



Item: 5

Monitoring and Audit Committee: 5 February 2026.

Best Value Thematic Report 2024/25.

Report by Director of Education, Communities and Housing.

1. Overview

- 1.1. Under the Code of Audit Practice published by Audit Scotland, the audit of Best Value in Councils has become fully integrated with the annual audit work by appointed external auditors and their teams.
- 1.2. Auditors are required to report on Best Value or related themes prescribed by the Accounts Commission.
- 1.3. The theme for 2024/25 was transformation; how Councils are redesigning and delivering more efficient services to achieve planned outcomes.
- 1.4. The audit, undertaken by the Council's external auditors, KPMG, considered 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?
- 1.5. The key messages highlighted in the audit report are:
 - The Council's plans for transformation are embedded within its key plans and strategies and align with its corporate priorities. It does not have an overarching transformation programme, but 'transforming our council' is a key theme underlying its plans.
 - Transformation projects are in alignment with the strategic planning documents. Further details are included in the individual project documents.
 - The Council's transformation projects vary in scale, and it is clear how they will address its funding gaps/contribute to the financial sustainability of the Council. However, the Council needs to consider projects to generate further

cost savings/income generation required to address the financial challenge identified as part of the financial strategy.

- The Council does not have a dedicated programme management office. Committee and officer led arrangements are in place to facilitate the governance and oversight of the transformational activity.
- The Council has scrutiny arrangements in place for reporting progress to the senior leadership team and elected members.
- The Council faces challenges, including sufficient staffing capacity, to deliver its transformation ambitions.
- The Council has demonstrated that it is working with partners to deliver its transformation initiatives.
- There are examples of joint funding arrangements between the Council and partners for transformation projects.
- The Council has engaged with communities, including the third sector and vulnerable groups, to inform its transformation plans.
- There is evidence that timely Equality Impact Assessments have informed the Council's transformation plans.
- The Council's transformation activity has had a positive impact on its services and has delivered positive outcomes for communities.

- 1.6. An improvement action plan is included on page 18 of the Best Value Thematic Review Report 2024/25, attached as Appendix 1 to this report.

2. Recommendations

- 2.1. It is recommended that members of the Committee:

- i. Scrutinise the key messages and improvement actions outlined in the Best Value Thematic Report 2024/25: Transformation, attached as Appendix 1 to this report.

For Further Information please contact:

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Implications of Report

1. **Financial** – The indicative audit fee payable to KPMG for the audit work on the 2024/25 audit is £242,810, an increase of £4,550 or 1.9% from the £238,260 fee for financial year 2023/2024.

2. **Legal** – The Council has a duty under the Local Government in Scotland Act 2003 to make arrangements which secure best value. Best value is defined as continuous improvement in the performance of the Council's functions.
3. **Corporate Governance** – In terms of the Scheme of Administration, consideration of External Audit findings and recommendations, and review of actions taken on recommendations made, are referred functions of the Monitoring and Audit Committee.
4. **Human Resources** – Not applicable.
5. **Equalities** – An Equality Impact Assessment is not required in respect of audit reporting.
6. **Island Communities Impact** - An Island Communities Impact Assessment is not required in respect of audit reporting.
7. **Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:
 - Growing our economy.
 - Strengthening our communities.
 - Developing our Infrastructure.
 - Transforming our Council.
8. **Links to Local Outcomes Improvement Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:
 - Cost of Living.
 - Sustainable Development.
 - Local Equality.
 - Improving Population Health.
9. **Environmental and Climate Risk** – Not applicable.
10. **Risk** - Not applicable.
11. **Procurement** - Not applicable.
12. **Health and Safety** - Not applicable.
13. **Property and Assets** - Not applicable.
14. **Information Technology** - Not applicable.
15. **Cost of Living** – Not applicable.

List of Background Papers

None.

Appendix

Appendix 1: Best Value Thematic Report 2024/25.

