

# The Highland Council

Agenda Item	<b>13</b>
Report No	<b>RES/43/24</b>

**Committee:** Corporate Resources

**Date:** 5 December 2024

**Report Title:** Audit Scotland report – Transformation in Councils

**Report By:** Strategic Lead (Corporate Audit)

## 1. Purpose/Executive Summary

1.1 This report informs the Committee of a recent report issued by Audit Scotland on the subject of transformation in Councils. This was then followed by confirmation that this topic would be the subject of the third Best Value (BV3) thematic review. Further details of the review are provided in section 6 below.

## 2. Recommendations

2.1 Members are asked to:

- i. Consider and **note** the Audit Scotland report and in particular the key messages on pages 3 and 4 and the Commission expectations set out on page 5.
- ii. **Note**, consider and comment on the information set out in section 5 below including the assessment against Audit Scotland's the transformation principles which they expect all Councils to follow.
- iii. **Note** that Transformation is the third Best Value thematic topic and Audit Scotland will commence this review shortly with the findings reported next year.

## 3. Implications

3.1 **Resource:** There are no direct resource impacts arising from this report. However, the successful delivery of the plans referred to in section 5.3 will involve significant resources in terms of staff and budgets. Any additional resource requirements will be approved by the appropriate Committees.

3.2 **Legal:** There Council has a statutory duty to deliver Best Value.

3.3 **Risk:** there are recognised risks for the Delivery and Highland Investment Plans referred to at section 5.3 and these were specified in the relevant reports to Council. These should be addressed through the corporate risk management process and regular updates will be detailed in the reports to Council and the relevant Strategic Committees. Further information on risk is also provided in section 5.4.

3.4 **Health and Safety (risks arising from changes to plant, equipment, process, or people):** There are no Health & Safety implications arising from this report.

3.5 **Gaelic:** There are no Gaelic implications arising from this report.

#### 4. Impacts

4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.

4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.

4.3 This is an update report and therefore an impact assessment is not required.

#### 5. Audit Scotland report

5.1 On 1<sup>st</sup> October 2024, Audit Scotland issued a report on "Transformation in councils". A copy of this report is provided at **Appendix 1**. This report was previously considered by the Corporate Management Team on 10<sup>th</sup> October and is now presented for Member's consideration.

5.2 The report contains four key messages:

1. All Councils must transform how they deliver services in order to meet increased demands and ensure that their financial sustainability. Whilst the need for, and occurrence of, transformation has existed for a number of years, the scale and pace of change must be significantly increased.
2. The Transformation Programme agreed between Solace and the Improvement Service is at an early stage. More clarity is needed on the timescales for achieving outcomes and there are significant risks around workforce capacity and skills to realise ambitions.
3. Councils cannot deliver transformation alone, more effective collaboration and support is required from the Scottish Government, Community Planning and third sector partners to transform local services.
4. Public and political support is critical. Some Councils have experienced resistance from the public when proposing to reduce/ change services to balance budgets. Effective public engagement and timely consultation with communities is essential to prevent this being a barrier to transformation. Members also play an important role in supporting officers to progress transformation.

5.3 A number of principles have been developed setting out Audit Scotland's expectations for transformation activity in Councils (see Exhibit 1 on page 8). They have also stated that they expect all Councils to follow these principles. These are grouped under the headings of vision, planning, governance, collaboration and innovation. An assessment of the Council's position against these principles has been undertaken and is shown in the table below.

5.3.1 During the current financial year, the following significant plans have been approved by Council which means that the Council is well positioned to address the transformation principles. The plans have also been aligned to ensure that they link together as necessary.

- The [Operational Delivery Plan 2024-27](#) (DP) which was approved by Council on 9<sup>th</sup> May 2024. The Delivery Plan supports the Council Programme with the aim of improving the outcomes for people and communities across the Highland area. Critically it links to the Council’s Medium Term Financial Plan 2024/25 to 2026/27 and the delivery of £54m in recurring budget savings. Therefore, this should be recognised as the Council’s transformation programme with the prime aim of ensuring financial sustainability of the Council.
- The [Highland Investment Plan](#) (HIP) was also approved by Council on 9<sup>th</sup> May 2024. As a result, new and additional capital investment of £797m over 10 years and £2.077.5m over the next 20 years was agreed. The HIP has a number of different aims including enabling significant transformational change, providing improved facilities for our communities and enabling changes to the future delivery of Council services through Community Points of Service Delivery. Some of this work will also be undertaken with partners.
- The reset [Highland Outcome Improvement Plan](#) (HOIP) considered by Council on 19<sup>th</sup> September 2024. The HOIP is the strategic plan for the Highland Community Planning Partnership.
- The [Community Wealth Building Strategy](#) agreed by Council on 19<sup>th</sup> September 2024. This has been described as a people centred approach to economic development which aims to ensure every area and community participates and benefits from economic activity.

5.3.2 In addition to the above, the existing Digital Strategy approved by this Committee in September 2022 and the People Strategy will be key enablers to support transformation.

