

Best Value

Orkney Islands Council



ACCOUNTS COMMISSION 

Prepared by the Controller of Audit
January 2024

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Key facts

	390	Square miles (across 70 islands)
	22,540	Population
	1,911	Workforce (Full time equivalent)
	21	Elected Members 19 independent, 2 Scottish Green Party
	£27.1m	Savings required by 2027/28
	£99.9m	Net revenue budget 2022/23
	£61.5m	Capital programme 2022/23-2025/26 (£22.3m expenditure in 2022/23)

Commission findings

- 1** The Commission welcomes and endorses the Controller of Audit's report on Best Value in Orkney Islands Council.
- 2** We welcome the progress made by the council since our Best Value Assurance Report in 2017, including completion of the actions it committed to following that report, and commend the council for continuing to provide high-quality services that are appreciated by residents.
- 3** The council has effective strategic planning and performance reporting, with clear priorities set out in the Council Plan, supported by a Delivery Plan and subject to regular monitoring. The council also shows good compliance with the Commission's Statutory Performance Information Direction.
- 4** We recognise that, as an islands authority, Orkney faces particular challenges, including in relation to staffing and capacity. At the same time, the council has potential opportunities offered by its wide range of responsibilities, abundant natural resources, and its positive relationship with the local community.
- 5** However, the Commission believes there is a significant gap between the council's future transformation plans and ambitions and its ability to deliver on them. A greater sense of urgency is needed from the council in a range of areas, including medium-term financial planning, management of capital projects, and its approach to tackling climate change.
- 6** We note the scale of the council's reserves and its stated intention to use those reserves in a sustainable manner. However, the council is projecting a very large budget shortfall over the coming years and has relied on use of its reserves rather than achieving significant savings to close previous budget gaps. We agree with the Controller that it needs to develop and implement detailed operational service plans to put its finances on a more sustainable footing over the next three years. We also urge the council to review its strategy for the sustainable use of its strategic reserve fund earlier than its target date of March 2025.

- 7** The council has seen slippage in the delivery of capital projects over a number of years. Related to this, the Commission is not clear on whether the council is on track to achieve its ambitious target of achieving net zero carbon emissions by 2030. The council must provide more clarity on when it will publish a revised climate change strategy and action plan.
 - 8** While the council's undertaking of a review of its community consultation and engagement is to be welcomed, the Commission would like to see this concluded sooner. We look forward to seeing the outcomes of this review, as well as any wider actions the council intend to take to ensure it maintains regular, structured engagement with residents throughout the year.
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Controller of Audit report

- 1.** This report is made by the Controller of Audit to the Commission under Section 102(1) of the amended Local Government (Scotland) Act 1973.
- 2.** This report draws the Commission's attention to the findings set out in the 2022/23 Annual Audit Report (AAR) ([Appendix 1](#)), including the Best Value thematic report, on how effectively Orkney Islands Council demonstrates Best Value ([Appendix 2](#)) through continuous improvement in how it delivers its strategic priorities. The report is part of the new audit approach to Best Value which is fully integrated with the annual audit at each council and includes detailed work each year focusing on a national theme.
- 3.** Overall the council continues to make progress in securing Best Value and setting its overarching strategic direction. The council incorporated improvement actions identified in the 2017 Best Value Assurance Report (BVAR) in its 2018-2023 Council Delivery Plan and reported these as implemented. Audit work across 2020/21 and 2021/22 identified that issues raised in our BVAR were still applicable to the council including capital slippage and long-term financial planning. Auditors concluded that external factors such as the pandemic may have limited the impact of the actions taken and that the areas previously identified should continue to be a focus for improvement in order to drive forward the change required.
- 4.** The council has effective strategic planning in place and has set a clear vision. The Council Plan (2023-2028) is informed by Orkney's Community Plan 2023-2030 (its Local Outcomes Improvement Plan). It sets clear priorities which include a focus on inequalities and climate change. The Council Plan is supported by a Delivery Plan and the council is in the process of developing four directorate-level delivery plans that include the projects, services, and policies required to achieve its objectives.
- 5.** The council agreed its new workforce plan in June 2022. It approved a Digital Strategy Delivery Plan in September 2023 and has property asset plans in place.