Best Value thematic work

Orkney Islands Council

Transformation: how councils are redesigning and delivering more efficient services to achieve planned outcomes

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Key messages

- 1** The council's plans for transformation are embedded within its key plans and strategies and align with its corporate priorities. It does not have an overarching transformation programme, but 'transforming our council' is a key theme underlying its plans.
- 2** Transformation projects are in alignment with the strategic planning documents. Further details are included in the individual project documents.
- 3** The council's transformation projects vary in scale, and it is clear how they will address its funding gaps/ contribute to the financial sustainability of the Council. However, the council needs to consider projects to generate further cost savings/income generation required to address the financial challenge identified as part of the financial strategy.
- 4** The Council does not have a dedicated programme management office. Committee and officer led arrangements are in place to facilitate the governance and oversight of the transformational activity
- 5** The council has scrutiny arrangements in place for reporting progress to the senior leadership team and elected members.
- 6** The Council faces challenges including sufficient staffing capacity to deliver its transformation ambitions.
- 7** The Council has demonstrated that it is working with partners to deliver its transformation initiatives.
- 8** There are examples of joint funding arrangements between the council and partners for transformation projects.
- 9** The council has engaged with communities including the third sector and vulnerable groups to inform its transformation plans.
- 10** There is evidence that timely equality impact assessments have informed the council's transformation plans.
- 11** The council's transformation activity has had a positive impact on its services and has delivered positive outcomes for communities.

Introduction

1. The [2023 Local Government Overview \(LGO\)](#) notes that councils have never faced such a challenging situation. Service demands have increased after the Covid-19 pandemic and funding is forecast to reduce in real terms. Transformation, through greater collaboration with partners, will be key for councils to deliver more sustainable service models in challenging financial climates.

2. This report sets out how the council is redesigning and delivering more efficient services to achieve planned outcomes.

3. [The Accounts Commission's Strategy \(2021-26\)](#) sets out its priorities to focus on inequalities, funding, communities and recovery. The [Code of Audit Practice](#) sets out the Best Value work required to report on these priorities.

4. This report covers the thematic aspect of the Best Value audit requirements. The Commission has 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 considered 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?

5. An improvement action plan is included at Appendix 1 of this report. This sets out audit recommendations in key areas, and the council's planned response including responsible officers and dates for implementation.

6. The coverage of the 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, Best Value Statutory Guidance 2020](#).

Transformation planning

7. The council needs to ensure it can deliver sustainable services now and in the future, and difficult decisions will need to be made to achieve this.

The Accounts Commission's [Local government budgets 2024/25](#) briefing noted that councils' cumulative funding gap between 2025/26 and 2026/27 is £780 million. This means that, cumulatively, councils need to identify and deliver recurring measures such as savings or increased income of five per cent of their overall revenue budget to be financially sustainable in the short term.

Findings	Evidence
<p>The council's plans for transformation are embedded within its key plans and strategies and align with its corporate priorities.</p>	<ul style="list-style-type: none"> • The overarching strategic vision of the Council is detailed in the Council's Plan. The plan extends for 5 years from 2023 to 2028. • The Council Plan identifies the key priority themes for the Council and further identifies "transforming our council" as an underpinning theme. • The Council Plan lays down the aims and objectives under this theme as well as performance measures to define and measure success. • There is a Delivery Plan in place that complements and supports the Council Plan. • This Delivery Plan describes projects, services and policies which will progress the Council Plan priorities including the overall theme relating to transformation. • The Council Plan and the Deliver Plan are supported by Directorates' Delivery Plans which lay down the priorities, actions and performance measures at the Directorate level to support the priorities identified in the Council Plan. • In March 2021 the 'Our People, Our Plan' (OPOP) initiative was agreed. This significantly informed the Council's strategic direction by feeding into the Council Plan above. • OPOP was developed as a set of requirements which were required post-COVID to refocus the Council; its priorities, culture and staffing structure. These priorities led to many of the projects that the Council is working on. OPOP detailed seven projects, three internally focused and four externally focused.

Findings	Evidence
<p>Transformation projects are in alignment with the strategic planning documents. Further details are included in the individual project documents.</p>	<ul style="list-style-type: none">As noted above, the Council does not have separate transformation plans and they are embedded in the Council Plan, Council Delivery Plan and Directorate Plans.The Directorate Plans lay down the actions, performance measures, targets as well as resource requirement in relation to achievement of the intended priority outcomes.Based on evidence provided in relation to individual projects and discussions, we have been able to observe that they align with the overall strategic planning documents. Further details in relation to implementation are included in project specific documentation.

The council's transformation projects vary in scale, and it is clear how they will address its funding gaps/ contribute to the financial sustainability of the Council. However The council needs to consider projects to generate further cost savings/income generation required to address the financial challenge identified as part of the financial strategy.

