

Shetland Islands Council

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Members of Shetland Islands Council and the Controller of Audit

11 December 2024

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Key messages

2023/24 annual accounts

- 1 Audit opinions on the annual accounts of Shetland Islands Council and Zetland Educational Trust Schemes administered by the council are unmodified.

Financial management

- 2 The council's budget setting and financial management arrangements operated effectively during 2023/24. Controls within the main financial systems were operating effectively while standards for the prevention and detection of fraud remain appropriate.
- 3 The 2023/24 general fund outturn was an overspend of £1.9 million against budget. The returned surpluses on the Housing Revenue Account and Harbour Account were both less than budgeted.
- 4 Uncommitted general fund reserves increased in the year due to reserve transfers, but the "unsustainable" draw to support the General Fund also increased to £12.4 million.
- 5 Savings achieved during the year were mainly non-recurring in nature. More progress is required in identifying and delivering service review and other recurring savings to address future budget gaps.
- 6 Delivery of the capital expenditure programme improved in 2023/24 with slippage reduced to £1.4 million.

Financial sustainability

- 7 The council continues to rely on reserves to balance its annual budget, with the gap of £22.8 million in 2024/25 general fund budget being met from reserves.
- 8 The council's updated medium-term financial plan shows a projected cumulative budget gap of £81.3 million over 4 years. A total of £68 million was transferred to the general fund from other useable reserves in the year, to be utilised to address the gap through to 2028.
- 9 More work is required to reduce reliance on reserves and other unsustainable sources in achieving financial balance each year.

Best Value

- 10** The council continues to make progress with the recommendations from the 2022 BVAR.
- 11** Thematic work identified that the council continues to face significant recruitment challenges to fill vacant posts and is exploring different initiatives to address these.

Vision, leadership, governance and use of resources

- 12** The council has an established vision, strategy and priorities based on challenges facing the Islands.
- 13** The council has effective and appropriate governance arrangements in place. It operates in an open and transparent manner.
- 14** The council improved its performance management arrangements to address prior year audit recommendations. This has improved compliance with the Statutory Performance Information (SPI) Direction.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of Shetland Islands Council and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
2. The scope of the audit was set out in an Annual Audit Plan presented to the May 2024 meeting of the Audit Committee. This Annual Audit Report comprises significant matters arising from the audit of Shetland Islands Council's 2023/24 annual accounts and conclusions on the wider scope areas set out in the [Code of Audit Practice](#).
3. We would like to thank elected members, management and staff, particularly those in finance, for their cooperation and assistance during the audit.

Responsibilities and reporting

4. Shetland Islands Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. Shetland Islands Council is also responsible for compliance with legislation and establishing suitable arrangements for governance and propriety.
5. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice](#) and supplementary guidance, and International Standards on Auditing in the UK.
6. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, the responsible officers, and dates for implementation. Weaknesses or risks identified in this report are only those which have come to our attention during audit work and may not be all that exist. Communicating these does not absolve management of its responsibility to address the issues raised and to maintain adequate systems of control.

Auditor Independence

7. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fees of £267,730 for the council and £3,180 for the Zetland Educational Trust Schemes, as set out in our Annual Audit Plan, remain unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

1. Audit of 2023/24 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

Main judgements

Audit opinions on the annual accounts of Shetland Islands Council and Zetland Educational Trust Schemes administered by the council are unmodified.

Audit opinions on the annual accounts of Shetland Islands Council are unmodified

8. The council approved the 2023/24 annual accounts for Shetland Islands Council on 11 December 2024. The independent auditor's report included the following opinions on the annual accounts:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report was prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014
- the management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

The unaudited annual accounts were received in line with the agreed audit timetable

9. The unaudited annual accounts were received in line with the agreed audit timetable on 27 June 2024. The accounts and working papers presented for audit were of a good standard. Management and finance staff provided good support to the team during the audit process.