<b>Principle</b>	<b>Assessment</b>
<p><b>Vision</b> Have a clear vision that sets out the intended end state of any transformation activity, focused on:</p> <ul style="list-style-type: none"> <li>• delivering large-scale recurring savings or generating income for the council, contributing to its longer-term financial sustainability</li> <li>• improving outcomes for citizens in line with council priorities</li> <li>• taking a whole-system approach to see and realise opportunities both within councils and more widely</li> <li>• meeting the needs of the people who use services and reduce inequalities</li> <li>• focusing on preventative activity, where applicable, to reduce the demand for services and to make them sustainable in the longer term.</li> </ul>	<p>This information is set out in each of the reports above.</p>

<p><b>Planning</b></p> <ul style="list-style-type: none"> <li>• Be clear on the scale of the change required and ensure transformation plans are sufficiently ambitious to credibly respond to the scale of the challenge.</li> <li>• Commit staff with appropriate skills, time and resources to ensure transformation occurs at the scale and pace required and that there is enough capacity for the changes to be embedded.</li> <li>• Be clear about the timescales, costs, outcomes, and anticipated impacts of transformation projects.</li> <li>• Show urgency and progress projects at pace without compromising appropriate governance on projects.</li> </ul>	<p>This information is set out in each of the reports above.</p>
<p><b>Governance</b></p> <ul style="list-style-type: none"> <li>• Have a clear process for monitoring, evaluating and reporting progress.</li> <li>• Put in place effective governance and escalation processes so that the transformation activities are well managed in their own right, but also able to be given priority alongside other business-as-usual activities.</li> </ul>	<p>This information has been provided in the reports above. Committees receive regular update reports on the Delivery Plan progress and separate reports are on this agenda in respect of the Corporate Solutions and Income Generation Portfolios.</p>
<p><b>Collaboration</b></p> <ul style="list-style-type: none"> <li>• Develop better working relationships with communities and/or partners to achieve a sustainable model of service delivery.</li> <li>• Actively consider the opportunities offered by regional or national sectoral collaboration, or by integrating services locally with partners, or by supporting individuals and communities to achieve desired outcomes in place of an existing service.</li> <li>• Learn from good practice across Scotland and beyond.</li> </ul>	<p>This has been recognised within the reports above and the individual plans. In particular, the importance of collaboration is recognised within the DP both internally across services and with partners. A number of different programmes and projects link directly with the HOIP.</p>
<p><b>Innovation</b></p> <ul style="list-style-type: none"> <li>• Implement new ways of thinking, including innovation, creativity and a desire, willingness and action to change and do things in new and different ways that achieve the outcomes needed.</li> <li>• Embed the right culture and behaviours to manage change and</li> </ul>	<p>The above reports and new plans demonstrates that the Council's willingness to new ways of thinking in order to achieve the desired outcomes. The DP and HIP are new developments with the aim of supporting transformation. There are a number of examples of innovation within the DP</p>

<p>help maximise the contribution of all the team.</p>	<p>such as Terra Tracker, The Storr Project and Council Tax.</p> <p>The People Strategy and the updated Corporate Workforce Planning Strategy which is a separate agenda item address the culture and behaviour changes required.</p>
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- 5.3.3 The information above shows that the Council has a number of plans and strategies in place in order to transform services and achieve financial sustainability. Planning is of course only one key element, with the successful delivery of these plans and transformation being critical.
- 5.4 The report also sets out a number of barriers to transformation within exhibit 2 on page 11. Many of these will be recognised as applicable to the Council including the cost of living, workforce pressures and demographic pressures. Audit Scotland recognise that some of the barriers are external and outside the Council’s control. However, where they do have control, then they expect that we do all we can to overcome or remove any barriers to transformation.
- 5.4.1 One of the barriers is in relation to risk appetite and Audit Scotland have reported that *“there is a low appetite for risk in some councils, where transformational activity is held back by fear of failure.”* Furthermore, they state *“Not every transformational change will succeed, but not progressing radical transformation is a greater risk.”*
- 5.4.2 Members will be aware that the Council agreed a [new risk appetite statement](#) in March this year and this is supported by an updated Corporate Risk Management Policy. It is considered that the Council’s risk appetite meets Audit Scotland’s expectations as the top appetite level – “Hungry” is defined as: *“Eager for innovation and activities that focus on maximising opportunities. These activities will generate additional benefits and potentially very high rewards but carry a very high level of risk.”*
- 5.5 In the report relating to the revenue budget agreed by Council in February 2024, the Chief Officer – Corporate Finance and Section 95 Officer set out the scale of the financial challenges and associated risks facing the Council. This report also included the Section 95 Officer’s view that the Council is making important and positive steps towards improving its medium to long-term financial sustainability and outlined the risks.

## 6. BV3 Review

- 6.1 On 9<sup>th</sup> October we received notification from our local External Auditors detailing the scope of the BV3 thematic review on transformation. The areas of focus will be:
- 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 communities and partners 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?

