

29 August 2025

Ariane Burgess MSP
Convener
Local Government, Housing and Planning Committee
Scottish Parliament

By email

Dear Ariane,

Thank you for your letter dated 4 July and the opportunity to provide a response as part of your committee's pre-budget scrutiny.

Given ongoing fiscal challenges, the need for reform and transformation remains a focus of the Accounts Commission's 'Local government in Scotland' overview programme of audits. This programme includes an annual review of council accounts (the 'Financial bulletin'), an annual briefing on the decisions taken as councils set their budgets, and supplementary products such as the October 2024 '[Transformation in councils](#)' report to which your letter refers.

That report looked at the role that transformation and collaboration can play in helping councils to achieve longer-term financial sustainability. The report provided an opportunity for the Accounts Commission to assess progress with sector-led approaches to transformation. Although it is less than a year since the report was published, we have provided you with an update on progress later in this submission.

The need for reform and transformation is also a recurring theme within our Best Value reporting. Over the last 12 months, every set of findings made by the Commission on the Controller of Audit's reports has included some reference to the need for transformation and/or reform – many councils have clear programmes and projects in place, but others are still to define the actions required. Some examples of this are highlighted in our submission below, and auditors will follow up on our findings as part of the 2024/25 annual audit process.

Councils have generally been effective in identifying and delivering efficiency savings at the same time as largely maintaining how services are performing. Relying on these savings alone, however, is not sufficient to meet the scale of the financial challenge, and maintain the levels and quality of the vital services that councils provide in the face of increasing demands on those services.

As part of our ongoing commitment to the theme of reform and transformation, we have asked all auditors to look at transformation as a Best Value theme, alongside their 2024/25 audit work. A report on this work will be produced for each council alongside the respective annual audit report. We will then use this local information to produce a national report next year summarising auditors' findings and common recommendations made across the sector as well as – importantly – highlighting good practice. We regard this integrated audit work as a vital step in assessing how well councils and their key partners are progressing against the time-bound expectations we set in last October's 'Transformation in Councils' report. Expectations and recommendations that are more specific in nature and timebound

are regarded as increasingly important by the Commission in allowing us to more effectively monitor the impact of our work.

Our theme for 2023/24 was 'workforce innovation' and the national report – [Delivering for the future: Responding to the workforce challenge](#) – was published on 7 August. The report highlights that councils are having to make savings as they redesign and transform how they deliver services, including examining the need to make workforce reductions. However, the report highlights challenges around recruiting and maintaining a skilled local government workforce, at the same time as demand for council services is increasing.

One area that was particularly highlighted in that report and which is an increasing focus for the Commission is around digital skills and capacity. The report found that while all councils recognise the importance of digital solutions in shaping their future workforce requirements, digital capacity remains an issue for many. To address this, councils need to make more progress with their workforce planning arrangements, ensuring they have the right number of people with the right skills to support the future delivery of services.

Our detailed response to the questions set out in your letter, predominantly drawing on audit work carried out on behalf of the Commission, is provided below. We hope that this is helpful to your pre-budget scrutiny.

Finally, whilst this submission focuses on local government, it is incumbent on all levels of government to work together in a more ambitious and radical way than ever before to make the significant reforms required to meet fiscal challenges and preserve the services that are valued by communities across Scotland.

Thank you for the invitation to give evidence to the Committee in person on 16 September. Unfortunately I am unable to attend as I will be on holiday. The Commission's Deputy Chair, Andrew Burns, has agreed to give evidence in my absence, alongside Blyth Deans of Audit Scotland. I would nevertheless be happy to meet with you another time to discuss any aspects of this submission.

Yours sincerely,

Jo Armstrong
Chair of the Accounts Commission

How have local authorities been reforming public services in recent years?

In recent years, both pre- and post-Covid-19, Scotland's councils have introduced a range of organisational and service delivery reforms. Several structural reforms have also been made to how local services are delivered.