Our audit approach and testing were informed by the overall materiality level of £5.325 million

10. The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and

hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

11. Our initial assessment of materiality was carried out during the risk assessment phase of the audit, based on the financial results for the year ended 31 March 2023. On receipt of the unaudited 2023/24 annual accounts, we reviewed and revised our materiality levels based on the financial results for the year ended 31 March 2024. The revised materiality levels are summarised in [Exhibit 1](#).

Exhibit 1

Materiality levels for the 2023/24 audit of Shetland Islands Council

Materiality level	Amount
Overall materiality: This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. We have set it based on our assessment of the needs of the users of the financial statements and the nature of the council's operations.	£5.325 million
Performance materiality: This is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60 per cent of overall materiality, reflecting the scale of previous year's adjustments, the extent of estimation in the accounts and the planned testing in proportion to the scale of the organisation.	£3.195 million
Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.266 million

Source: Audit Scotland

Our audit identified and addressed the risks of material misstatement

12. [Exhibit 2](#) sets out the significant and non-significant risks of material misstatement to the financial statements. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2

Significant and non-significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
Significant risks of misstatement		
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries, focusing on significant risk areas. • Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Test accounting accruals and prepayments focusing on significant risk areas. 	<p>We undertook detailed control and substantive testing of journal entries, accruals and invoices throughout the period. Our journal testing of a sample of higher risk transactions at year-end and through the year did not identify any issues.</p> <p>Our inquiries of officers regarding potentially inappropriate or unusual activity relating to the processing of journal entries and other adjustments confirmed that these were valid transactions.</p> <p>No changes were made to the methods and underlying assumptions used to prepare significant accounting estimates compared to the prior year.</p> <p>We did not identify any significant transactions outside the normal course of business.</p> <p>Conclusion: Our testing did not identify any instances of management override of controls.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>2. Estimation in the valuation of council dwellings</p> <p>The valuations of council dwellings are significant estimates. Valuations are based on a beacon approach and specialist assumptions including discount factors, changes in which can result in material changes to valuations.</p> <p>A desktop review of council dwellings was undertaken last year to support the carrying value in the accounts. A full valuation of dwellings is being undertaken during 2023/24 as part of the council's 5 year rolling programme and the results of the valuation exercise will be reflected in the annual accounts.</p>	<ul style="list-style-type: none"> • Review the information provided to the valuer to assess for completeness. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review the reconciliation between the accounts, asset register and valuer's reports. • Test the asset register records against the annual valuation report to ensure asset valuations and useful lives are accurately reflected. • Sample testing of calculations and lives of assets revalued during 2023/24, and agreement of related accounting entries. 	<p>Council dwellings were fully revalued as at 31 March 2024 using a Beacon Approach (adjusted vacant possession) methodology.</p> <p>We reviewed and tested the revaluation approach, including agreement to underlying records and sample testing of calculations. We did not find any errors in the valuation.</p> <p>Conclusion: Our testing did not identify any material issues, and we concluded that the value of council dwellings was not materially misstated.</p>
<p>3. Estimation in the valuation of other land and buildings (OLB).</p> <p>There is a significant degree of subjectivity in the valuation of other land and buildings. Valuations are based on specialist and management assumptions, and changes in these can result in material changes to valuations.</p> <p>Other land and buildings are revalued on a five-year rolling basis. Values may change year-on-year, and it is important that the council ensures the financial statements accurately reflect the value of OLB.</p>	<ul style="list-style-type: none"> • Review the information provided to the valuer to assess for completeness. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review reports from the valuer to confirm overall asset valuation. • Review the reconciliation between the accounts, asset register and valuer's reports • Test the asset register records against the annual valuation report to ensure asset valuations are accurately reflected. 	<p>We reviewed and tested assets which were subject to a full revaluation process in 2023/24. No material issues were identified through audit testing.</p> <p>We reviewed management's assessment of the fair value of assets not subject to revaluation during the year, including the appropriateness of assumptions, and concluded the methodology and approach was reasonable.</p> <p>Conclusion: Our testing did not identify any material issues, and we concluded that the carrying value of other land and buildings</p>