- 6.2 This review is planned to be undertaken during the period late January to the end of April 2025. Officers have started planning for this review and it is considered that the Council should be well placed for this given the work undertaken so far. However, the scale and ambition of the Delivery Plan and the associated savings required to be delivered should not be underestimated.
- 6.3 Notwithstanding the evidence and views presented earlier in this report, it should be recognised that the Council has ambitious plans in place including proportionate governance to support delivery. However, noting the barriers as discussed at 5.4, the ultimate delivery of these changes presents a significant challenge. There are various factors that can influence successful delivery including talent attraction, partnership working, culture change and improved broadband connectivity, some of which are beyond the Council's control.
- 6.4 The outcome of the BV3 review will be reported to the Audit Committee in September 2025. A national overview report for all Scottish Councils is then expected in Spring 2026.

Designation: Strategic Lead (Corporate Audit)

Date: 12 November 2024

Author: Donna Sutherland, Strategic Lead (Corporate Audit)

Appendices: Appendix 1: Audit Scotland report on Transformation in Councils

# Transformation in councils

Sector-led change and collaboration to achieve financial sustainability



ACCOUNTS COMMISSION 

Prepared by Audit Scotland  
October 2024



# Contents

Key messages	3
Commission expectations	5
Introduction	6
1. Councils must transform to become financially sustainable	7
2. Urgent action is required to progress transformation	12



## Accessibility

You can find out more and read this report using assistive technology on our website [www.audit.scot/accessibility](http://www.audit.scot/accessibility).

## Audit team

The core audit team consisted of: Derek Hoy, Lucy Jones, Lorna Munro, Becki Lancaster and Niamh Pritchard under the direction of Blyth Deans.



# Key messages

- 1** As financial and service demand challenges continue to deepen, councils know they urgently need to transform how they deliver services. Transformation in local government has been happening for decades, but a step change is now urgently required. Councils face barriers to transformation and progress has been slow, but reform is vital and must happen at greater pace and scale. Not doing so puts the sustainability of vital public services at risk.
- 2** To meet these challenges, the Society of Local Authority Chief Executives (Solace) and the Improvement Service have put in place a sector-led Transformation Programme. This is focused on developing proposals for a future operating model for councils through short-term transformation projects, dialogue with public sector partners and a forum for developing leadership capabilities. The Transformation Programme is a positive development representing a radical change to how councils work towards transformation. But the work is at an early stage. More clarity is needed on the timescales for achieving outcomes and there are significant risks around workforce capacity and skills to realise ambitions.
- 3** Councils cannot deliver transformation alone and it is essential that the Scottish Government and Community Planning and third sector partners support the transformation of local services through more effective collaboration. Achieving consensus on the longer-term vision for local services is crucial. Faster progress in delivering the aims of the Verity House Agreement (VHA) should also aid the development and delivery of sector-led and local transformation work.

- 4 Public and political support is critical. All elected members must exercise their responsibilities to give clarity on the longer-term vision and ambitions of the councils they represent. A coordinated sector-wide public engagement and communication campaign should be undertaken to help gain backing from communities. To deliver on the change now urgently needed, councils must prioritise both capacity and capability in their workforces to match the ambition and pace needed to transform. This is highly challenging given the significant pressures they face to deliver day-to-day services.
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# Commission expectations

The Commission recognises the challenging situation councils and their public and third sector partners face and welcomes the Transformation Programme. It sees the potential of sector-led transformation work, alongside other local approaches, to help councils achieve financial sustainability and deliver better outcomes in the medium to long term. Effective collaboration is needed across the sector to realise that potential. While this work is at an early stage, the Commission urgently calls for the pace to be accelerated.

In the next 12 months we expect:

- the **local government sector**, the **Scottish Government** and councils' **Community Planning and third sector partners** to make significant progress in agreeing a future operating model for councils and how council services can be sustainably delivered according to local circumstances
- the **local government sector** to initiate an effective coordinated public engagement campaign to obtain agreement on the future operating model for councils, how it will be achieved, and the impact this will have on communities
- **Solace and the Improvement Service** to sustain momentum of the Transformation Programme and be clear on the actions needed to successfully deliver across the different workstreams. This includes more clarity on timescales, costs, resources, outcomes, outputs and impact
- the **Convention of Scottish Local Authorities (COSLA)** and the **Scottish Government** to make sustained progress on the commitments within the VHA including to agree a fiscal framework, an accountability and assurance framework and to conclude the Local Governance Review
- **individual councils** to prioritise and urgently progress the delivery of their local transformation ambitions and engage effectively in sector-led transformation activity, securing political backing and committing resources. We will be auditing local transformation work through year three of our Best Value reporting programme that starts in October 2024.

# Introduction

**1.** This report is part of a series of outputs produced by the Accounts Commission that, taken together, provide an independent overview of the local government sector. It provides an insight into how the sector is responding to a key challenge currently facing local government. The report follows on from three other outputs in the series published earlier in 2024: [Local government in Scotland: Financial bulletin 2022/23](#), [Local government budgets 2024/25](#) and a [Local government blog on benchmarking and performance](#). It also draws on local Best Value audit work and the Accounts Commission's wider work programme.