Since they became operational, Integration Joint Boards (IJBs), together with their constituent partners (councils and NHS Boards), have been working towards the transformation of health and social care. This has seen the introduction of an integrated management approach, with the IJB Chief Officer responsible for operational delivery. Multidisciplinary approaches to provision of services and a focus on prevention and the individual have been a key part of these reforms.

There has also been increased collaboration through initiatives with both the UK and Scottish Governments, such as City Region Deals/Regional Growth Deals, and some examples of new shared service approaches. For example, the three Ayrshire councils (East, North and South) have a 'Shared Services Committee' comprising four elected members from each constituent authority, focused on joint working in relation to tourism, roads and civil contingencies.

Meanwhile, we are aware of ongoing work by some councils to explore the potential for a single authority model. Comhairle nan Eilean Siar was recently awarded £300,000 funding through the Invest to Save Fund to progress its work in this regard, information and updates on which is available [via the Comhairle's website](#). The committee will be aware that wider work on single authority models is being [taken forward jointly by the Scottish Government and COSLA](#).

Councils have also been increasing their focus on digital solutions, including more use of online self-service options and other digital technology. For example, [East Renfrewshire Council's Best Value report](#) highlighted how its digital transformation programme is a key mechanism to drive change and help deliver savings across all services, including the use of management dashboards and hand-held devices for frontline staff. Meanwhile, [Argyll and Bute Council](#) has made widespread use of digital technology, aligned to a long-standing culture of innovation, in delivering services across a large remote and rural area.

What is preventing councils from achieving "transformative change"?

Whilst there has been progress made by councils with transformative change, the pace and scale of change is not currently sufficient to ensure services will remain sustainable in their current form over the longer term. Exhibit 2 in the 'Transformation in councils' report covers barriers to transformation in detail. This is reproduced in **Appendix 1**.

Councils continue to make efficiencies and take difficult decisions around prioritisation of services, with reduced service levels in some areas. This requires cross-party political cooperation, as well as ongoing engagement and consultation with local communities to help them understand the choices that local authorities are facing and how and why decisions are made. However, there are legislative requirements, financial pressures and structural issues that may have impacted the pace of progressing transformation.

A range of statutory services, notably education and social care, make up the vast majority of council spending and have been largely protected in the budget decisions taken by councils. This means that the savings and efficiencies councils have made to respond to

financial pressures have largely been focused in and impacted on other, ‘unprotected’ service areas. We noted this as a potential barrier to transformation in our 2024 report.

Responding to short-term financial pressures was also noted as a barrier to transformative change. Addressing current financial pressures has the potential to require councils to prioritise short-term savings at the expense of longer-term transformation programmes, which can often include a need for investment to enable change. Our [‘Local government budgets 2025/26’](#) briefing outlines the decisions councils took in setting their budgets.

At a strategic level, most councils have some form of transformation programme in place, while for others it is embedded within corporate and service plans. As noted, how councils are managing transformation is a focus of auditors’ ongoing 2024/25 audits. However, in our findings across almost all of our [recent Best Value reports by the Controller of Audit](#), the Commission has emphasised the need for councils to produce, deliver on or accelerate reform and transformation of service provision in order to meet future financial challenges, and to reduce reliance on reserves or one-off savings.

Some of our recent Best Value reports have highlighted examples of councils that have taken specific actions to manage their finances in a way that supports long-term investment. These include (but are not necessarily limited to):

- [Scottish Borders Council](#) has established a ‘self-replenishing’ change fund which will see savings made invested in other projects to reform services
- [The Highland Council](#) earmarked two percentage points of its increase in Council Tax in its 2025/26 budget to be used to support its Highland Investment Programme
- [Renfrewshire Council](#) was praised for its prudent financial management in recent years, including building up reserves to support future investment

Internal and external organisational structures and cultures, and technological challenges, can also impact how effectively councils are working with other councils and public sector bodies, notably through Community Planning Partnerships (CPPs), to transform how they are delivering services. While we are aware of the work that is underway in relation to single authority models (as noted in response to the previous question), we know there are significant challenges and complexities to be overcome, in relation to finances, resources, IT systems and accountability.

