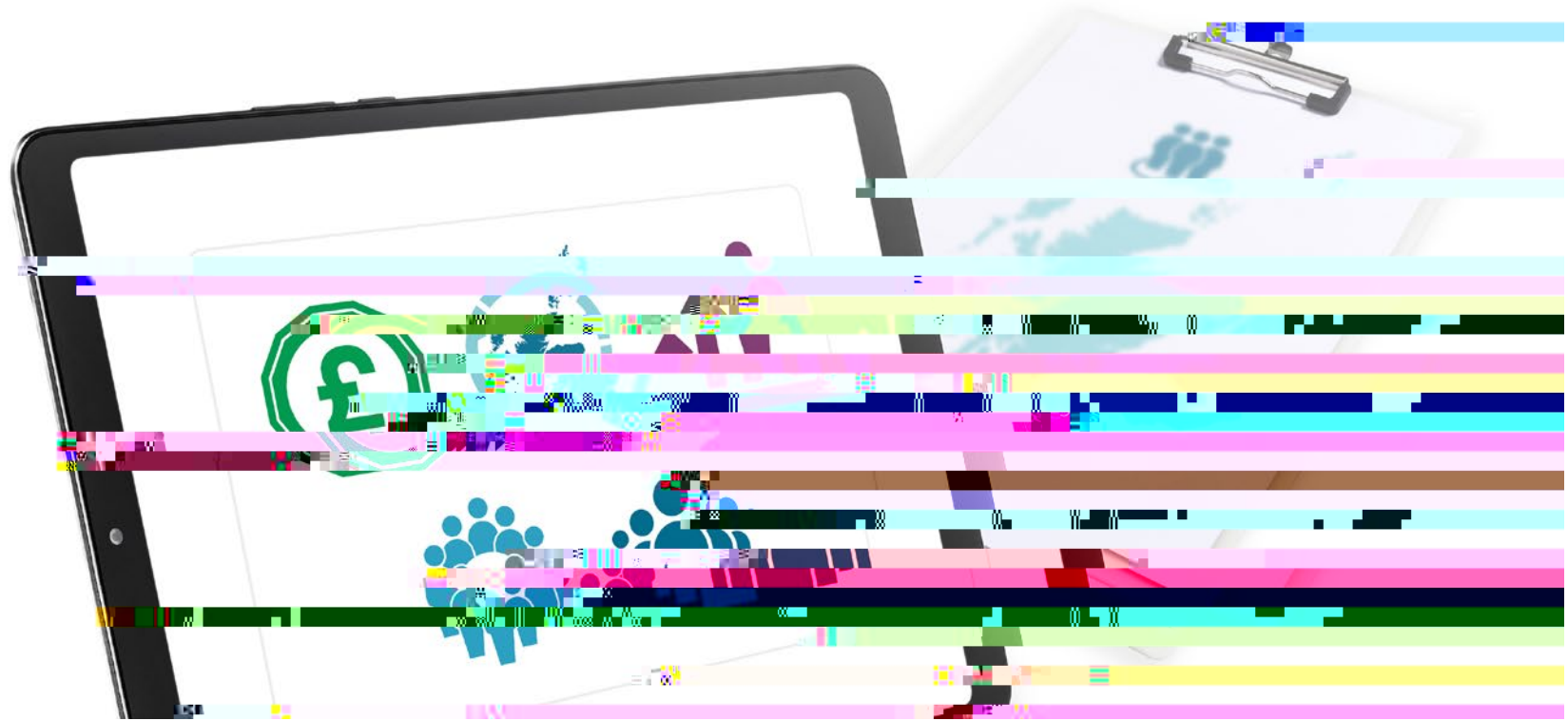


2023



AC — NTS



Ma 2023



The Accounts Commission is the public spending watchdog for local government. We



Key messages and recommendations	<b>4</b>
Background	
The impact of the pandemic on councils' performance	/
What are the current challenges facing local government?	<b>14</b>
How are councils responding?	<b>2</b>

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** 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.

The need to take urgent action to finalise the New Deal for local government ([a a a n . 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 needs to provide more detailed financial information (eg, breakdown of type of funding and individual council allocations) to support councils longer-term financial planning.

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

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

## 4

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.

Councils 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.

