, and a lack of action now presents serious risks to the delivery of care services for individuals. The [Independent Review of Adult Social Care](#) (IRASC), published in February 2021, sometimes referred to as the Feeley Report, proposed the formation of a National Care Service stating that the potential of social care support

in Scotland cannot be achieved without a new delivery system and that a National Care Service is needed to achieve consistency, drive national improvements, ensure strategic integration with the National Health Service, set national standards and terms and conditions, and bring national oversight and accountability by bringing together everyone with a role to play in planning and providing social care support.

**40.** The National Care Service Bill is at stage 1 but has been postponed until at least September 2023 because of concerns about the adequacy of parliamentary scrutiny based on only a framework Bill. There are still many unknowns. Details of the arrangements have yet to be determined and the scale of the costs involved in the financial memorandum are estimates with many caveats. The affordability of the vision set out is not certain given the actual scale of the costs are not yet clear. It is difficult for councils to plan current services with such uncertainty.

**41.** While there is consensus that fundamental reform is essential for long-term sustainability, there is not agreement about what that reform looks like and how it will be implemented.

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Although local government agrees that reform is necessary, it disagrees that centralising services and structural reform will achieve the improvements needed. While the Scottish Government wants consistency of service across the country, stakeholders have raised concerns about the scale of reform and the time it will take to implement it.

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**42.** Immediate concerns in the sector are that current issues (such as workforce and financial sustainability) in social care are in a critical state and these need addressed now.

**43.** We highlighted in our [Social Care](#) briefing (January 2022) that lessons need to be learned from past restructuring and public service reform, for example health and social care integration, police and fire reform, college sector regionalisation, and the development of social security responsibilities in Scotland.

**44.** Our reports in these sectors have found that reform is challenging, and public bodies have experienced difficulties implementing elements of reform – expected benefits are not always clearly defined and, even if they are, reform does not always deliver the expected benefits, particularly in the short term. Any difficulties in implementing social care reform could have a significant negative impact on vulnerable people who rely on care and support.



#### Our recent reports on other national policy areas:

**Child poverty:** in September 2022 the Accounts Commission and Auditor General for Scotland produced a briefing [Tackling child poverty](#).

**Education:** in March 2023, we published a blog [Encouraging progress on education data but still a long way to go](#).

**Early learning and childcare:** in June 2023 we will publish our third performance audit on the expansion of early learning and childcare.

## Councils have a critical role in meeting national climate change goals

**45.** Councils have a critical role in achieving Scotland’s national climate change goals and contributing towards the national target of net zero by 2045. This includes councils:

- managing their own activities, estates, and assets to reduce their greenhouse gas emissions and achieve net zero – councils’ corporate emissions are the largest element of all public sector emissions in Scotland
- demonstrating leadership to tackle climate change across their local area, supporting behaviour change by helping their communities to adopt low carbon lifestyles and working with local partners to help communities adapt to the impacts of climate change.

**46.** In September 2022 we published [Scotland’s councils’ approach to addressing climate change](#) which set out that there are big differences in the targets that councils have set and their timescales for reaching net zero. We also found that councils need to be more transparent about their targets, their plans to meet them and the challenge ahead. Successfully addressing climate change is a huge challenge and will only be achieved with collaboration across all parts of government and society.

**47.** Financial constraints and a lack of specialist skills risk net zero ambitions not being realised. Failure to act early enough, however, will increase costs in future years. It could also make existing health and social inequalities worse, because the impacts of climate change, such as extreme weather events, can have a disproportionate effect on vulnerable groups and those living in poverty.



## Increasing workforce challenges such as recruitment difficulties and high sickness absence levels are putting councils under continued pressure

- 48.** Staff worked under unprecedented strain during the pandemic to adapt and maintain services and support communities. That same workforce is still under pressure.
- 49.** Despite a focus on wellbeing, overall absence levels for non-teaching staff in 2021/22 were the highest on record ([Exhibit 7](#)). The Improvement Service highlight stress and burn-out as contributing to high absence levels.<sup>6</sup>
- 50.** Recruitment and retention continue to be a challenge in both senior and front-line roles across Scotland as the employment market remains highly competitive ([info box, page 25](#)).
- 51.** In our 2022 [Social care briefing](#), we reported that the sector faced ongoing recruitment and retention challenges, with high vacancy rates. This situation has worsened since, with 47 per cent of services reporting vacancies in 2021 compared with 36 per cent the previous year and 11 per cent across all sectors in Scotland. The whole-time equivalent vacancy rate in 2021 was 8.1 per cent, up from 5.1 per cent the previous year. In comparison, the vacancy rate across all sectors in Scotland was 1.9 per cent.<sup>7</sup> Our briefing highlighted issues such as poor terms and conditions and staff not feeling valued as contributing to these recruitment difficulties.