A key challenge for many councils in enabling transformative change relates to digital skills and capacity. To achieve the change required, councils need to make good use of digital technology and use their workforces in flexible ways. Digital technology can be used to re-shape jobs to increase productivity and reduce back-office functions while improving service quality. It does, however, require investment in the technology and systems, and in training councils’ existing and future workforces, including ensuring that individuals and communities can continue to engage effectively and access the services they rely on.

In their Best Value thematic work on ‘workforce innovation’, highlighted in our national report, auditors found that all councils have in place some form of a digital strategy or plan. However, there are varying degrees to which this has been integrated with workforce planning and productivity to identify efficiencies. Many councils report challenges with the resourcing of digital, and there are few examples of councils proactively engaging with staff and service users on new ways of working, service accessibility and digitisation.

Given local government's claims that efficiencies have been achieved over the past 15 years, what impacts have these had on service users?

Councils have undoubtedly been making efficiencies, as evidenced by their annual need to approve savings as part of fulfilling the statutory requirement to set balanced budgets. For example, in our recent financial overview work we have highlighted that councils have set savings targets of more than £200 million each year from 2021/22 to 2023/24 (totalling around £800 million across the three years) and delivered in excess of 90 per cent of these each year. However, councils still had to identify further savings totalling more than £200 million in their 2024/25 budgets, and again for 2025/26. Most of the savings – around 80 per cent of targets – are recurring in nature, meaning they reduce councils' cost bases permanently.

Since 2010/11, the period over which the Improvement Service's Local Government Benchmarking Framework (LGBF) has existed and developed, councils have largely been effective in managing their budgets and making efficiencies while maintaining or improving service performance. However, the latest available data (for 2023/24) suggests the pace of improvement is declining and, in some service areas and councils, is now reversing in the face of ongoing financial pressures, workforce challenges, demographic changes and growing demand. This is articulated in the Improvement Service's latest LGBF [National Benchmarking Overview Report 2023-24](#), published earlier this year.

It is also worth making a distinction between savings or efficiencies on the one hand, and transformation on the other. As our 'Transformation in councils' report stated, while councils have generally been effective in identifying and delivering efficiency savings whilst continuing to deliver services in recent years, relying on efficiency savings alone to stay within budget is not sustainable. This is exacerbated by the impact of ring-fenced and directed funding, which makes it difficult for councils to identify opportunities to make the level of savings required through efficiencies alone.

Overall, we concluded that "there is not enough evidence of truly transformational change taking place at a local level to address the financial sustainability challenges facing councils". While recognising that there is no single, concise definition of transformation in a local government context, in the 'Transformation in councils' report we set out some principles to help guide councils around our expectations while allowing for flexibility.

What support is available to councils looking at ways of reforming how they deliver services?

The local government sector has been proactive in exploring sector-wide transformation and ensuring there is a range of organisations, professional networks and initiatives to support individual councils. As outlined in our report on transformation, the Society of Local Authority Chief Executives (Solace) and the Improvement Service have put in place a sector-led Transformation Programme. The Commission has a keen interest in the progress being made in relation to this programme and will ensure it features as part of regular engagement with Solace.

Other important elements of local government's sector-led performance improvement and transformation include the Scottish Local Government Assurance and Improvement Framework and Peer Collaborative Improvement (PCI). Audit Scotland colleagues and the Improvement Service are working to explore the use of our Best Value thematic reports as a baseline for PCI activity, with our recent workforce innovation report potentially being used as part of a pilot of this approach in the coming months.

In addition, we know that each time we publish a Best Value report about a council, the Improvement Service contacts the council to proactively offer any relevant support to help address issues highlighted in our findings. Examples of this include work to enhance individual councils' performance reporting and self-evaluation, which will be key to monitoring and measuring the success of transformation activities.