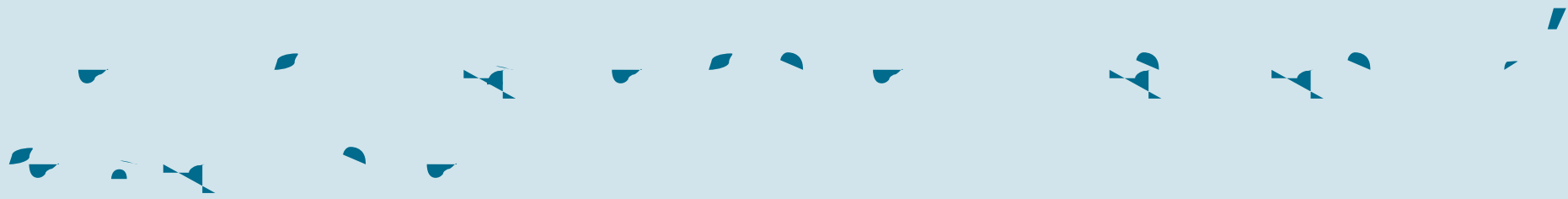
Increasing workforce challenges, including a competitive labour market and high sickness absence levels, are putting councils under continued pressure. Councils need to innovate by developing the skills and building on the agility, flexibility and joint working demonstrated during the pandemic to make best use of their existing workforce. Wellbeing initiatives must



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:

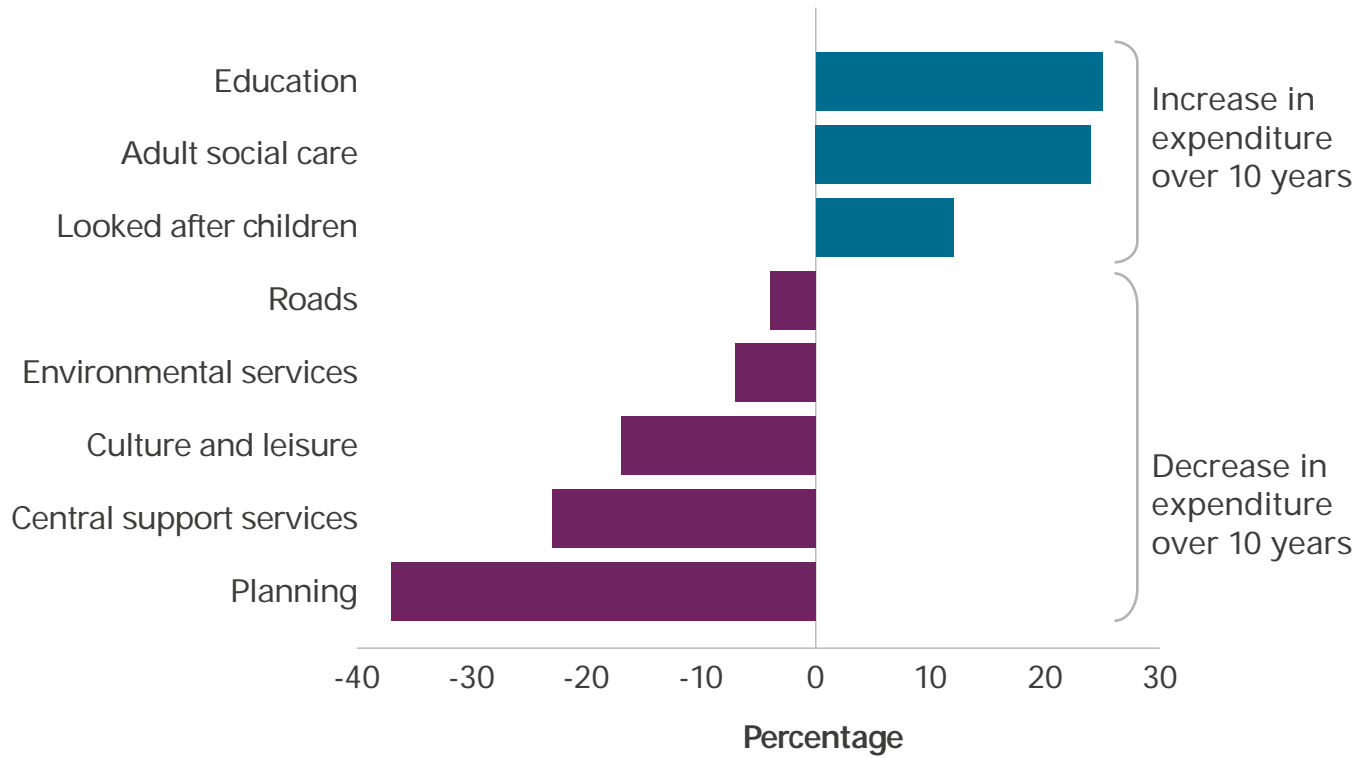
- is the third and final overview report in the series
- builds on the previous reports in the series and examines:
  - how has the pandemic affected councils and their performance?
  - what are the current and future challenges facing local government?
  - how well placed are councils to deal with the current and future challenges?
-





1.