- From our review of a sample of the council's transformation projects, review of the latest financial strategy as well as discussions we found that the outcomes of the ongoing transformation projects are aligned with and contribute to the financial sustainability of the Council.
- Examples of how the ongoing projects contribute to transformation and long term financial sustainability of the Council are as follows:
 - The introduction of the ferry booking system automates the process, improves efficiency and improves the quality of service.
 - The housing project (case study on page14) is expected to result in increased income generation through council tax and boast availability of accommodation which in turn is expected to lead to reduced agency cost and enable a shift to permanent employees due to availability of housing.
 - Community learning and development project is aimed towards development and availability of workforce in the future.
 - Orkney Community Windfarms project is expected to deliver significant profits, in addition to securing the transmission cable to mainland Scotland, to be used to support and maintain service provision for the community at a time of significant budgetary constraint.
- The Council's latest financial strategy update covers the period 2025/26 to 2029/30. Strategy notes that the potential funding gap faced by the Council over the period covered by the MTFS and recognises the need for delivering savings to achieve financial balance.
- The MTFS currently proposes to bridge the funding gap through contributions from Strategic Reserves Fund, County Fund Contribution and new charges, efficiencies and transformation. Planned new charges, efficiencies and transformation amount to £40.8 million over the period of the MTFS.
- The amounts currently identified on account of requisite amounts above, amount to £793k and £2.8 million for 2026/27 and 2027/8.
- In order to balance the projected 2026/27 budget, based on the MTFS assumptions, the Council will have to identify additional funding, charges or efficiencies of £3.1 million. For 2027/28 £6.3 will have to be identified.
- Although the strategy has identified the options available to bridge the gap, detailed plans at operational/service level are required to be developed and implemented to ensure achievement.

Findings	Evidence
	<ul style="list-style-type: none">• We recommend that the Council needs to continue to develop specific plans to bridge the gap in a sustainable manner.

Recommendations

Currently identified savings and efficiency measures do not completely bridge the gap identified as part of the medium term financial strategy which continues to utilise reserves. The council needs to consider additional opportunities to generate further cost savings/income generation required to address the financial challenge identified as part of the financial strategy.

Programme management

8. It is essential that the council has good programme management arrangements in place to ensure it is making sufficient progress against its transformation plans. It is important that the council has the structures and the staffing resource in place to deliver its transformation ambitions. In addition, the council must ensure that both senior officers and elected members have appropriate oversight of progress.

Findings and evidence relating to the council's programme management arrangements

Findings	Evidence
<p>The Council does not have a dedicated programme management office.</p> <p>Committee and officer led arrangements are in place to facilitate the governance and oversight of the transformational activity</p>	<ul style="list-style-type: none">As noted above the Council's transformation plans are embedded into the Council Plan, associated Delivery Plan and underlying Directorate Plans.Project management is delivered through existing governance structures, rather than a separate Programme Management Office.

Findings	Evidence
<p>The council has scrutiny arrangements in place for reporting progress to the senior leadership team and elected members.</p>	<ul style="list-style-type: none"> • Oversight of the Council plan, Council delivery plan, directorate delivery plans and services plans is conducted in line with the Council's standard performance management and scrutiny framework. This includes regular periodic reporting to the Corporate Leadership Team, Service Committees, the Policy and Resources Committee and the General Meeting of the Council. • For some strategic infrastructure projects, additional oversight is provided by the Strategic Officers Oversight Team (SOOT), which consists of the Corporate Leadership Team and meets quarterly. Additionally, there are quarterly meetings of the Strategic Projects Board (SPB), comprised of elected members. Projects currently reporting to the SOOT and SPB include the Community Windfarms Project and the Orkney Offshore Energy Strategy. • The Strategic Officer Oversight Team (SOOT) meets quarterly to review progress on strategic projects. Capital Project Appraisal (CPA) process is also in place to oversee capital projects. For minor projects, updates are received through proportionate project board governance structures.
<p>The Council faces challenges including sufficient staffing capacity to deliver its transformation ambitions.</p>	<ul style="list-style-type: none"> • The Council has had to bring in external expertise and relies heavily on consultants for large or specialist projects. • Orkney has a high employment rate and an aging population which makes it difficult to recruit and retain staff. • Housing and childcare remains a significant challenge for those moving to mainland Orkney or the ferry linked isles for work. • Further challenges to transformation ambitions based on risk identified as part of the corporate risk register include: <ul style="list-style-type: none"> - Risks in relation to transport and connectivity - Economic Sustainability - Inadequate availability and reliability of ultrafast and mobile connectivity across Orkney. - Impacts associated with Climate change - Risks in relation to the House build programme as it is a key strategic transformation priority

Partnership working and community engagement

9. The [Best Value in Scotland](#) report noted that councils must now rethink how they work together, and with local partners and communities, to provide financially sustainable services. Few councils provide services jointly or share support services across different councils to a great extent.