Audit risk	Assurance procedure	Results and conclusions
	<ul style="list-style-type: none"> Examine management's assessment of fair value of OLB assets not subject to revaluation in 2023/24. We will critically assess if this is based on expert valuer's opinion and assess the appropriateness of any assumptions. 	was not materially misstated.
Non-significant risks of misstatement		
<p>4. Estimation in the valuation of pension assets and liabilities</p> <p>Actuarial estimates are a complex combination of liabilities over significant future periods based on life expectancy and CPI growth and discounting (based on corporate bond rates). Assets are based on an individual employer body's share of assets at the last triennial valuation. Roll forward adjustments are provided to members data and to asset valuations.</p> <p>There is a risk that small changes in the assumptions used can lead to large changes in the resulting valuations resulting in material misstatement in the annual accounts.</p>	<ul style="list-style-type: none"> Assess the scope, independence and competence of the professionals engaged in providing estimates for pensions. Review the appropriateness of actuarial assumptions and results including comparison with other councils and the pension fund as a whole. Establish officers' arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by the council. 	<p>We concluded that the actuaries providing the pension valuation figures were suitably capable, competent and objective.</p> <p>The assumptions used within the actuarial valuation were within expected ranges.</p> <p>Management considerations in relation to the actuary were reviewed and considered reasonable.</p> <p>Conclusion: We did not identify any issues with the valuation of pension assets and liabilities included in the accounts.</p>
<p>5. Valuation of long-term investments</p> <p>The 2022/23 accounts include long term investments of £377 million. Most of these are Level 2 and Level 3 investments, which are not based on observable data, but rely on investment manager valuations involving significant application of judgement.</p>	<ul style="list-style-type: none"> Evaluate the competence, capabilities, and objectivity of the investment managers in line with ISA500. Critically assess the council's arrangements for arriving at the valuation of level 3 investments, including the use of experts in undertaking the valuation. Confirmation of year end valuations to valuation reports and/or other supporting 	<p>We concluded that the three fund managers were suitably capable, competent and objective.</p> <p>Year end investment valuations were agreed to fund manager statements. There were no issues identified from our review of investment managers' control reports that affected audit risk.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>This subjectivity increases the risk of material misstatement in the financial statements.</p>	<p>documentation, including third party confirmation.</p> <ul style="list-style-type: none"> Review the relevant investment managers' controls reports for qualifications or exceptions that may affect the audit risk. Review the arrangements in place at the council to assess investment managers' governance arrangements. Review the disclosures included in the accounts to ensure these are adequate in directing the user of the accounts to areas with significant judgement and estimation uncertainty. 	<p>Conclusion: We concluded that long-term investments disclosed in the 2023/24 accounts are not materially misstated.</p>
<p>6. Estimation in PFI models</p> <p>The council has a PFI contract for Anderson High School with a fair value of £52 million at 31 March 2023. The accounts also include amounts due to contractors under this contract totalling £79 million.</p> <p>The PFI model uses several assumptions and estimation techniques to analyse the unitary charge payments to contractors between service and construction elements.</p> <p>There is a risk of misstatement in the associated liability if inappropriate assumptions have been made, particularly given recent changes to RPI/CPI and associated indices.</p>	<ul style="list-style-type: none"> Determine management's processes for updating the model to reflect the future impact of recent changes in RPI/CPI, based on the requirements of the original contract indexation terms. Review PFI model and assess for reasonableness, including whether assumptions have been appropriately updated. 	<p>Management's processes for updating the PFI model were reviewed and considered appropriate.</p> <p>No significant issues were identified through our review of the PFI model.</p> <p>Conclusion: We concluded that the PFI liability disclosed in the financial statements is not materially misstated.</p>
<p>7. Estimation in the valuation of fishing quotas</p>	<ul style="list-style-type: none"> Evaluate the competence, capabilities, and objectivity of the professional valuer. Obtain an understanding of management's involvement in 	<p>We concluded that the valuer was suitably capable, competent and objective to carry out the valuations.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>The 2022/23 accounts include fishing quotas valued at £47 million.</p> <p>This investment is specialist by nature and requires annual assessment of its value and is affected by the quantity of Fixed Quota Allocation Units (FQAs) available in the market.</p>	<p>the process, including the methodologies and assumptions applied.</p> <ul style="list-style-type: none"> Review reports from the valuer to confirm overall asset valuation. 	<p>No issues were identified through our review of the valuer report, and management considerations around the valuation process.</p> <p>Conclusion: We concluded that the valuation of fishing quotas in the accounts is not materially misstated.</p>

