

Best Value

The Highland Council



ACCOUNTS COMMISSION 

Prepared by the Controller of Audit
April 2025

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Accessibility

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Key facts



9,906

Square miles



236,330

Population



8,200

Workforce (FTE)



74

Elected members

Scottish National Party 21, Highland Independent 16, Scottish Liberal Democrats 15, Highland Alliance 8, Conservative and Unionist 6, Scottish Green Party 4, Labour Party 2, Alba Party 1, Non-Aligned 1.
(Scottish National Party and the Highland Independent Group administration)



£13m

Forecast cumulative budget gap for two years 2026/27 and 2027/28 (March 2025)



£730m

Net revenue budget/expenditure 2023/24



£192m

Capital budget 2023/24

Commission findings

The Accounts Commission endorses the Controller of Audit's report on Best Value in The Highland Council ([presented at page 6](#)) and the recommendations made by the auditors. Following consideration of these reports at its meeting on 10 April, the Commission has made the findings presented below:

- 1** We welcome the progress made by The Highland Council since we reported in 2020. After a management restructure in 2024, the council's new leadership has developed plans and policies to support its strategic priorities and has embedded a culture of transformation which should be commended. The council now needs to drive delivery, maintain momentum and continue to identify opportunities for transformation. The council has designed performance management arrangements to align with its new plans so data can be used to drive improvement, including proactive use of benchmarking data given that comparative performance has declined over time. These new arrangements will be considered as part of upcoming audit work.
- 2** The auditor's recommendations around better alignment of workforce plans and strategies with new corporate and financial plans should be actioned as a priority, along with the collection and regular reporting of council-wide workforce data. A 47% response rate to the 2022 staff survey is encouraging and we would urge the council to deliver the improvement actions identified as a result of the survey to ensure ongoing and effective staff engagement.
- 3** The council has worked hard to close significant budget gaps in recent years, but we note this has relied heavily on the use of reserves, financial flexibilities and achieving savings targets. Savings challenges and financial risks still lie ahead, including in relation to adult social care, where transformation is needed to meet demand pressures. We note with interest the intention to review the council and NHS 'lead agency' model for social care to ensure the council is equipped to address the financial challenges ahead.

- 4 Comprehensive IT and Digital strategies will be critical to supporting the delivery of transformation plans and to improving service delivery. We look forward to seeing how these strategies are developed, embedded and monitored. Ensuring the council has the necessary workforce skills and capacity to deliver in this area is also critical.
 - 5 Inherent challenges in delivering services across a large rural area have driven an ambitious capital programme. We note with concern the council's borrowing costs, which are relatively high as a percentage of net revenue – 11.6 per cent compared to the [Scottish average](#) of 5.8 per cent. We note that the capital plan will be reviewed at key phases to assess affordability and prudence and look forward to future audit assessments, including understanding the full impact of these plans given ongoing revenue budget challenges.
 - 6 Following the recent review of area committees, we look forward to seeing how area 'place plans' develop, building on the council's ambitions around community engagement, including participatory budgeting and community asset transfers. Engaging with and empowering communities will become increasingly important as financial challenges increase and difficult decisions require to be taken.
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Controller of Audit report

Introduction

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. It is based on evidence collected in the 2022/23 and 2023/24 annual audits of the council, with the latter reported in November 2024. [Appendix 1](#) includes links to the 2022/23 and 2023/24 Annual Audit Reports (AAR) and [Appendix 2](#) includes a link to the Best Value Statutory Guidance.

2. The reporting of Best Value is undertaken through the annual audit of each council and includes detailed work focusing on a Scotland-wide theme. The Best Value theme for 2022/23 was councils' leadership of the development of new local strategic priorities while the 2023/24 theme focused on workforce innovation.

Pace of continuous improvement

3. The Highland Council has made good progress on the improvement actions identified in the last Best Value Assurance Report in 2020. Subsequent Best Value thematic reports in relation to leadership and workforce have also been well received by the council with improvement actions agreed and progressing.

4. There have been significant management changes at the council in recent years with a new chief executive appointed in 2023 and an organisational restructure in 2024. New plans have been introduced, and the council now needs to move forward at pace with the delivery of its priorities.

Best Value Assurance Report (BVAR) follow-up

5. The council received a Best Value Assurance Report in 2020 which concluded that progress since the previous BVAR in 2010 was disappointing and the pace of change needed to improve. Recommendations were made in a number of areas including:

- Improving staff engagement with transformation and ensuring expectations around delivery of savings were understood.
- Increased use of family grouping data, benchmarking, and targets to enhance performance reporting.