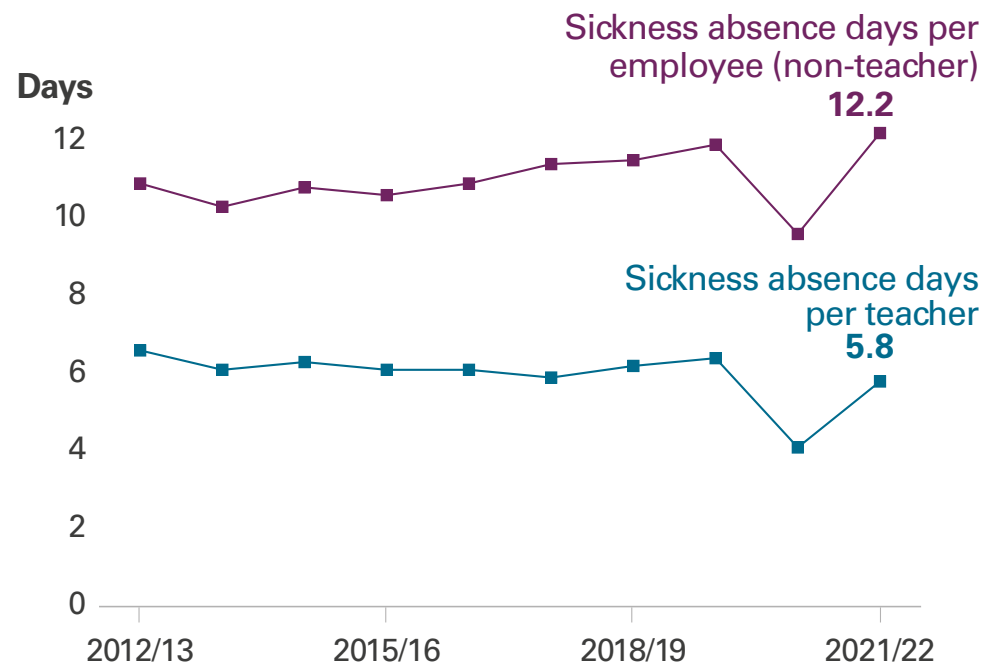
<sup>6</sup> [National Benchmarking Framework Overview Report 2021–22](#), Improvement Service, March 2023.

<sup>7</sup> Care Inspectorate and Scottish Social Services Council (SSSC), Staff vacancies in care services 2021 report, Scottish Government’s Employer Skills Survey 2020.

### Exhibit 7.

#### Sickness absence levels over ten years from 2012/13 to 2021/22

Staff absence levels (excluding teachers) were the highest ever recorded in 2021/22. Teacher absence levels also increased in 2021/22 but remain lower than pre-pandemic levels.



Note: Covid-19 absences are recorded separately and do not contribute to the trends.

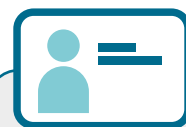
Source: Local Government Benchmarking Framework 2021/22



**52.** The Society of Personnel and Development Scotland (SPDS) and the Improvement Service state that councils are also reporting emerging recruitment problems in new areas such as accountancy and corporate services, which may present risks to financial management.

**53.** The cost-of-living crisis, driven by inflationary cost pressures, led to industrial action by refuse workers and teachers over pay. While pay claims increase the pressure on budgets, prolonged negotiations adversely affect staff morale and service delivery.

**54.** Councils showed considerable flexibility in redeploying staff and adopting remote or hybrid working during the pandemic. However, it is still unclear exactly what impact hybrid working has on productivity or future models of service delivery. Recent research undertaken by the Scottish Government on this presents mixed findings.<sup>8</sup> Our recent report [Resourcing the benefit service: A thematic study](#) found that remote working may present a risk to claims processing performance and recommended that councils regularly review flexible location working arrangements to determine the impact on service delivery and performance.



### Reasons for recruitment and retention issues

**Hybrid working has changed the way people work:** they can now work remotely for an organisation in England or further afield. Private sector firms are offering hybrid working and looking to offer further improvements in quality of life.

**Senior roles:** bottom loading pay deals have narrowed the gap between junior and senior roles and made the latter less desirable. Public sector pay at senior levels has not kept pace with other sectors, so staff are leaving for better paid positions.

**Retirement:** the workforce is ageing and people are retiring, but now councils are seeing people retiring earlier.

Source: Audit Scotland using information from the Improvement Service, SPDS and Local Government Information Unit (LGIU)

<sup>8</sup> [Working from home during the COVID-19 pandemic: benefits, challenges and considerations for future ways of working](#), Scottish Government, October 2022



While many councils demonstrated strong collaborative leadership during the pandemic, ineffective leadership and high levels of change in senior officers identified at several councils present a risk

**55.** During the Covid-19 pandemic, many councils demonstrated strong collaborative leadership, working at pace with communities, the third sector and partners to provide the response needed. Councils' response was quicker where good partnership arrangements were already in place.<sup>9</sup> Leaders used their local knowledge and set out clear priorities for working towards a common purpose.