While councils are clear on the urgent need for transformational change, we are clear in our view that such change must form part of wider public service reforms, given interconnections across the whole of the public sector and with the third sector, too.

The extent to which local authorities have engaged with the Scottish Government's Invest to Save fund.

The extent to which councils and other local government bodies have engaged with the Invest to Save fund would be better addressed by the sector directly as well as by the Scottish Government.

Whether the Invest to Save Fund will continue and expand in future years.

Decisions on funding, and the continuation and possible expansion of the Invest to Save Fund, would be best addressed by the Scottish Government.

To what extent would multi-year funding packages help local authorities make changes to how they deliver services?

Councils have been clear in their desire to see a return to multi-year settlements, and we have recognised the benefits of the increased certainty this would bring councils and those with whom they contract (both in the private and third sector). Greater certainty over indicative funding allocations, aligned to the Scottish Government's own Spending Reviews, would allow councils to take a more informed position when preparing their own medium-term financial plans. This increased certainty could also aid councils in identifying resources for multi-year invest-to-save initiatives and support transformational activity.

What progress has been made over the past 2 years towards the Verity House Agreement's ambition of working "together strategically to advance public service reform"?

Progress on the ambitions stated in the Verity House Agreement would be best addressed by the signatories of the agreement, namely the Scottish Government and COSLA.

The Commission was not directly engaged with the Scottish Government in the development of its Public Service Reform (PSR) strategy. However, the Chair, alongside the Auditor General for Scotland, attended the PSR summit in Glasgow in February 2025, hosted by Ivan McKee.

There has been no indication from the Scottish Government on whether the Commission will sit on the PSR Board. Our role is to hold local government to account and drive improvement, and we operate independently, so we would need to consider carefully whether our independence could be compromised by being a member of the Board.

Progress against ‘Transformation in councils’

In this report, we set out clearly the Commission’s expectations of local government and its partners – we believe that being more specific around our expectations will become increasingly important as the need for reform intensifies. We have yet to formally follow up on the progress councils have made against the five areas highlighted within our report, primarily due to the short time period that has elapsed since publication (less than a year) but also due to the significant integrated audit work that is currently underway as part of 2024/25 audit work. As a thematic focus (a key part of our current Best Value auditing arrangements), auditors have been asked to assess how councils are transforming as part of annual audit work. We have been able to draw some high-level conclusions from the work completed in ten councils, included below. However, in the remaining councils, this work is still in progress alongside the annual audit.

The coverage of this work is in line with the expectations for council’s arrangements for the seven Best Value themes in the Local Government in Scotland Act 2003, and [current Best Value statutory guidance](#), and is closely aligned to the transformation principles set out in ‘Transformation in councils’.

The work we have asked auditors to undertake recognises that, while work has been ongoing in relation to local government transformation for decades, a step change is required, and the pace and scale of transformation must increase significantly. Transformation, through greater collaboration with partners, will be key for councils to deliver more sustainable service models in challenging financial climates, including ensuring sufficient resilience and capacity across the sector.

We have directed auditors to report on transformation and how councils are redesigning and delivering more efficient services to achieve planned outcomes. In carrying out the work, auditors have been asked to consider the following questions:

- To what extent does the council have clear plans for transformation that link to its priorities and support long-term financial sustainability?
- To what extent do the council’s programme management arrangements facilitate effective oversight of its transformation plans?
- To what extent are partners and communities involved in the development and delivery of the council’s plans for transformation?
- To what extent has the council considered the impact of its transformation activity, including on vulnerable or protected groups?

Auditors will set out recommendations for individual councils in key areas, and councils will outline their own planned responses to these recommendations (including identifying responsible officers and dates for implementation).

This means, as well as annual audit reports covering 2024/25, auditors will produce 32 individual reports on transformation. At the time of writing, this work had been completed at ten councils, including reports having been scrutinised by the individual councils at the relevant decision-making committee.