- Sharing performance management practices across teams to support more effective self-assessment and a culture of continuous improvement.
- The need for ongoing review and monitoring of arrangements.
- Need for the Community Planning Partnership (CPP) to deliver on locality action plans.
- Member training and involvement in the performance management process.

6. Four recommendations remained outstanding at the start of 2022/23 and have subsequently been closed.

Leadership review

7. Leadership in the development of new local strategic priorities was the subject of Best Value thematic work in 2022/23. The auditors concluded that the council had a clear and well-articulated strategic vision, embedded across the organisation through the service planning process.

8. Following the May 2022 elections, a joint administration was formed between the Scottish National Party (SNP) and the Highland Independent Group. The council's 'Our Future Highland' programme sets out the council's vision, and key strategic priorities for 2022 to 2027. The council's vision for the future is one of maximising social, economic and partnership opportunities and resources to improve the quality of life for people in the Highlands.

9. The Performance Plan 2022-27 provides the framework required to deliver and monitor the council's strategic programme and includes its commitments, associated targets, and measurements.

10. Following the appointment of a new chief executive in September 2023, and the approval of a senior management restructure in March 2024, a number of plans and policies have been refreshed to help deliver the council's strategic priorities.

11. A new Operational Delivery Plan 2024-27 was approved by the council in May 2024 and effective delivery and monitoring of the plan will be key to driving future improvement.

12. The delivery plan is organised under six portfolio themes, each of which has identified workstreams, programmes and projects with performance plan targets. The plan also sets out how savings and other measures will close the budget gap identified in the council's medium-term financial plan.

13. The council engaged effectively with citizens when developing its priorities to ensure the key concerns of citizens are captured in its strategic plans.

14. The council has agreed equality outcomes with partners and is raising awareness of taking a rights-based approach. The auditor found scope for improved consistency in the application and publication of Equality Impact and Fairer Scotland Assessments, something that the council has subsequently addressed.

15. Environmental sustainability is considered a priority, and the council has set a target of a carbon neutral Inverness and a low carbon Highlands by 2025. Several initiatives are in place to support this including the creation of the Inverness and Cromarty Firth Green Freeport.

16. The Digital Strategy 2022-27 recognises that digital needs are to become integral to services and there are plans in place to address digital exclusion. The council is working to ensure that the digital infrastructure is upgraded to connect premises across Highland.

Community planning and empowerment

17. The council and its community planning partners have clear ambitions in relation to community engagement for the Highland area but recognise that more work is needed to deliver on these.

18. Additional resources were committed to progress the work of the Community Planning Partnership and a revised Highland Outcome Improvement Plan was approved in June 2024 with improved links to the council's delivery plan.

19. A review of area committees has been undertaken, and area place plans for each committee area are under development. These plans will set out the shared priorities for each community and should assist in targeting specific strands of funding.

20. The council's approach to participatory budgeting continues to evolve. Some local committees have directly devolved local car park income to the community councils/community trusts to allocate local funds and a participatory budgeting approach has been adopted as part of the whole family wellbeing programme. There remains scope for improving community awareness of participatory budgeting.

21. Since the introduction of the Community Empowerment Act in 2017, the council has agreed to 48 community asset transfers across Highland. A community loan fund, managed by the council's loan company, Highland Opportunity (Investment) Limited, now provides loan support for organisations who require investment linked to transferred assets.

22. The council is committed to a community wealth building approach to economic development and issued a new strategy in September 2024. The council recognises that effective partnership working will be essential to its delivery.

Effectiveness of performance reporting

23. The council has an established performance management framework and regularly reports on its performance against the strategic priority outcomes outlined in the council's performance plan.

24. The Annual Corporate Performance Report forms a key part of the council's overall performance management arrangements and meets the council's statutory duty on Public Performance Reporting. There are also quarterly performance reports which go to strategic committees. The council makes good use of performance indicators, and targets have been set for all but two performance indicators.

25. Reports provide analysis of the council's progress against the five key strategic priority outcomes set out in its Performance Plan. The council's new Operational Delivery Plan will form an integral part of performance reporting at all levels going forward.

Reported performance

26. The council's Annual Corporate Performance Report 2023/24 was presented to full council in September 2024. It included a review of 71 local performance indicators with 31 assessed as 'On target', 14 as 'Some slippage', eight as 'No significant progress' and 18 where no data was yet available.

27. The corporate performance report also provided an update on corporate actions associated with strategic priority outcomes. Of the 53 actions, 16 were assessed as 'Complete', 22 were as 'On target', 14 as 'Some slippage', and one as 'No significant progress'.