2012/13 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

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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.



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

11. Councils receive the majority (over 70 per cent) of their funding from the Scottish Government.

12. [Expenditure 3 \(a\) 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, the Scottish Government allocated £44.5 billion to local government, a 10.8 per cent increase on 2020/21. This includes £7.6 billion in revenue funding, a 6.3 per cent increase on 2020/21. The remaining £36.9 billion is for capital and other funding. In 2022/23, the Scottish Government allocated £44.5 billion to local government, a 10.8 per cent increase on 2021/22. This includes £7.6 billion in revenue funding, a 6.3 per cent increase on 2021/22. The remaining £36.9 billion is for capital and other funding. In 2023/24, the Scottish Government allocated £44.5 billion to local government, a 10.8 per cent increase on 2022/23. This includes £7.6 billion in revenue funding, a 6.3 per cent increase on 2022/23. The remaining £36.9 billion is for capital and other funding.

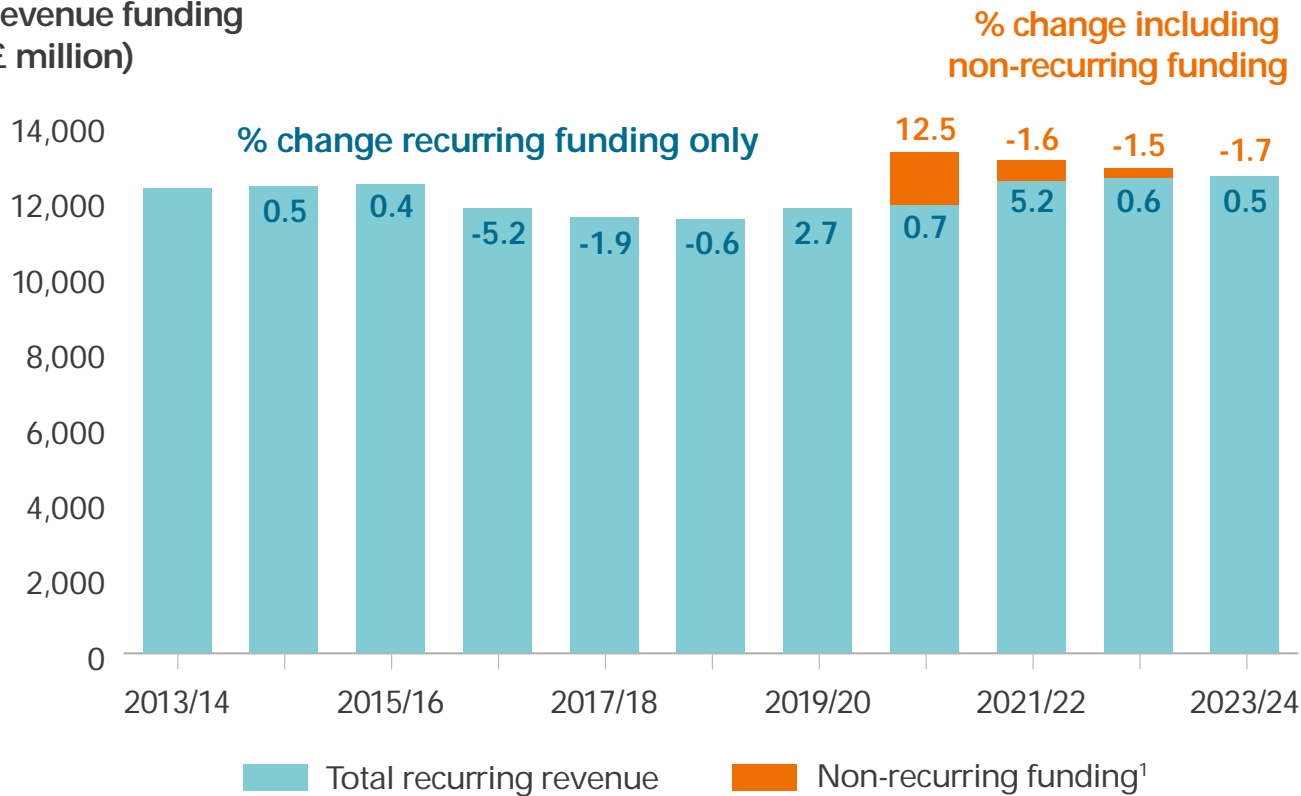
13. In 2021/22, the Scottish Government allocated £44.5 billion to local government, a 10.8 per cent increase on 2020/21. This includes £7.6 billion in revenue funding, a 6.3 per cent increase on 2020/21. The remaining £36.9 billion is for capital and other funding. In 2022/23, the Scottish Government allocated £44.5 billion to local government, a 10.8 per cent increase on 2021/22. This includes £7.6 billion in revenue funding, a 6.3 per cent increase on 2021/22. The remaining £36.9 billion is for capital and other funding. In 2023/24, the Scottish Government allocated £44.5 billion to local government, a 10.8 per cent increase on 2022/23. This includes £7.6 billion in revenue funding, a 6.3 per cent increase on 2022/23. The remaining £36.9 billion is for capital and other funding.