**56.** Despite this, the following leadership risks have been identified in recent audit work:

- **Ineffective strategic leadership:** of the four Best Value Assurance Reports (BVARs) completed last year, in three (Moray, Shetland and Eilean Siar) we found that elected members were not demonstrating effective strategic leadership alongside senior management. This included leaders needing to better coordinate and drive forward plans, to have a stronger focus on strategic issues and elected members needing to work better together to deliver priorities.
- **Ineffective governance or scrutiny:** our 2021/22 annual audit work identified leadership risks relating to ineffective leadership in nine councils, often linked to ineffective governance, scrutiny, or both.
- **High levels of turnover:** most councils reported changes in senior leadership during 2021/22. Six chief executive or depute positions saw changes. Recent BVARs highlight that some councils are experiencing persistent difficulties in recruiting to key leadership posts.

**57.** The growing scale of the challenges facing local government requires leaders to make decisive and fundamental changes to how councils will operate in future. The leadership and strategic vision of elected members and senior officers will be crucial. Ineffective leadership and high turnover put at risk councils' leadership capacity to bring about fundamental change at the pace needed.

### **The pandemic and cost-of-living crisis have exacerbated tensions in central and local government relations**

**58.** Effective partnership working between the Scottish Government and local government, built on a foundation of mutual trust, is essential for councils to be able to perform their key role in leading and shaping communities.

**59.** The pandemic and cost-of-living crisis has exacerbated tensions in central and local government relations. While local government demonstrated the positives of localism during the pandemic, and the Scottish Government is committed to local self-governance and community empowerment, local government feels that it should be involved in policymaking as well as implementing those policies at a local level.

**60.** There is appetite to rebuild an effective relationship between local and central government so that the strengths and capacity of both can be maximised to meet the challenges. Meaningful steps to realising these potential benefits would include Scottish Government and COSLA agreeing the New Deal ([paragraphs 71–73](#)).

<sup>9</sup> [Community empowerment: Covid-19 update](#), Audit Scotland, October 2021

# How are councils responding?

Councils must focus urgently on solutions that will deliver a sustainable future for local government.

## Councils need to challenge old ways of doing things and take urgent action to reform

**61.** The scale of the challenge that lies ahead is greater than anything local government leaders (elected members and senior officers) will have ever experienced. Councils must work on three planning horizons: continue to deliver services here and now, identify and make improvements in the short term and plan for the longer-term radical change. This is an incredibly hard thing to do with an exhausted workforce but with councils' future funding position forecast to reduce in real terms, radical change is necessary so that councils can continue to serve their communities, respond to needs, meet demand and improve outcomes for people in the future.

**62.** Delivering services differently should be focused on improving performance and outcomes in ways that are innovative, affordable, and sustainable. A decade on, the four pillars in the Christie Commission report – people, prevention, performance, and partnership – are just as important and councils should embed them into their long-term visions and priorities.<sup>1</sup>

**63.** The Commission recognises the challenges, complexities, and uncertainties that local government faces. In our [Local Government in Scotland 2019](#) report, we emphasised the need for councils to urgently consider making fundamental changes in how they provide

services. No one could have predicted the years that were to follow, nor the pressures that councils would face, yet evidence that councils are delivering radical sustainable reform is limited.

**64.** In this section, we set out how councils are placed to respond to the challenges they face and to move towards adopting a sustainable future model of local government. We consider the following themes:



### Finances and resources



### Leadership



### Collaboration



### Workforce



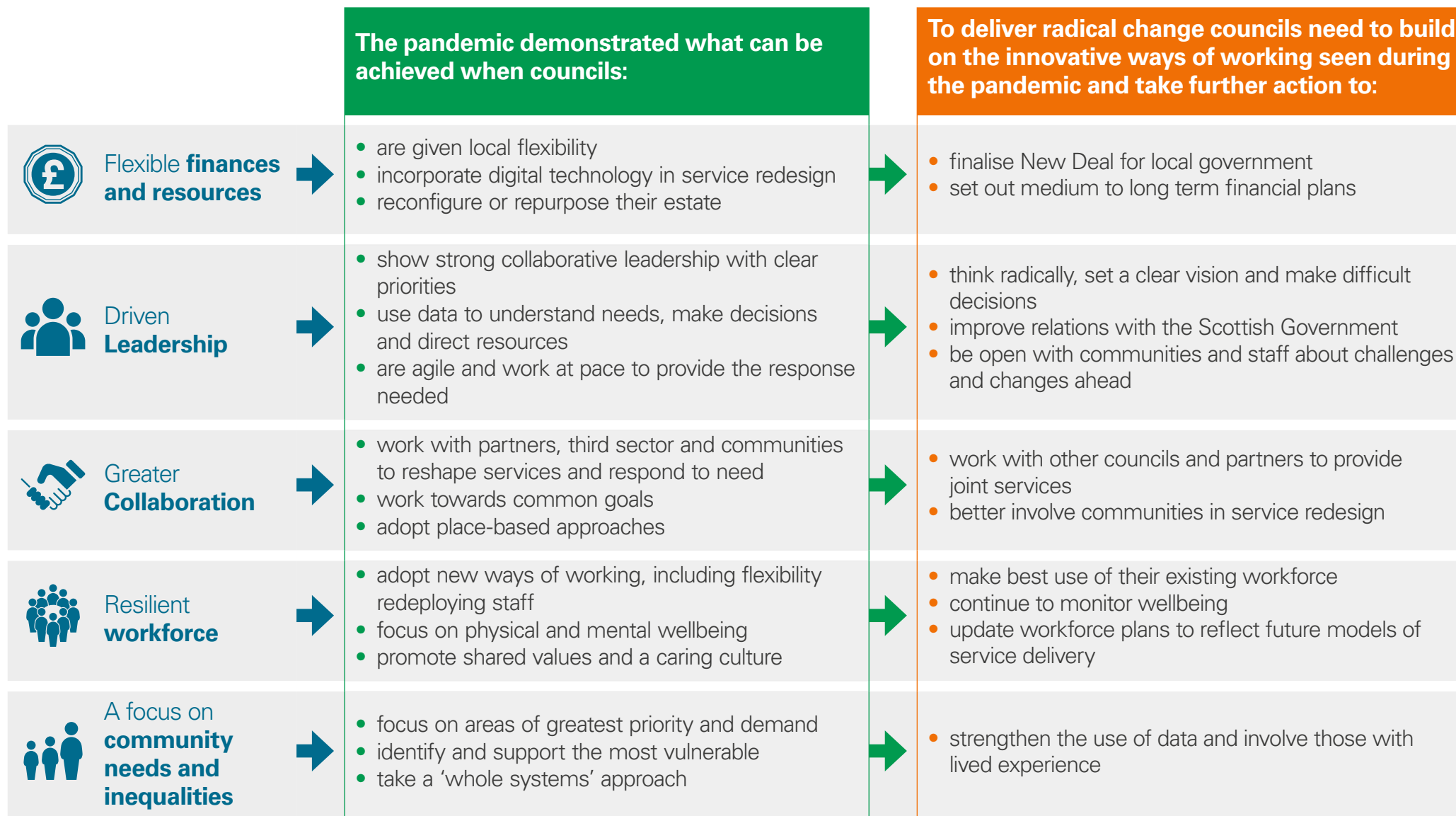
### Community needs and inequalities

**65.** To achieve radical change, leaders need to build on the innovative ways of working demonstrated during the pandemic. [Exhibit 8 \(page 28\)](#) draws on lessons learned from the pandemic response based around the five themes above as well as outlining where we judge that more still needs to be done.

<sup>1</sup> [Christie Commission on the future delivery of public services, June 2011](#)

## Exhibit 8.

### Lessons learned from the pandemic and what more needs to be done





## Councils need to balance immediate financial pressures with planning for and delivering long-term sustainable services

**66.** As the whole public sector faces the most difficult financial outlook seen for many years, councils need to make increasingly difficult choices about their spending priorities and balance short-term pressures with planning fundamental reform to provide long-term financial sustainability.

**67.** In the short term, councils have focused on immediate budget pressures. In our [Local Government in Scotland: Financial bulletin 2021/22](#) we reported that for 2022/23 the majority of the estimated budget gap (that is the gap between anticipated expenditure and revenue) was planned to be bridged by:

- **Recurring savings:** these savings were expected to meet about 37 per cent of the budget gap. For 2021/22 (the most recent year of accounts), councils' savings performance continued to improve but some chief executives and COSLA are concerned that forecasted reductions to funding will mean reductions or cuts in services and job losses.
- **Use of reserves:** two-thirds of councils intended to use reserves to help bridge the gap. This reliance on non-recurring reserves is not sustainable in the medium to long term.
- **Increasing council tax rates:** the Scottish Government lifted the freeze on council tax in December 2021. For 2022/23, the majority of councils increased council tax rates by three percent (in 2023/24, the majority increased rates by five per cent).
- **Use of financial flexibilities:** about four per cent of the gap was expected to be met by councils reprofiling their loans funds repayments by extending the repayment period. This generates one-off savings and is not sustainable in the long term.

- **Increasing income through fees and charges:** the scope for increasing income and the scale that can be achieved is currently limited but options being explored include councils introducing charges for garden waste, a transient visitor levy ('tourist tax') and tariffs for public electric vehicle charging.

**68.** The achievement of recurring savings and a movement away from the reliance and use of non-recurring savings and reserves will be important to ensuring longer-term financial sustainability.

**69.** Councils also need to focus on making increasingly difficult choices about their spending priorities and medium- to long-term financial planning must mature as councils look to make more fundamental change.

**70.** In May 2022, the Scottish Government published the first multi-year resource spending review in Scotland since 2011, outlining its resource spending plans up to the end of this Parliament in 2026/27.

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While welcome, the financial information was not sufficiently detailed for planning purposes, with spending plans expressed at 'level 2' for the four years of the spending review period without individual council allocations indicated.