28. Following consideration of its corporate performance report, the council published a report on its Statutory Performance Indicators, Benchmarking and Best Value for 2023/24 in March 2025. The council has identified 81 indicators used in its Performance Plan for 2023/24 with 50 drawn from local indicators and 31 from Local Government Benchmarking Framework (LGBF) indicators. The council categorises 34 of the 81 performance indicators as Key Performance Indicators (KPIs).

29. Information on 11 of the performance indicators (seven of which are also KPIs) is not yet available, with delays to the publication of some LGBF indicators primarily related to education and children's services, but the council's reported performance for the 70 available for 2023/24 is summarised as:

- 79 per cent (55/70) were performing on target or within the performance threshold (43 green and 12 amber), and
- 21 per cent (15/70) of the targets had not been achieved (red).

30. This compares to the previous year when 77 per cent were on target or within threshold, while 23 per cent were not achieving target as reported. When information on the 11 delayed indicators became available for 2022/23 (all education indicators) five were green, five amber and one red.

Workforce planning

31. 'Workforce Innovation: How councils are responding to workforce challenges' was the subject of Best Value thematic work in The Highland Council in 2023/24.

32. The auditor found the council has a large number of plans and supporting documents which reflect the council's ambitions around developing a future workforce, but plans were not fully aligned or easily accessed together in one place. There was no council-wide workforce data being reported and the impact of the council's workforce planning approach had not yet been fully assessed. In total, ten recommendations were made by the auditor.

33. Since the thematic report was issued, the council has introduced a Workforce Planning Strategy 2025-27 (December 2024). The Planning Strategy supports the council's People Strategy 2022-27 and draws together the themes identified in service workforce plans. The Planning Strategy includes a workforce action plan and makes a commitment to corporate workforce data dashboards.

34. The council has also developed an Employee Engagement Strategy, which was approved in September 2024, and there are forums in place to support consultation with staff and trade unions. In 2022, the council commissioned an external consultant to carry out a staff survey which looked at a range of workforce issues. The survey received a 47 per cent response rate.

35. The council is in the process of updating service workforce plans to better align with the new council structure and to address identified improvement actions. Services utilise a workforce planning toolkit which includes a six-step process for the development of plans. Revised plans were due by 31 March 2025.

36. Existing Service Workforce Plans 2023-26 reflect the old management structure and vary in level of detail and robustness. Most reference the People Strategy and contain links to the Digital Strategy, but they do not link to the council Performance Plan 2022-27 or identify specific KPIs. Some only contain vague action plans and service level reporting against corporate measures is variable.

37. The council recognises the importance of having a digitally skilled workforce and has realised some benefits through its use of digital technology in relation to housing repairs, for example. However, the

auditor concluded that greater pace is needed in implementing the actions to improve skills across the workforce, including the creation of the planned digital champions' network.

38. The council is supportive of flexible, and hybrid working and has consulted with staff and trade unions on the development of a policy which is due to be issued by 31 May 2025. The council monitors hybrid working to ensure that there is consistency across teams but has yet to undertake a formal assessment of hybrid working and its impact.

39. A number of initiatives have been introduced to help address the ongoing workforce challenges. These include 'grow your own' approaches in key sectors such as social work, and the use of trainee schemes and modern apprenticeships, for example. Leadership programmes have been developed to support succession planning and a succession planning tool toolkit was introduced in June 2024.

40. The auditors also found that the council works with partners to develop the workforce of the wider Highland region, but work is at an early stage.

Financial management and sustainability

41. Auditors have previously highlighted concerns regarding finance team capacity. A permanent chief officer for corporate finance was appointed in September 2024 and additional finance posts are expected to provide increased capacity in early 2025.

42. The auditor has concluded that appropriate and effective financial management arrangements are in place at the council. The council has moved towards a three-year approach to budget-setting and medium-term financial management, with a three-year budget set in 2024/25 for the first time.

43. Significant savings have been identified as part of budget-setting in recent years, but the council has also made use of reserves and financial flexibilities to close budget gaps.

44. Scottish Government financial flexibilities enabled the reprofiling of debt repayments on service concession arrangements releasing £55 million of previously set aside repayments, with repayment now deferred until future years. The general fund reserve increased as a result in 2023/24.

45. The council has also made use of temporary flexibility around the use of £6.3 million of income from council tax on second homes in 2022/23 and 2023/24. Amounts were repaid to the council's land-banking fund in 2024/25.