**2.** This report looks at the role that transformation and collaboration can play in helping councils to achieve financial sustainability. The work undertaken to date in the series has brought financial sustainability into sharp focus. This report provides an opportunity for the Accounts Commission to assess progress with sector-led approaches to transformation. It will set the scene for the analysis of plans for transformation at an individual council level that will be captured as part of our Best Value thematic focus in the 2024/25 annual audit, with the national Best Value thematic report on transformation scheduled for 2026.

**3.** Financial sustainability is an issue that extends across the whole public sector. This report complements work planned by the Auditor General for Scotland on the Scottish Government's approach to fiscal sustainability and reform due for publication later this year.



## **Local government in Scotland: Financial bulletin 2022/23**

provides a high-level independent analysis of the financial performance of councils during 2022/23, including funding and expenditure, year end financial position and the financial outlook.



## **Local government budgets 2024/25**

examines the 2024/25 budgets set by councils, including analysis of anticipated budget gaps and actions to set a balanced budget.

# 1. Councils must transform to become financially sustainable

## Councils face significant financial sustainability challenges, placing vital public services at risk

4. We reported last year in our [Local government overview 2023](#) that councils have never faced such a challenging situation, with increasing demand, workforce pressures and council budgets under severe strain. Our audit work over the past year has continued to show the significant financial sustainability challenges councils face, placing vital public services at risk:

- Our most recent assessment of councils' financial position and outlook, in our [Local government in Scotland: Financial bulletin 2022/23](#), was that the financial outlook is extremely challenging and presents real risks for the future.
- Our [Local government budgets 2024/25](#) report found that councils have had to make difficult budget-setting decisions for 2024/25 to bridge a gap of at least £585 million between their anticipated expenditure and the funding and income they expect to receive (the 'budget gap'). The budget gap is estimated to rise to £780 million by 2026/27, which represents five per cent of councils' revenue budget.
- Our [blog on performance reporting](#) included findings from the latest [Local Government Benchmarking Framework annual report](#) that shows the pace of improvement in council services is slowing. 2022/23 is the first year that the rate of decline in indicators has overtaken the rate of improvement.
- Our Best Value work in the last year highlighted the risk to financial sustainability and the need for transformation.






5. The unprecedented financial and service demand pressures mean there is an urgent need for the local government sector to transform how it operates if it is to sustainably maintain services.

6. We recognise that there is no single, concise definition of transformation in a local government context. Transformation means different things for different councils, and individual councils must have the flexibility to transform their service delivery appropriate to the needs of their communities. We have developed some principles ([Exhibit 1, page 8](#)) to help guide all councils around our expectations for transformational activity at a council level, while allowing for the flexibility required. We expect all councils to follow those principles.

## Exhibit 1.

### Transformation principles

Transformation is about radically changing how councils operate and deliver services to achieve planned outcomes in a financially sustainable way.

<p><b>Vision</b></p> 	<p>Have a clear vision that sets out the intended end state of any transformation activity, focused on:</p> <ul style="list-style-type: none"> <li>• delivering large-scale recurring savings or generating income for the council, contributing to its longer-term financial sustainability</li> <li>• improving outcomes for citizens in line with council priorities</li> <li>• taking a whole-system approach to see and realise opportunities both within councils and more widely</li> <li>• meeting the needs of the people who use services and reduce inequalities</li> <li>• focusing on preventative activity, where applicable, to reduce the demand for services and to make them sustainable in the longer term.</li> </ul>
<p><b>Planning</b></p> 	<ul style="list-style-type: none"> <li>• Be clear on the scale of the change required and ensure transformation plans are sufficiently ambitious to credibly respond to the scale of the challenge.</li> <li>• Commit staff with appropriate skills, time and resources to ensure transformation occurs at the scale and pace required and that there is enough capacity for the changes to be embedded.</li> <li>• Be clear about the timescales, costs, outcomes, and anticipated impacts of transformation projects.</li> <li>• Show urgency and progress projects at pace without compromising appropriate governance on projects.</li> </ul>
<p><b>Governance</b></p> 	<ul style="list-style-type: none"> <li>• Have a clear process for monitoring, evaluating and reporting progress.</li> <li>• Put in place effective governance and escalation processes so that the transformation activities are well managed in their own right, but also able to be given priority alongside other business-as-usual activities.</li> </ul>
<p><b>Collaboration</b></p> 	<ul style="list-style-type: none"> <li>• Develop better working relationships with communities and/or partners to achieve a sustainable model of service delivery.</li> <li>• Actively consider the opportunities offered by regional or national sectoral collaboration, or by integrating services locally with partners, or by supporting individuals and communities to achieve desired outcomes in place of an existing service.</li> <li>• Learn from good practice across Scotland and beyond.</li> </ul>
<p><b>Innovation</b></p> 	<ul style="list-style-type: none"> <li>• Implement new ways of thinking, including innovation, creativity and a desire, willingness and action to change and do things in new and different ways that achieve the outcomes needed.</li> <li>• Embed the right culture and behaviours to manage change and help maximise the contribution of all the team.</li> </ul>