However its asset plans are now due for review and will require alignment with the new Council Plan.

- 6.** Performance management in the council provides a sound base for improvement. The Council Plan includes performance measures and targets from both the Local Government Benchmarking Framework (LGBF) and the community plan. Its Policy and Resources Committee

receives six-monthly Council Plan and service plan performance monitoring reports. The council has incorporated annual self-assessment into its service planning process.

7. The council has a clear focus on reporting LGBF indicators which are related to priorities in the Council Plan. Performance reports provide narrative context for each indicator, and the council has developed further quantifiable key performance indicators to support this. The first reports for its new 2023-28 Council Plan will start from 2024/25 as part of its revised performance management arrangements for its new Council Plan.

8. The council has arrangements in place to comply with the Commission's SPI Direction. It reports on service performance, with reference to the LGBF and also Best Value and external inspections. The 2022/23 AAR noted that the latest available service performance information on the council's webpages relates to September 2021, though the annual report for 2022-2023 has since been uploaded and is available.

The council should ensure it keeps performance related information on its website up to date.

9. Public satisfaction with local services is historically good. There has been a slight improvement in performance across council services in recent years, however, looking across Scotland, the proportion of LGBF indicators in the upper two performance quartiles has fallen to 50 per cent in 2021/22 from 55 percent in the previous year. Areas performing less well include cost indicators such as cost per primary school pupil, cost per home care hour and council tax collection costs.

10. In 2021/22, of the 19 LGBF indicators the council identifies as aligned with the Council Plan priorities, five indicate the council is in the top quartile of councils, five indicate the council is in the second quartile, and it is in the bottom two quartiles for the remaining nine. The council plans to undertake further analysis across all LGBF indicators to identify any areas for improvement by August 2024.

The council should carry out a root cause analysis to monitor service performance, particularly in areas aligned to council priorities.

11. The council has a track record of working well with partners and communities and this has continued. It has engaged communities effectively over its priorities, including harder to reach groups. Consultation on the Council Plan involved an 'Orkney Matters' survey and a series of online meetings, with dedicated sessions for schools and community

groups. A public consultation was used to inform the draft plan before it was finalised. Community engagement related outcomes and performance targets are built into the council's strategic planning process.

12. The council is undertaking a Community Consultation and Engagement review to improve citizen involvement and standardise the tools and approach across the partnership. The review will also consider the ongoing use of its Orkney Opinions citizens panel which had stopped during the Covid-19 period. The project's goals and objectives are to be determined by 31 December 2024, with an anticipated project completion date of March 2026.

As part of this review, the council should consider how it can ensure regular and structured consultation throughout the year, and seek stakeholder views on the proposed and implemented approach.

13. The Orkney Community Planning Partnership's first Locality Plan for 2018-2021 focused on the ferry-linked isles, but progress had stalled due to the pandemic. The council is preparing a new locality plan for its ferry-linked isles to be completed by 31 March 2024.

It should support The Orkney Partnership to assess the extent to which further plans are necessary.

14. The council has a clear understanding of inequalities faced by its island communities. Equalities impact, and island communities impact assessments were carried out in developing the Council Plan. The council had presented these assessments together with the Council Plan to the Policy and Resources Committee. The council has published its impact assessments together with the associated committee meeting reports but it has not published them on the relevant area of its website since 2018.

The council should ensure that up-to-date equalities impact assessments are readily available on its website.

15. The community plan and the Council Plan include poverty and inequality related outcomes, with supporting measures and targets. However the Council Delivery Plan does not include specific inequality measures or actions. The council presented its Equality Outcomes 2023-2027 report to Policy and Resources Committee in September 2023 and

work is ongoing to develop the associated performance indicators and delivery plan. Until these are completed, there is a risk that the council is not able to monitor and achieve its stated equality outcomes objectives.

The council should develop delivery plans with specific inequality related performance measures to support its equalities outcomes.

16. The council has identified climate change as a strategic priority and it has developed associated action plans and performance measures. It aims to become net zero by 2030. Its 2016-26 Carbon Management programme aims to reduce the council's carbon emissions by 42 per cent by 2025 compared to 2004/05 base levels. As at 2021/22, the council had achieved an 18 per cent reduction.