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## Agreeing the New Deal will be an important step forward

**71.** The May 2022 Resource Spending Review also set out plans to agree a New Deal for local government. The Scottish Government, COSLA and SOLACE are working together to advance this, building on the work of the paused local governance review (which was launched in 2017).

**72.** In its Programme for Government 2022/23 (published in September 2022), the Scottish Government reinforced its commitment to agreeing a New Deal including a fiscal framework for local government. The New Deal was expected to be agreed by April 2023.<sup>2</sup> However, the Cabinet Secretary for Social Justice, Housing and Local Government indicated in January 2023 that it was likely to be delayed by several months.<sup>3</sup> Since then there has been a new First Minister and changes to senior posts in the Scottish Government and COSLA.

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While it is important to get the New Deal right, action is now urgently needed to agree this. Further delays present considerable risks to the wider urgent action that councils need to take.

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**73.** The New Deal is an important step in developing a partnership agreement that supports collaboration and trust, as well as developing a new fiscal framework that supports more certainty of funding, greater transparency and more flexibilities for local government. This should enable councils to better plan their long-term priorities and future service delivery models, and to manage council resources more effectively to deliver them.

<sup>2</sup> [Investing in Scotland's Future: Resource Spending Review](#), Scottish Government, May 2022.

<sup>3</sup> [17 January 2023 Local Government, Housing and Planning Committee](#).



### The New Deal is anticipated to include three elements:

- a partnership agreement with councils
- a fiscal framework to support greater transparency and accountability
- a working group to explore different options for the funding of local government in the future.

### The aims of the New Deal include:

- balancing greater financial flexibility with accountability for delivering national priorities
- increased flexibility in and scope for revenue raising powers, such as the 'tourist tax' and workplace parking levy
- exploring how best to transform the digital administration of the non-domestic rates system
- increasing the flexibility available to councils for existing service concession arrangements, such as PFI- or NPD-funded projects
- a comprehensive capital accounting review.

Source: Audit Scotland using information from the [Scottish Government's Resource Spending Review](#), May 2022 and updates from [Letter from the Cabinet Secretary](#) to the Social Justice, Housing and Local Government, July 2022 and [Committee report](#), Net Zero, Energy and Transport Committee, January 2023.



## Leaders need to invest time and capacity into thinking radically about their councils' future operating model, how it will be achieved and be open with communities and staff

**74.** Leaders (elected members and senior officers) must respond to the immediate pressures while also providing a long-term vision for their local areas and how services will be delivered differently in future. Leaders are vocal about the challenges ahead, and there is an increasingly clear appetite for change. However, the level of uncertainty and volatility faced by councils makes planning for the future more difficult.

**75.** In our Best Value reports on individual councils, we have seen that the quality of leadership and the pace and appetite for change varies. The current challenges may reinforce this gap with the risk that some councils will be left behind. The experience of leading through the pandemic and building on the lessons learned; reducing bureaucracy, working with partners and communities, focusing on the vulnerable, pivoting to digital and using the workforce in flexible ways must be consolidated and built upon.

**76.** In our [2022 report](#), we outlined important leadership principles that enabled councils' response to the pandemic – communication, collaboration, emotional intelligence, data-driven, agile and flexible, culture-focused, and enabling community empowerment. Leaders should draw on these to overcome the challenges now faced.

**77.** The challenging context needs leaders to invest time and capacity into thinking about radical changes to their council's future operating model. It is important that leaders are clear about their long-term policy and performance priorities, are managing council resources effectively to deliver them and are open with communities about what range and levels of services they can expect to receive in future.

**78.** It is important that councils with identified leadership risks develop the leadership skills needed to respond to this complex and uncertain

environment. It is positive that most councils have undertaken an assessment of senior leadership skills and developed action plans to address any skills gaps. High turnover at leadership level presents a risk to delivering change, and councils will need to continue to assess how best to recruit, pay and keep the talent needed.

**79.** Councils have structured induction programmes for new elected members and many also have further training programmes or development opportunities. Several councils have personal development plans to provide bespoke training for elected members ([Case study 2, page 32](#)). Elected members have a crucial role in engaging with their communities to explain future priorities and what that means for services and the local area, and to manage expectations. Many councils have been working on this through participatory budgeting and consultations on spending and service priorities ([Case study 3, page 32](#)).

**80.** Leaders recognise the need to engage with staff and trade unions on the implications of fundamental reforms for the workforce. They also recognise the need to involve them in developing solutions, innovating, and committing to a clear vision and aims for the council, its services, and the way it works with partners, the third sector and communities to make the most of scarce resources in their places. It is recognised, however, that this is particularly challenging in an environment of potential job losses.

Leadership is the focus of the Commission's annual Best Value thematic work this year and will be covered in all council annual audit reports published in Autumn 2023.

## Case study 2. Elected member training and induction

**West Lothian Council** has an elected member development programme, which includes an online structured induction programme. Key topics include climate change, emergency planning and quality assurance procedures. Members are also supported to complete a personal development plan to enable them to identify and discuss specific and individual needs. Members are encouraged to review their role and consider what will help them to improve their performance and develop their knowledge, skills and abilities. This could be through training events, coaching, working with an experienced colleague or project work.