- 7.** As we stated in our [Local government overview 2023](#), the Accounts Commission recognises how challenging it is for councils to work on three planning horizons: to continue to deliver services here and now, to identify and make improvements in the short term and to plan and implement longer-term radical change.
- 8.** Local government transformation is not a new concept and work in this area has been happening for decades. But a step change is needed, and the scale and pace of transformation must increase significantly. For example, that could be new innovative approaches to service delivery, reconsidering which services could be more effectively delivered by other partners, or identifying how economies of scale could be achieved by sharing services.
- 9.** Evidence from our Best Value reporting work shows that transformation activity across Scotland's 32 councils is varied. Some councils have made very little progress towards transformation. Others have shown some positive examples of innovative activity, but generally the scale and pace of transformation must increase.
- 10.** Councils have generally been effective in identifying and delivering efficiency savings and have continued to deliver services in recent years. But the scale of the challenge is significant and relying on efficiency savings alone to stay within budget is not sustainable. Ring-fenced and directed funding also makes it difficult for councils to identify opportunities to make the level of savings required through efficiencies alone. Overall, there is not enough evidence of truly transformational change taking place at a local level to address the financial sustainability challenges facing councils.
- 11.** Councils must ensure they fully engage in transformation and do all they can to deliver on their transformation ambitions. Our Best Value reporting shows the level of ambition to transform services is varied across Scotland's councils. Where there is a good level of ambition there is, in some cases, a gap between that ambition and the councils' ability to meet it.
- 12.** For example, we reported that Orkney Islands Council needs to show greater urgency in a range of areas, including medium-term financial planning, management of capital projects, and its approach to tackling climate change, if its plans for transformation are to be successful.
- 13.** We also reported that Moray Council must accelerate the pace and ambition of its plans for transformation and show clear, sustained evidence of this transformation. We highlighted the need to set out clear deliverables, deadlines and lines of accountability, and to ensure strong financial management, accurate forecasting and budget monitoring. We also acknowledged long-standing issues with recruiting senior staff, and the impact that has on the council's capacity to deliver its transformation programme.



**14.** Some councils have made good progress in establishing and delivering against their plans for transformation. Dundee City Council has embarked on a lengthy transformational programme, which is now integrated within the Council Plan and has delivered £147 million in savings. It is focusing on large-scale transformative changes including property rationalisation, digital service provision, service re-design, shared services and payments and income generation. This should align well with the sector-led transformation activity covered in [Part 2](#) of this report.

**15.** We know there are significant barriers that impact on councils' ability to deliver services efficiently and progress their transformation ambitions ([Exhibit 2, page 11](#)). Some of these barriers are external and not within councils' control. Others are internal or partially internal, and councils have at least some control over how they overcome or remove those barriers and should do all they can to do so.

**16.** These barriers partly account for the varied progress made so far across Scotland's councils. It is vital that councils show real ambition for transformative change and prioritise the capacity and capability to meet that ambition at the pace and scale required. Elected members must support officers in progressing transformation. Where appropriate, councils should look to other councils, public sector partners and industry for transformation best practices.

**17.** The scale and nature of the challenge means that councils cannot deliver sustainable services on their own. 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. Wider public service reform activities may change the context within which council services are delivered. It is important that councils also consider this within their transformation planning.

**18.** In our recent [Integration Joint Board \(IJB\) finance and performance overview 2024](#) we highlighted that the Scottish Government, councils, IJBs and health boards all need to work together to deliver sustainable health and social care services. That point applies more widely around sustainable council services, and it is vital that councils' Community Planning and third sector partners support the transformation of local services.



## Exhibit 2.

### 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.

## 2. Urgent action is required to progress transformation

### **Solace and the Improvement Service are in the early stages of delivering a Transformation Programme for councils**

**19.** The main sector-led piece of work currently under way to help councils reform how they deliver services is the Transformation Programme launched by Solace and the Improvement Service in September 2023. It is focused on developing proposals for a future operating model for councils and options for the delivery of sustainable council services. The programme builds on the model that was proposed in the [Delivering a future for Scottish Local authorities](#) report published by the Improvement Service in October 2022.