The council should continue to develop its climate related strategies and associated delivery plans and include financial impacts in its future budgets and the medium-term financial plan.

17. The council has benefited from a strong financial position for many years and income from its harbour activities has contributed to substantial financial reserves. This has allowed it to meet short and medium-term budget pressures and reduce pressure on its front-line services.

18. Financial sustainability is a key focus of the Council Plan. A medium-term financial strategy (MTFS) is in place that includes scenario planning. The risks associated with the assumptions in the MTFS include forecast error, economic performance (including inflation assumptions), changes to Scottish Government spending, political pressure, and demand-led need.

19. The MTFS identifies a potential funding gap of £27.1 million over its 2023-2028 term. The council plans to achieve a sustainable financial position over the next three years. The MTFS only identifies high-level approaches to address this shortfall, for example income opportunities and service redesign.

It now needs to develop and implement detailed operational service plans to bridge the gap. In doing so, it should ensure that it undertakes equality impact assessments, including Island Communities Impact Assessments where applicable.

20. The council has a significant Strategic Reserve Fund of £188 million which has accumulated as part of its Harbour Authority Account. It is available to support the wider activities of the council and is used as part of the annual revenue budget. The council approved a contribution from the fund of £6.35 million for 2023/24. It intends to reduce such use throughout the period of the MTFS. The council also carried out a budget review and long-term forecast of the Strategic Reserve Fund which included setting a minimum balance of £231 million. It has fallen below this level in 2022/23, primarily as a result of a fall in value of underlying investments.

21. Pressures on investment returns together with falling general fund balances make the current approach unsustainable in the medium term.

The council should carry out detailed analysis to develop a strategy for the sustainable use of the Strategic Reserve Fund taking into account its longer-term plans and commitments.

22. The 2021/22 AAR recommended the council addresses recurring slippage in its capital programme, however this has continued in 2022/23. A capital outturn report presented to Policy and Resources Committee in September 2023 indicated an approximate 20 per cent (£6 million) underspend on the combined general / non-general fund capital programme of £30.2 million.

23. The MTFS notes that the capital programme for the future years is being developed and will be incorporated in the future revenue budgets to fully integrate the revenue and the capital budget process. The council delivery plan identifies the objective to finalise and approve the new capital programme in 2024/25.

24. The council reviewed its organisational structures in 2021/22, introducing five directorates and has developed a workforce plan, however it continues to face capacity pressures. It successfully recruited a permanent chief executive in January 2023, replacing the former interim chief executive of three years.

25. As a small islands authority, the council undertakes a comparatively wide range of responsibilities including harbours, ferry services and colleges. The MTFS identifies recruitment and retention as an area of key financial risk. This adds to its capacity pressures in delivering the scale of change needed to meet its strategic and financial objectives and deliver its ambitious plans for change in areas including renewable energy and green ferry services.

26. I look forward to seeing the progress the council makes in taking forward the recommendations from the auditor outlined in Appendix 2 of the AAR, and in the Improvement Action Plan outlined in Appendix 1 of the Best Value Thematic Report 2022/23 in due course.

Appendix 1.

2022/23 Annual Audit Report

This report summarises the findings from the 2022/23 annual audit of Orkney Islands Council.

This Annual Audit Report comprises:

- significant matters arising from the audit of the council's Annual Accounts.
- conclusions on the council's performance in meeting its Best Value duties.
- conclusions on the following wider scope areas that frame public audit as set out in the Code of Audit Practice 2021:
 - Financial management
 - Financial sustainability
 - Vision, leadership and governance
 - Use of resources to improve outcomes.



[2022/23 Annual Audit Report](#)

Orkney Islands Council

January 2024



Appendix 2.

Best Value

[The Local Government in Scotland Act 2003](#) introduced a statutory framework for Best Value for local authorities. The Best Value duties set out in the Act are:

- to make arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost); and, in making those arrangements and securing that balance, to have regard to economy, efficiency, effectiveness, the equal opportunities requirement and to contribute to the achievement of sustainable development.
- to achieve break-even trading accounts, subject to mandatory disclosure
- to observe proper accounting practices
- to make arrangements for the reporting to the public of the outcome of the performance of functions.

Best Value

Orkney Islands Council



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ISBN 978 1 915839 32 9