An evaluation of the induction programme was undertaken in July 2022 and positive feedback was received from elected members.

Source: Audit Scotland auditor data return and information from West Lothian Council

## Case study 3. Community budget consultations

**Perth and Kinross Council** asked residents for their views on the council's 2023/24 budget and priorities for the next five years via an online survey accessed through the council's consultation hub. The council also held several in-person and online budget and corporate plan engagement events where communities could voice their views on the proposed new vision for Perth and Kinross. Residents were presented with the council's seven draft priorities and asked whether they agreed that these are the key issues that the council should focus on.

A summary of the responses from the survey and the engagement sessions was included in the report considered by the council when agreeing the corporate plan and budget.

Source: Audit Scotland using information from Perth and Kinross Council





## Councils need to collaborate with communities, other councils and the wider public sector to tackle the challenges

### Collaboration with communities

**81.** Our [2022 overview](#) report outlined how communities were a vital asset in the response phase of the pandemic but that more needed to be done to involve communities and service users in the recovery and the redesign of services. As councils take steps to fundamentally change how they provide services, the involvement of service users and communities will be critical to redesigning services that meet community needs and tackle long-term issues such as climate change and inequalities while also being sustainable.

**82.** Councils regularly consult with their communities to inform decision-making, including on setting annual budgets, redesigning services, and priorities for strategic plans. Reflecting the exceptionally challenging funding context this year, we have seen examples of councils engaging with their communities to explain the gaps in their budget and how they intend to bridge them ([Case study 3, page 32](#)).

**83.** We found good approaches to consulting communities to better understand the impact of the pandemic and inform decision-making on emerging challenges such as community impact assessments, research focused on the impact of the pandemic and establishing lived experience panels for the cost-of-living crisis ([Case study 4](#)).

**84.** Councils could still do more to empower communities and work more with them on the redesign of services. Our [Community empowerment: Covid-19 update](#) report brings together the learning points from the community response to the pandemic to help public bodies develop their longer-term approaches to supporting and empowering communities.

### Case study 4.

#### Community engagement to better understand community needs and inform decision-making

**East Renfrewshire Council** uses a wide range of consultation and engagement approaches to understand community needs and issues and uses this intelligence to identify local priorities and inform strategic plans and service redesign. For example, it recently commissioned research on the impact of the pandemic to inform strategic decision-making and the redesign of services.

Source: Audit Scotland using information from East Renfrewshire Council

## Collaboration with local partners

**85.** Councils have a good history of working with local partners and a statutory duty to do so through community planning partnerships.

**86.** The Covid-19 pandemic showed what can be achieved by working closely with local partners, including the third sector. Councils led a 'place-based approach' ([info box, page 35](#)) that worked across organisational and functional boundaries with aligned objectives and outcomes. This should now be consolidated into service delivery but there is concern that the momentum could be lost. Many organisations are facing their own funding and demand pressures that could threaten their ability to provide services and limit their capacity to explore new partnership working.

**87.** A recent report exploring barriers to effective collaboration between the third and public sectors identified four main themes: funding, meaningful collaboration, procurement and the cross-cutting issue of lack of trust.<sup>1</sup> All partners need to work with each other to overcome these barriers if councils are going to meet the challenge to deliver sustainable public services going forward.

**88.** Despite the barriers there are many positive examples of collaborative, place-based approaches and existing partnerships for councils to build on ([Case study 5](#)). The scale of the challenges mean that it is only by working together that councils and their local partners (including their communities and the third sector) will be able to provide sustainable public services and tackle long-term complex issues such as climate change, child poverty and inequalities.

<sup>1</sup> [Supporting collaboration between the third and public sectors: evidence review](#), Scottish Government, COSLA, SCVO and TSI Scotland Network, October 2022.

## Case study 5. Local partnership working

### **Clackmannanshire Council works with local public sector partners and relevant third sector partners to deliver the STRIVE (Safeguarding through Rapid Intervention) programme.**

Sharing crucial pieces of information at the earliest opportunity between trusted partners means practitioners are better able to 'join the dots' to understand the overall vulnerability of cases and share knowledge of existing support and interventions underway: this better informs the most appropriate action, reduces the likelihood and impact of people experiencing crisis and reduces the intensive resource required by services. An evaluation of STRIVE was undertaken in March 2021 and identified many benefits including preventing homelessness, improving financial security, providing rapid and direct access to mental health support, keeping families together and reducing alcohol and drug use. Building on the success to date, an early intervention approach has been added to other Family Wellbeing Partnership work in the area.

Source: Audit Scotland using information from COSLA and Clackmannanshire Council

## Collaboration with other councils

- 89.** Councils need to radically rethink how they work with other councils to move towards a more sustainable model of service delivery. Shared services and shared professionals offer efficiencies and can help to manage recruitment pressures and skills shortages.
- 90.** Councils have made limited progress in this area. Few councils are sharing services. Only six out of 26 councils reported sharing services and four of these were sharing internal auditors ([Case study 6](#)).