46. Savings identified for 2023/24 included £7.9 million relating to service redesign and efficiency, £3.2 million from increasing income, and £1.3 million from reducing waste and avoidable spend. The council

achieved actual savings of £18 million (82 per cent of planned savings). Of this total, £15 million of savings were on a recurring basis (83 per cent) with the remainder on a non-recurring basis (17 per cent).

47. Undelivered savings contributed to a £5.7 million overspend on service budgets in 2023/24. However, offsetting underspends and higher than expected income on corporate budgets resulted in an overall general fund underspend of £1.1 million. The largest underspend related to capital financing costs (£3.7 million).

48. Levels of usable reserves increased from £174.7 million to £201.8 million in 2023/24. However, the uncommitted element of the general fund fell from £70.5 million to £47.3 million. The council's reserves policy is to hold a minimum uncommitted general fund balance of three per cent of the annual revenue budget, which is approximately £23 million. Key financial information for the council is included in [Exhibit 1](#).

Exhibit 1.

The Highland Council – key financial information

	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)
Budget-setting			
Budget gap	34.1	54.2	54.7 ¹
Planned to be met via:			
• Savings and flexibilities	17	22.2	37.9
• Use of reserves	5.7	23.3	9.9
• Additional council tax/funding	5	5.4	6.9
• Other reversals and offsetting items	6.4	3.3	
Actual			
Savings delivered	n/a ²	82%	
Reserves (after earmarking adjustments)			
Use of/(contribution to) reserves			Forecast
Total usable reserves carried forward	174.7	201.8	
General fund	131.8	158.1	138.2
Earmarked	61.3	110.8	113.6
Uncommitted	70.5	47.3	24.6 ³

¹. After revised budget assumptions

². Not available

³. After additional earmarking and before any overspend in 2024/25

Source: Council accounts and committee papers

49. Most of the council's earmarked reserves are set aside to meet the cost of investment and transformation initiatives. However, balances in respect of budget pressures (£17 million), developers' contributions (£10.7 million) and Crown Estate (£7.9 million) were also included at 31 March 2024.

50. When the budget for 2024/25 was set in March 2024, the council closed a £54.7 million budget gap, identifying savings and utilising flexibilities of £37.9 million, and using £9.9 million of reserves. The council also received additional funding of £6.9 million in respect of the council tax freeze. The uncommitted general fund balance will fall as a result of the planned use of reserves and may be impacted by a £4.1 million forecast overspend for the year.

51. When the 2025/26 budget was set in March 2025, the council identified £12.9 million of savings and £1.3 million reductions relating to financial flexibilities. The budget included a seven per cent increase in council tax with two per cent of that increase earmarked to support the Highland Investment Programme. Also included is the planned use of £5.4 million of earmarked reserves to meet one off investments, and the use of £6.1 million of earmarked reserves arising from the use of financial flexibilities in previous years.

52. When the 2024/25 budget was set the forecast cumulative budget gap for the two years 2025/26 and 2026/27 was £47.4 million, prior to mitigating actions. The forecast cumulative unclosed budget gap for 2026/27 and 2027/28 fell to £13 million 12 months later when the 2025/26 budget was set in March 2025.

Delivery of the capital programme

53. The council agreed a new longer-term Highland Investment Plan (HIP) in May 2024. The ten-year plan for development of communities across Highland includes £1 billion of capital investment. Progress against the agreed HIP was provided to members on 31 October 2024.

54. Capital expenditure in 2023/24 was £167 million, split between general fund £100 million and the HRA £67 million (£9 million higher than HRA capital spend in 2022/23). The council underspent against its capital budget by £24.9 million (around 15 per cent) due to challenging market conditions resulting in rising prices and a limited availability of contractors and materials.

55. The council's capital financing requirement increased by £85.8 million in 2022/23 and £127.2 million in 2023/24, resulting in a balance of £1,431 million at 31 March 2024. The capital financing requirement represents the council's underlying need to borrow.

56. The council's reported LGBF indicators for the ratio of financing costs to net revenue stream are significantly higher than the national and family group averages. The council has agreed as a local indicator that the ratio of borrowing costs (excluding service concession arrangements) to net revenue stream would not exceed ten per cent.

Appendix 1

2022/23 and 2023/24 Annual Audit Reports

These reports summarise the findings from the 2022/23 and 2023/24 annual audits of Highland Council.

Each 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

The Highland Council

January 2024



2023/24 Annual Audit Report

The Highland Council

November 2024



Appendix 2

Best Value Statutory Guidance

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

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