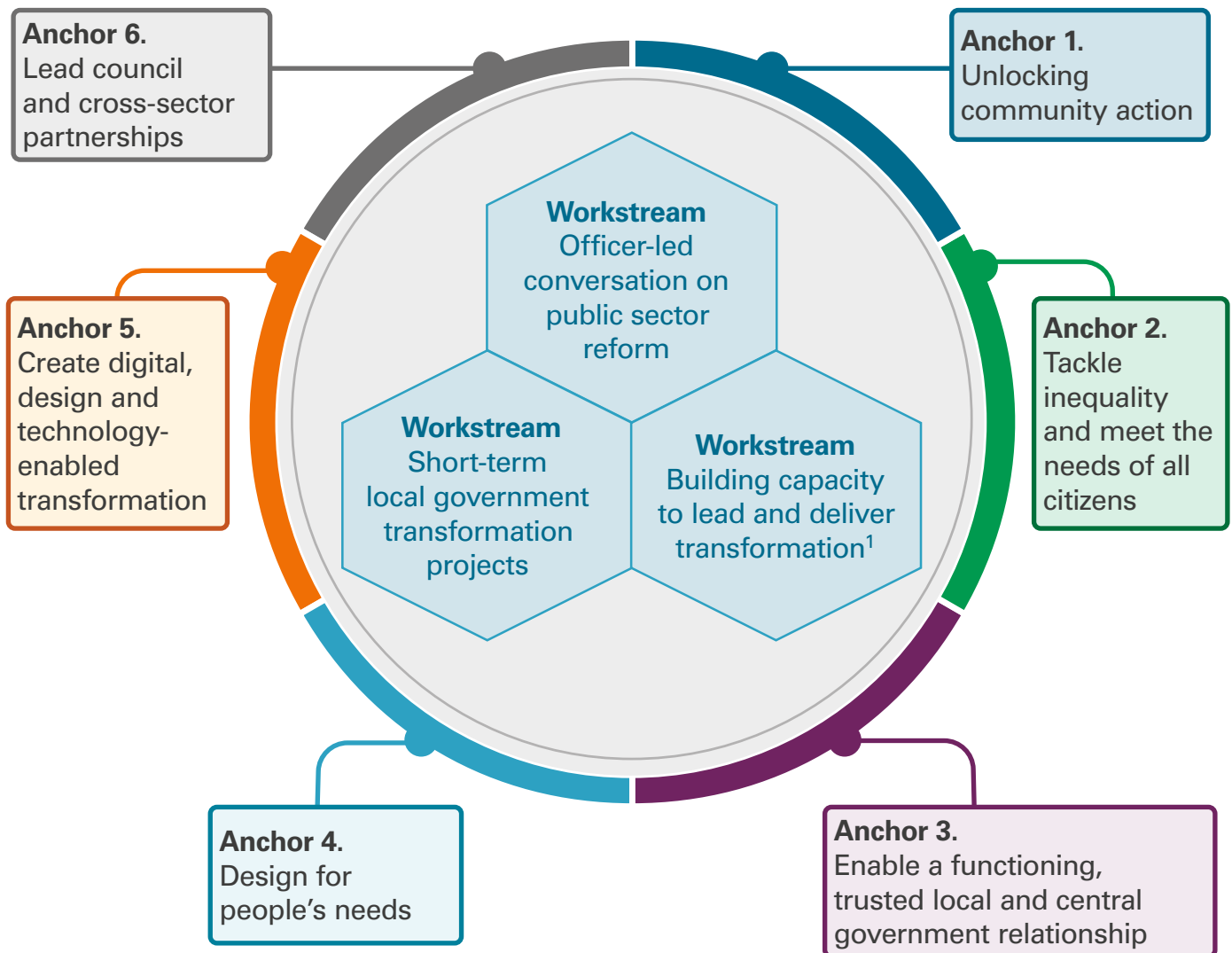
**20.** The Transformation Programme is structured around the six key anchors identified in that report as the building blocks to transformation. Each anchor is sponsored by a council chief executive. Sitting below the anchors are three workstreams, which contribute to one or more of the anchors ([Exhibit 3, page 13](#)).

**21.** The Transformation Programme is still in the early stages, but good progress has been made in engaging with most councils and a small number of other public service bodies on the programme.

**22.** There is a basic outline of, and justification for, the programme on the Improvement Service website. But generally, it is not yet clear how the public will be engaged at a sector level on how council services should be reformed.

**23.** Financial sustainability is one of the outcomes of the programme, but it is currently unclear what level of contribution the programme will make towards it. We expect that the financial benefits will become clearer as the programme moves from the planning and discovery phase to implementation.

## Exhibit 3. Transformation Programme structure



Note 1. Including the Leadership Practitioner Forum.

Source: Audit Scotland

## Progress against the Transformation Programme workstreams is at an early stage

### Short-term projects

**24.** Work began on six focused 12-to-18-month projects in January 2024. These are aimed at helping councils achieve savings and identify longer-term solutions and set the foundation for collaboration and joint working across local authorities.

**25.** The six short-term projects are:

- Collaboration within the local government sector on procurement.
- Analysis of local government's statutory and discretionary services.

- The full implementation of **Crerar** for Local Government.
- Development of a Digital To-Be State for Scottish Local Government.
- Identification of new digital shared services that could be delivered nationally or regionally.
- Repository of examples of active communities/participatory design.

**26.** These projects are at an early stage of development. Volunteers were identified early and they are progressing through the discovery phase to set goals and engage subject matter experts. Projects leads now need to develop and finalise business cases for each project to provide clarity on timescales, resources needed and impact over the short, medium and long term. Although the projects are short term, it is likely that some could take years to implement and for the benefits to be realised, particularly if legislative changes are required.