### Case study 6. Working with other councils

**Scottish Borders Council and Dumfries and Galloway Council** are working with other regional partners to develop and deliver a south of Scotland regional economic strategy. Through a Regional Economic Partnership, the councils have developed a long-term vision to guide and coordinate efforts to recover from the impacts of the Covid-19 pandemic, adjust to the UK's withdrawal from the EU, address the climate crisis and capitalise on new opportunities.

Source: Audit Scotland using information from Dumfries and Galloway Council and the South of Scotland Regional Economic Partnership



**A place-based approach** is about understanding the issues, interconnections and relationships in a place and coordinating action and investment to improve the quality of life for that community. The Scottish Government and COSLA have adopted a Place Principle. This promotes the need for communities, public organisations and businesses to work collaboratively with the assets and services in a place to achieve better outcomes.



Workforce planning must improve so that councils have the staff, skills and leaders needed to bring about change and create a resilient workforce for the future

**91.** Councils and their leaders need to respond to the direct pressures facing their workforce in terms of wellbeing and recruitment while managing the impact of pay demands and balancing the budget. Councils must invest in workforce planning to ensure a resilient workforce in the future.

**92.** Staff wellbeing was a priority during the pandemic and councils continue to take measures to promote staff health and wellbeing. With rising absence levels and persistent recruitment issues, some councils are looking at making roles more attractive by improving work-life balance through new ways of working ([Case study 7](#)).

**93.** Lessons learned from the pivot to remote working and then hybrid working during the pandemic indicate there are many potential benefits. For example, the flexibility to work remotely attracts more people and from a wider geographic spread, potentially bringing in more skills, it can support increased wellbeing and work life balance for existing staff, as well as reducing the carbon footprint through less travel to work. However, councils should continue to monitor the impact of new ways of working on employees' wellbeing and on service users' experience, productivity, and the local economy.

**94.** In future, councils' workforces may look and work quite differently as a result of job losses (fewer staff), increased digital processes, changing population demographics (an ageing workforce) and new service delivery models. Councils should embed the approaches they took during the Covid-19 pandemic which saw them adapt to working flexibly and being agile in how they deployed staff and working more closely with partners and communities.

## Case study 7. Wellbeing initiatives

**Angus Council** runs a resilience programme to promote staff wellbeing and a programme for leaders is in development.

**Dumfries and Galloway Council** has created a robust wellbeing framework that includes cross-council and cross-sector collaboration.

**North Lanarkshire Council** updated its wellbeing communications to reflect new working practices and is also working closely with partners and providers to make sure the council's wellbeing offering meets staff needs.

**South Lanarkshire Council** has developed a 'New Deal for Employees' which encourages and supports employees to prioritise their own health and wellbeing. South Lanarkshire Council is the first in Scotland to ensure employees have the 'right to disconnect' outside of working hours.

[More information](#) is available on our website.

Source: Audit Scotland using information from the Improvement Service

**95.** The severe financial situation facing councils inhibits their ability to recruit and brings the risk of job losses. To meet rising demand and to deliver new Scottish Government policies, councils need to innovate to make the best use they can of their existing workforce to continue to provide sustainable services.

**96.** Effective workforce planning will be essential to:

- address current workforce challenges in recruitment, retention and skills shortages
- look ahead at longer-term capacity and skills requirements as councils fundamentally change how they deliver services
- ensure that councils reduce their workforce in an informed way so that skills and knowledge are not lost.

This requires sufficient capacity and skills, strategic thinking and comprehensive workforce data. See Audit Scotland’s workforce planning maturity matrix ([Exhibit 9](#)).

**97.** For several years we have reported that workforce planning needs to improve. Our auditors have told us that 16 out of 26 councils have updated their workforce plans since the Covid-19 pandemic and a further three have plans in development. Some councils have also been working to include succession planning in their workforce plans to develop future leaders or specific skills required across their workforce. Some are also now working with a three-year, rather than five-year, workforce planning cycle reflecting the more uncertain context.

**98.** However, councils continue to report that they lack the resources to support workforce planning, and that they are looking at ways to try and address this. Councils have been collaborating with one another, the Improvement Service and SPDS to share practice and to make improvements. The SPDS has suggested that COSLA have a role in engaging with the Scottish Government to develop a more holistic approach.

**99.** Workforce planning is the focus of the Commission’s annual Best Value thematic work next year and will be covered in all council annual audit reports published in Autumn 2024, followed by a national thematic report.