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### 3.

2013/14 2023/24

Revenue funding  
(£ million)



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



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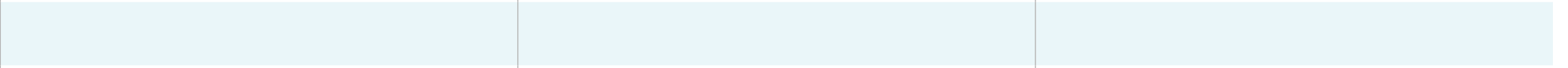
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**23.** A UK-wide survey by the Society of Local Authority Chief Executives

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# Learning Objectives







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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.



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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.



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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).



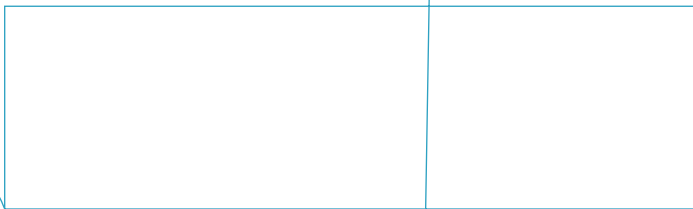
## Councils are managing an increasing programme of national reform, including plans for a national care service, which comes with substantial funding implications and increased uncertainty

**3** . 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.

**3** . 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.

**3** . 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.

**3** . 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 on Adult Social Care](#) (IRASC), published in February 2021,



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

4. Staff worked under unprecedented strain during the pandemic to adapt and maintain services and support communities. That same workforce is still under pressure.

4. Despite a focus on wellbeing, overall absence levels for non-teaching staff in 2021/22 were the highest on record (En 7). The Improvement Service highlight stress and burn-out as contributing to high absence levels.<sup>6</sup>

0. Recruitment and retention continue to be a challenge in both senior

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**2.** 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.

**3.** 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

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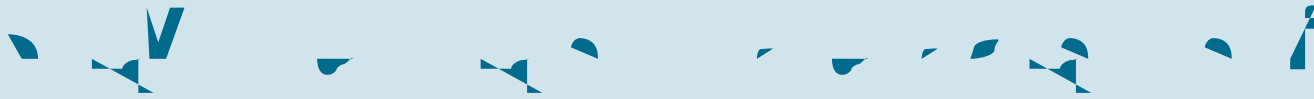


## While many councils demonstrated strong collaborative leadership during the pandemic, ineffective leadership and high levels of change in senior officers identified at several councils present a risk

. 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.

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

- Three of the four Best Value Assurance Reports (BVARs) completed last year, in three (Moray, Shetland and



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



**1.** 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

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## 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

4. 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.

. 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.

. In our [2022](#), 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

2.



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

1. Our [2022](#) 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.

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

/. 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' ([r . . . , a 35](#)) that worked across organisational

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1. 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.

0. 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 (Ca. 6)



## 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

**1.** 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.

**2.** 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 ([Ca. 7](#)).

**3.** 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.

**4.** 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.

. 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.

. Effective workforce planning will be essential to:

- address current workforce challenges in recruitment, retention and skills shortages
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## 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, a 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

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As a result of our work, we have identified a number of areas where the Government has not fully met its obligations under the Freedom of Information Act 2000. We have identified a number of areas where the Government has not fully met its obligations under the Freedom of Information Act 2000.

For a full list of our findings, please see our report on the Freedom of Information Act 2000.

## AUDIT