### **Building capacity to lead and deliver transformation**

**27.** Council chief executives have established a Leadership Practitioner Forum aimed at aspiring chief executives, directors and heads of service. It has been set up to facilitate collaboration on the Transformation Programme anchors and workstreams and to develop leadership capabilities for the future.

**28.** Thirty of the 32 councils have engaged to date. Five meetings have taken place, covering the purpose of the group, key challenges and opportunities, progress on other workstreams, the VHA and budget position, and the local government workforce.

**29.** The forum is a welcome development and momentum and engagement appear to be strong, but it is too early to see its impact. Councils should be clear on the lifespan of the forum, its intended specific outcomes in relation to developing leadership capabilities, and how success will be measured.

### **Officer-led conversation on public sector reform**

**30.** This workstream aligns with the VHA and focuses on the need for behaviours and actions to change to collaborate effectively on reform. It has a long-term ambition to implement radical public sector reform over the next three to five years. Twenty-eight of the 32 councils have engaged so far.

**31.** This workstream organised a round-table discussion in March 2024 on 'Delivering a Roadmap for Public Service Reform in Scotland'. There was representation at chief executive/chief officer level from local government (including COSLA), the Scottish Government, NHS, Scottish Fire and Rescue and the enterprise agencies. A follow up discussion is planned for the autumn.



**The Crerar Review,** published in 2007, examined the current systems of audit, regulation, inspection and complaint handling of public services in Scotland. It made a number of recommendations around better coordination of scrutiny, more emphasis placed on self assessment and that the number of scrutiny bodies should be reduced.

**32.** Local authority chief executives have demonstrated a clear desire to work with other public sector agencies and have taken steps to initiate dialogue with partners. It remains unclear how the councils and their partners intend to work collectively with shared ownership to make this happen. There must be clarity on how they will agree a vision and timeline for transformation across the sector.

**33.** As we state in [paragraph 18](#), it is essential that councils' Community Planning partners support the transformation of local services. There is a role for the Scottish Government, through its commitment in the VHA, to ensure that those public bodies that contribute to Community Planning play their part.

### **There are risks to the overall delivery of the Transformation Programme**

**34.** There are strategic risks to progressing transformation, which we discuss in [paragraphs 43–49](#). But there are also practical risks to the successful delivery of the Transformation Programme. Programme, workstream and project documentation is in place for most activity but there is not yet sufficient detail on timescales, costs, resources, outcomes, outputs and impact on the overall programme aims. These could provide reassurance and clarity for councils' medium to longer-term planning.

**35.** The Improvement Service is currently leading the programme, with the expectation that the role of councils develops as work progresses into the implementation phase. The Improvement Service would continue its programme management office function. The resource requirements are so far unquantified, with council staff supporting the programme on top of their day jobs. Councils should consider how to allocate staff resources to best build momentum with the programme and to minimise the risk of missing targets.

**36.** There are several facilitators of transformation associated with the Transformation Programme that have still to be progressed. There is a need for urgent action on these facilitators to minimise the risk of slow or no progress:

- **Preventative approach** – there is the opportunity for councils to minimise demand through a 'preventative approach' by developing a deeper understanding of lived experience in the community, with the Transformation Programme anchors one, two and four aimed at engaging communities.
- **Innovation culture (Helsinborg Innovation)** – fostering a culture of innovation and improvement, where new ideas are encouraged, tried and evaluated before being rolled out in a timeous manner. This was a key principle identified in the [Delivering a future for Scottish local authorities](#) report. This will need to be embraced and embedded as the Transformation Programme moves beyond the discovery phase if transformational change is to be successfully achieved at pace.

- **Whole public service approach** – delivery of services to ensure demand is supported in the right place at the right time, with a focus on improving the effectiveness of prevention services. Examples include support for affordable sustainable housing through planning processes, supporting public health initiatives and bolstering economic development opportunities and initiatives. Anchor six of the Transformation Programme is aimed at engaging within councils and other public sector partners.

## COSLA and the Scottish Government must take action to facilitate sector-wide transformation

### Slow progress on the commitments in the Verity House Agreement (VHA) poses a risk to transformation

**37.** The VHA between COSLA and the Scottish Government was designed as a reset of the relationship between central and local government. It sets out a vision for a more collaborative approach to delivering shared priorities. It also includes commitments to agree a new fiscal framework and an accountability and assurance framework, to minimise ring-fenced funding, to review specific grants to allow for greater local discretion and to conclude the **Local Governance Review** (LGR).