## Exhibit 9. Workforce planning maturity matrix

Basic	Developing	Mature
<ul style="list-style-type: none"> <li>• Short-term operational focus</li> <li>• Limited workforce data and analytics</li> <li>• Workforce plan not linked to priorities and delivery of strategic plans</li> </ul>	<ul style="list-style-type: none"> <li>• Medium-term focus</li> <li>• Aligned to delivering priorities</li> <li>• Workforce and recruitment plans</li> <li>• Some workforce analysis</li> <li>• Annual review</li> </ul>	<ul style="list-style-type: none"> <li>• Long-term focus on strategic priorities</li> <li>• Workforce and market analysis</li> <li>• Recruitment, development, retention and succession included in workforce planning</li> <li>• Workforce plans reflect new ways of working and scenario planning of future models service delivery and demands</li> <li>• Real time monitoring including of performance levels and staff wellbeing</li> </ul>

Source: Audit Scotland



## Councils have a clear focus on tackling inequalities and strengthening the use of data will help them to better understand community needs and focus fundamental change on improving long-term outcomes

**100.** Councils have a clear focus on tackling inequalities. We found evidence of data-driven approaches, partnership working, and community engagement being used to understand community needs and to develop plans and programmes to target inequalities and poverty. Positive findings include councils:

- setting up specific committees focusing on tackling poverty and inequalities ([Case study 8, page 39](#))
- working with partners, especially community planning partnerships, to understand need and develop place-based plans to tackle inequalities
- involving people with lived experience to better understand needs and demand.

**101.** Using lessons learned from the pandemic, councils have moved quickly to offer support to people in their communities most affected by the cost-of-living crisis. Many councils are working closely with third sector partners to help distribute crisis grants and provide support and funding to third sector partners directly to increase their support work. Some exceptional data-driven approaches are being used to identify and offer support to those most in need ([Case studies 9 and 10, page 39](#)).

**102.** Data can help councils to understand need, inform decision-making and service redesign, and drive improvement. Making better use of local data is still challenging especially the availability of equalities data and data sharing. Councils should supplement national datasets with local data and insight. Information from Scotland's Census 2022 is expected later in 2023 and should provide a valuable source of intelligence.

**103.** While we are seeing the emergence of some positive approaches to involving people with lived experience to better understand their needs, councils can do more ([Case study 4, page 33](#)). As councils take steps to radically change how they deliver services, the needs of the most vulnerable or people living in poverty must be at the centre. A key objective from the Christie Commission is that reform should 'prioritise prevention, reduce inequalities and promote equality'. While the pressures facing councils are immediate, they must not lose the focus on prevention and improving outcomes in the long term. A loss of preventative services will increase demand in the long term.

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### 'Children growing up in poverty are at risk of poorer outcomes in the short and longer term'

#### [Tackling child poverty](#)

Accounts Commission and Auditor General for Scotland

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#### Digital exclusion

**104.** The Covid-19 pandemic accelerated the shift to online services. While essential during the pandemic to allow the continued delivery of some services, the shift has increased the risk of digital exclusion. Councils have a variety of initiatives to reduce digital exclusion, such as working alongside the third sector to develop place-based approaches to reducing digital exclusion via library services or providing devices with internet access.

**105.** Digital technology will be a central component of future service delivery. Councils need to understand the needs of people experiencing digital exclusion and develop strategies to ensure that no one is left behind. We are currently undertaking a performance audit on digital exclusion. Our findings will be published later this year.

## Case study 8. An approach to tackling inequalities

**Aberdeen City Council** has set up an anti-poverty and inequality committee to determine steps the city can take and to help key groups such as children, disabled people, women, people from black and ethnic minority communities, and those of pensionable age. The committee will also seek the views of those with lived experience and consider in-work poverty, youth employability, community food provision and energy costs. Several external advisers have been appointed to the committee. The expected benefits of the new committee include centralising all poverty and inequalities information which should allow elected members to thoroughly scrutinise reports, question council managers and directors and engage with the external advisers.

Source: Audit Scotland using information from Aberdeen City Council

## Case studies 9 and 10. Supporting vulnerable communities

**Inverclyde Council's** Warm Hand of Friendship initiative was set up to help ensure that spaces, resources, advice and support are available throughout the council area for those who need them. Working with its partners and voluntary organisations, the council offers warm spaces or hubs and have delivered more than 400 activity sessions for adults and children such as book clubs and classes on IT skills. This has resulted in over 3,500 people being provided with a warm space, food and social interaction. Two thousand 'Warm Boxes' packed with useful items such as tea bags and blankets to help the most vulnerable keep comfortable throughout the winter were also distributed free to people receiving homecare support in Inverclyde.

Source: Audit Scotland using information from Inverclyde Council

**Glasgow City Council:** last year we reported on the council's innovative approach of using administrative data to identify and target resources at the most vulnerable communities during the pandemic. The council has continued this approach to target resources at those most affected by the cost-of-living crisis. The council distributed gift cards worth £105 to 85,000 to households who receive council tax reductions. They have also used data to identify people potentially eligible for Attendance Allowance and other benefits and used this provide an income maximisation service to clients over the age of eighty. Over the last year, 571 clients have been contacted by the service and over £1 million of financial gains have been secured on behalf of clients.

Source: Audit Scotland using information from Glasgow City Council

See our [website](#) for more examples of councils' approaches to reducing inequalities and better understanding the impact cuts have on people experiencing inequality.

# Local government in Scotland

## Overview 2023

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