Findings and evidence relating to the council's partnership working and community engagement arrangements

Findings	Evidence
The Council has demonstrated that it is working with partners to deliver its transformation initiatives.	<ul style="list-style-type: none"> As noted earlier the transformation initiatives for the Council is driven by the Council Plan under the overarching theme of "transforming our council". The Council Plan in turn is informed by the Orkney Community Plan (which is the Local Outcomes Improvement Plan) which addresses the strategic priorities which all agencies in the Partnership need to take joint action on, while each individual partner's plans – such as the Council Plan – set out the priorities and actions to be delivered by that particular agency. Some examples of the joint initiatives are as follows: <ul style="list-style-type: none"> Island Growth Deal project - Ten-year package of investment with suite of projects that will seek to drive economic growth and the creation of sustainable jobs across Shetland, Orkney and the Outer Hebrides Public Sector Reform - Reduce bureaucracy within and between agencies wherever possible improving working between partners. Consideration of the approach to public sector reform is included as part of this work. Strategic Housing Investment Plan – aimed towards development of the Local Housing Strategy to deliver additional housing over the next 10 years. At a national level, the Council engages with COSLA, SOLACE and the Scottish Government on transformation initiatives. The SOLACE / IS Transformation Programme and Leadership Practitioner Forum has included representatives from the council.

Findings	Evidence
<p>There are examples of joint funding arrangements between the council and partners for transformation projects.</p>	<ul style="list-style-type: none"> • Some examples of joint funding between the Council and the partners are as follows: <ul style="list-style-type: none"> - The Strategic Housing Investment Plan. This will involve funding from the Council, Orkney Housing Association and agreement with Places for People Scotland and local development trusts. Implementation of the plan is dependent on Scottish Government grant funding to various parties. - The Council is working with Scottish & Southern Electricity Networks (SSEN) to secure funding for a housing site that will see infrastructure put in place for use by SSEN during their works programme in Orkney. The Council expects that this will leave serviced plots for individual private house build opportunities in the future as a legacy benefit. In addition, SSEN is funding grants to bring empty properties back into commission. These will initially be provided to SSEN workers but in the future will then be available for rent or sale. The Council aims to mirror this, using properties for key worker housing. - Additionally, the Orkney Community Wind Farms project, although a Council owned and operated project, has involved a number of key partners. In the development stage this has included a range of advisors.

Findings	Evidence
<p>The council has engaged with communities including the third sector and vulnerable groups to inform its transformation plans.</p>	<ul style="list-style-type: none"> As noted earlier the Council's overall transformation plan is embedded in the Council Plan under the overarching theme of "transforming our council". This plan is in turn informed by the Orkney's Community Plan (partnership plan). Consultation to inform the Community Plan was carried out in two stages. It employed the use of questionnaire, a series of online meetings, and dedicated sessions for schools and community groups including a part of the consultation being designed to obtain feedback from "Lesser Heard Voices." We have further noted consultation in relation to specific projects/ initiatives e.g. in relation to the Local Housing Strategy which in turn feeds into the Strategic Housing Investment Plan. In addition to being built on the consultation above, the Local Housing Strategy consultative draft was issued for public consultation with a questionnaire to ask for feedback on the housing vision, priorities, outcomes and actions. The draft was disseminated through proactive media engagement with the established network of organisations and community groups including Community Councils and the Development Trusts. Separate consultation took place with the 10 Development Trusts during the production of the Housing Needs Assessment. The Council has a statutory duty to assess the impact of the Strategy in relation to equalities, environmental impact and islands communities' impact. These impact assessments were finalised following consultation on the Strategy.

Case study

Strategic Housing Investment Plan – attracting an additional affordable housing provider.

The project is aimed towards expanding the supply of affordable housing without additional financial obligation on the Council and attracting an additional provider of affordable housing.

Orkney Islands Council is the lead partner, in its role as strategic housing authority. Partners have been involved in the project through the Housing Market Partnership which was established to oversee the Housing Needs and Demands Assessment update and development of the Local Housing Strategy, it met a total of 8 times between January to December 2023 during this development period. The group is a multi-agency partnership surrounding development and delivery of the Local Housing Strategy and meets on a quarterly basis.