It is important to note that these ten councils do not necessarily form a representative sample; although there is a reasonable variety of urban/rural characteristics and levels of

deprivation, for example, none of the eight most-populated or eight least-populated council areas are included.

Nevertheless, many of the emerging findings from across this early work are aligned to issues we have covered in our national overview reporting. Initial findings include:

- Councils have undertaken some transformation activity, particularly in areas of:
 - Service redesign and rationalisation – including in areas such as property, waste and recycling, and support for families
 - Digitalisation of services or means of contacting the council – mainly through introduction of expansion of online self-service tools
 - Collaboration with partners to improve outcomes – including place-based approaches, to enhance capacity and early interventions
- Councils have faced challenges or barriers to transformation in the form of:
 - Siloed funding, governance and reporting arrangements, including a lack of shared budgets or resources, and a lack of integration between IT systems used both within councils and across different councils
 - Staff recruitment, particularly in specialist areas such as digital and procurement, and capacity or availability of staff to carry out both business-as-usual and transformation activities simultaneously
 - Financial, demand and cost pressures, including in relation to government funding and demographic trends, as well as a need to respond to the views, perceptions and expectations of communities
- All ten councils use Integrated Impact Assessments to assess and consider the likely impact of proposed transformation activity, which in most cases involves consulting or at least informing communities as part of this process, but most are at an early stage in assessing and measuring the expected and actual benefits and impacts of projects
- A few councils no longer consider transformation as a discrete activity, and therefore no longer have a distinct strategy or reporting framework for it – instead it is considered to be embedded within overall strategies and approaches to service delivery
- Related to this, there is a lack of public reporting or transparency around transformation, particularly in terms of an overview of programmes as a whole. And while many councils can clearly demonstrate engagement with communities, for some it is unclear how this feedback has been considered in or has influenced decision-making.

The reports that auditors are producing on transformation will form the basis for our next Best Value national thematic report, which will publish in 2026 – this report will also form a key part in assessing progress against the expectations the Commission set in October 2024. Importantly at a local level, auditors will also follow up this work, and progress against their recommendations, as part of their 2025/26 audits.

Appendix 1: Barriers to transformation

- **Ring-fenced funding and protected services** – Funding allocated to national priorities can limit the decisions councils can make about how funds are used at a local level to meet local need. Funding for children’s services, education and adult social care has been protected and increased due to national policy directives. Remaining services have consequently borne a disproportionate level of spending reductions.
- **Short term-ism** – Preventative approaches to reduce the demand for services in the longer-term have not been prioritised due to the focus on meeting the current demand for services.
- **Willingness and capacity** of the council (both officers and elected members) to engage in and properly resource transformative activity.
- **Cost of Living** – Financial hardship is deepening for some people who use council services, evidenced by growing levels of rent arrears and homelessness applications. This places additional pressure on councils’ finances.
- **Demographic changes** – Changes in the structure of the population are impacting demand and the type of services needed. For example, an ageing population increases demand on social care services, while some areas are experiencing falling school rolls.
- **Workforce pressures** – Skills gaps, vacancies, absences, an ageing workforce and lack of retention are well known issues that continue to worsen. Workforce gaps are now seen in areas previously not impacted, such as statutory professional roles.
- **Lack of coordinated decision-making** – Public sector bodies can often make decisions in isolation from their partners, which can impact the demand on other public services. There is also tension in relation to policies set by central government but delivered by councils.
- **Public perception or push back on decisions** – Some councils are experiencing significant resistance when seeking to reduce services to balance budgets. Effective public engagement, including timely consultation with communities, is inconsistent and must improve.
- **Risk appetite** – There is a low appetite for risk in some councils, where transformational activity is held back by fear of failure. Not every transformational change will succeed, but not progressing radical transformation is a greater risk.
- **Increased service demand** – Demand for services, such as social care and housing, has increased. This can limit councils’ capacity to focus on transformational activity.
- **Increasing costs** – The cost of materials and services has increased, affecting construction projects and social care in particular.

Source: Transformation in councils, Accounts Commission, October 2024