**38.** In our [Local government in Scotland: Financial bulletin 2022/23](#), published in January 2024, we reviewed early progress on the aims and commitments of the VHA and found key milestones had not been met. The VHA has now been in place for over a year and although discussions have taken place to progress several commitments, tangible progress is still limited:

- **Fiscal framework** – Joint discussions have progressed work and additional exploratory work has been undertaken to look at how a rules-based framework might be established (at the request of COSLA). However, capacity within both COSLA and the Scottish Government has limited sustained progress. We do not yet know what the framework will look like, and no new deadline for agreeing the framework has been set. While it is important to get things right so that the framework endures, we reiterate the recommendation we made in our [Local government in Scotland: Financial bulletin 2022/23](#) for momentum and progress to be accelerated.
- **Accountability and assurance framework** – The VHA set out a commitment to jointly develop simple structures for accountability and assurance. Work is ongoing to unpick some of the complex issues around: where accountability lies for policy priorities, the existing accountability and assurance arrangements in place within local government, how assurance can recognise local difference and how to achieve proportionate reporting. This work goes hand in hand with agreeing a fiscal framework (and specifically reductions to ring-fenced funding) and while discussions are ongoing it is not clear when this will be achieved.



### The Local Governance Review

looks at how power, responsibility and resources are shared with local government and different communities and what needs to change to enable public service reform, innovation and collective, whole system improvement.



- **Local governance review** – The review is now in its seventh year. It was paused during the Covid-19 pandemic and restarted in 2023. A report on the outcome of the latest consultation, Democracy Matters 2, was published in September 2024. The pace of work will need to be significantly improved if the commitment to conclude the review by the Scottish Parliament election in 2026 is to be achieved.

**39.** Several actions, decisions and behaviours have challenged and risked undermining the collaborative vision of the VHA. These include the former First Minister's announcement last October of a Council Tax freeze and the imposition of teacher numbers and learning hours.

**40.** COSLA and the Scottish Government must urgently take action to deliver on the commitments in the VHA. These are key facilitators to the successful delivery of transformation work and to councils' ability to achieve financial sustainability. Further delay poses a risk to achieving these at the pace required.

### **COSLA has the potential to facilitate sector-wide transformation and coordinate joint work with the Scottish Government**

**41.** In late 2023, COSLA established the 'Innovating Developing and Transforming' special interest group (SIG) to facilitate collaboration between political leaders, the Scottish Government and other key public sector partners. It aims to create a more coordinated, transparent and efficient local government system that prioritises citizen engagement, financial stability, and transformative change.

**42.** In April 2024, it agreed it would be the key stakeholder group for political engagement and monitoring progress on transformation work. While it is too early to see the impact of SIG's role in sector-led transformation work, it has potential to be an important mechanism for gaining political consensus on what the future of local government looks like. It also has the potential to facilitate better sector-wide public engagement and better collaboration between local and national government to implement the changes needed at both levels to achieve sustainable services that meet local needs.

### **Urgency and collaboration are needed across the sector to deliver transformation**

**43.** Councils are trying to deliver transformation in exceptionally difficult circumstances. Most councils, in common with most of the public sector, are finding it challenging just to deliver 'business as usual' services. They struggle to dedicate the time and resources to focus on long-term transformation work. But to deliver tangible progress, councils must commit to and sustain engagement with the Transformation Programme, other sector-led transformation work and their own plans for transformation, at political and officer level.

**44.** Sector-led transformation work across local government is at an early stage. It is a long-term process, and most of the sector-led workstreams and projects will not deliver outcomes for several years. Councils should not view these programmes of work as solutions to their immediate and short-term financial sustainability issues. Nor should councils rely solely on sector-led approaches to deliver their long-term transformation goals. They should press ahead with their own plans for transformation and do everything they can to deliver them successfully.

**45.** The sector must also do all it can to ensure sector-led transformation work meets the needs of all councils where possible. There must be shared aims, outcomes and priorities. But there is no one-size-fits-all solution. Any new model for service delivery in councils should be principles-based and not overly prescriptive. It should give councils the flexibility to change how they deliver their services to best meet the needs of their communities efficiently, effectively and sustainably.

**46.** There are overall risks to the successful delivery of sector-led transformation work. Councils should recognise those risks, take collective ownership of them and work together to overcome them. They must ensure sufficient time and resources are focused on this transformation work, and that effective governance, planning and scrutiny arrangements are in place.

**47.** Given the scale of the challenge, councils cannot deliver transformation on their own and the Scottish Government and other public bodies need to collaborate with local government on transformation work. Partners from across the sector must urgently come around the table to agree a shared understanding of what local government transformation looks like, how it aligns with wider public sector reform and what it should achieve, how and by when. The Transformation Programme provides a forum for those officer-led discussions to take place, and momentum must be gained so that tangible progress can be seen.

**48.** There must also be meaningful engagement with the people who use council services to ensure transformation is aligned to their needs. Councils have a responsibility to do this as they implement their own plans for transformation. But a coordinated sector-wide public engagement and communication campaign should help gain acceptance from communities on what sustainable local services could look like in the future and how that will be achieved. There is potential for COSLA, via its 'Innovating Developing and Transforming' special interest group, to help facilitate this sector-wide public engagement.

**49.** While transformation is a long-term ambition, the need for change, innovation and action is urgent. The longer it takes to create solutions to the financial sustainability challenges facing the sector, the tougher those challenges will become and the more difficult it will be to find solutions.



# Transformation in councils

Sector-led change and collaboration to achieve financial sustainability



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