The project is jointly funded by the partners with Scottish Government funding (to include Affordable Housing Supply Programme, Rural and Islands Housing Fund and Rural Affordable Homes for Key Workers Fund) alongside:

- HRA provision (Council housing) (150 homes over 10 years),
- Orkney Housing Association Limited's Business Plan (200 homes over 10 years),
- Places for People Scotland's business plan (500 homes over 10 years), this is reaching finalisation in terms of legal agreement.
- Isles development trusts' resources (supported by a proportion of the Council Tax second homes surcharge) (30 homes over 10 years)
- Private developers of affordable housing through partnership support for regeneration funding etc from Scottish Government.

The project has been informed by engagement through public consultation on Local Housing Strategy, which included a broad range of partners, including Community Councils, Isles Development Trusts. members of the public, tertiary education providers, NHS Orkney, Police Scotland, Highlands and Islands Enterprise, Private business.

Impact of transformation

10. It is important that the council has success measures in place to demonstrate the impact of its transformational activity on service quality; outcomes for people who use services, inequalities and/or savings.

Findings and evidence relating to the impact of the council's transformation activity

Findings	Evidence
There is evidence that timely equality impact assessments have informed the council's transformation plans.	<ul style="list-style-type: none">• Equalities Impact Assessment and Island Communities Impact Assessment were carried out as part of the development of the Council plan and presented for consideration along with the presentation of the Council Plan for approval to the Policy and Resources Committee.• We have further seen evidence of the same being also carried out in relation to specific transformation projects e.g. the Orkney's Community Wind Farm Project and Local Housing Strategy and note consideration by the Council to inform the plans.• The assessment carried out in relation to the Local Housing Strategy identified potential impact with respect to disabled and older people. We noted that the 7 priorities, with associated targets, identified under the strategy included outcomes aimed towards older people as well as the housing and support for people with particular needs.

The council's transformation activity has had a positive impact on its services and has delivered positive outcomes for communities.

The impact of transformation is monitored through existing reporting and scrutiny mechanism to ensure it is delivery the intended benefits to outcomes and service delivery. This includes:

- The Corporate Leadership Team (CLT)
- Service committees
- Policy and resources committee
- The General Meeting of the Council
- The Strategic Officers Oversight Team (SOOT)
- The Strategic Projects Board (SPB)

The Council uses the Local Government Benchmarking Framework for the Council Plan measures where possible. As previously highlighted transformation is an embedded part of the Plan and many of the indicators relate to this transformation. These indicators serve as outcome measures. As they are reported and monitored through existing mechanisms and performance reports the details are available to the public on the Council websites, for example in committee reports or the Council's annual performance report.

The Council further has project specific monitoring in place. The latest Local Housing Strategy, under which the Strategic Housing Investment Plan is being delivered, relates to the period from 2024 to 2029. This also provides an overview of what has been achieved, since the previous Local Housing Strategy, against the seven priorities identified therein which as follows:

- Actual all new supply built 2018/19-2022/23 – 428
- Actual affordable homes delivered 2018/19-2022/23 – 110
- Orkney Housing Association has continued to build amenity housing and now has a total of 200 amenity standard homes.
- The core and cluster new housing development at Carness was completed in 2023 which is now home for 4 people with learning disabilities.
- 70 empty homes have been brought back into use over the last 7 years.
- Council stock meeting current Energy Efficiency Standard for Social Housing Standard - 96%
- Housing association stock meeting current Energy Efficiency Standard for Social Housing – 98.5%.

Additionally, various surveys are conducted, including tenant satisfaction surveys, to gather feedback and assess the impact of transformation projects.

Appendix

Improvement action plan

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Budget Gap</p> <p>Currently identified savings and efficiency measures do not completely bridge the gap identified as part of the medium term financial strategy which continues to utilise reserves.</p> <p>Risk – There is a risk of not achieving financial balance in the medium to long term and over reliance on use of reserves.</p>	<p>The council needs to consider additional schemes to generate further cost savings/income generation required to address the financial challenge identified as part of the financial strategy.</p>	<p>Orkney Islands Council is fully aware of the financial pressures it faces and continues to address the budget gap as outlined, and through routes detailed, in our Medium Term Financial Strategy.</p> <p>Head of Finance</p>

Best Value thematic work

Orkney Islands Council

Transformation – How councils are redesigning and delivering more efficient services to achieve planned outcomes