Source: Audit Scotland

Significant findings and key audit matters

13. Under ISA (UK) 260, we communicate significant findings from the audit to the council, including our view about the qualitative aspects of the council's accounting practices.

14. The Code of Audit Practice also requires auditors to highlight key audit matters, which are defined in International Standard on Auditing (UK) 701 as those matters that we judge to be of most significance in our audit of the financial statements.

15. The significant findings are summarised in [Exhibit 3](#).

Exhibit 3

Significant findings and key matters from the audit of the annual accounts

Issue	Resolution
<p>1. Partnering arrangements with related parties</p> <p>The introduction of IFRS16 in 2024/25 requires the council to review and reassess the accounting treatment of lease arrangements to include those that convey a right of use to an asset. The council has a right of use to care homes owned by the Shetland Charitable Trust. These are not recognised as assets in the council's 2023/24 accounts. The council assessed this treatment as correct for 2023/24 but recognises that right of use assets will require to be included in the accounts from 2024/25.</p> <p>The Rural Care Model in place between Shetland Islands Council and Shetland Charitable Trust conveys the right of use of care homes to the council, and a funding commitment from the trust towards the additional cost of providing services in smaller care homes. The agreement includes provision for</p>	<p>We reviewed the council's judgement on the issue, and reviewed the partnering agreement, and are satisfied that not recognising the care homes as assets in the 2023/24 accounts is correct.</p> <p>This was judged to be a key audit matter.</p> <p>Management should review and refresh partnering and funding agreements in place with the trust and other bodies, to ensure they are fit for purpose and clearly</p>

Issue	Resolution
<p>regular review of the model, however the extant document does not fully reflect the current working arrangements. The council also has arrangements with other partner bodies which have not been subject to recent review. This could leave the council exposed to potential legal or financial obligations, where matters have not been clearly documented and agreed.</p>	<p>document the arrangements in place, including asset and funding positions.</p> <p>Recommendation 1 at Appendix 1. Action plan 2023/24</p>
<p>2. Remuneration report - Trade Union (Facility Time Publication Requirements) Regulations 2017 disclosures</p> <p>The Trade Union (Facility Time Publication Requirements) Regulations 2017 require a range of information in relation to the time and costs of employee involvement in trade union activity to be published by the council each year. Guidance from the Cabinet Office indicates that this should be disclosed in the remuneration report.</p> <p>These disclosures have been required since 2020/21 but the council current processes rely on the provision of information by its Trade Unions in time for inclusion in the current year accounts. The unaudited accounts presented for audit did not include the 2023/24 disclosures.</p>	<p>2023/24 data was subsequently received and included in the certified annual accounts.</p> <p>Management should put arrangements in place to ensure the required information is collated in time for disclosure in the remuneration report in the 2024/25 unaudited annual accounts.</p> <p>Recommendation 2 at Appendix 1. Action plan 2023/24</p>

Source: Audit Scotland

There were no identified misstatements within the unaudited financial statements

16. We did not identify any misstatements in the financial statements that were above our reporting threshold, so no monetary adjustments were required to the accounts.

17. In addition to the Trade Union Facility Time disclosure matter referenced in [Exhibit 3](#), we identified some other presentation and disclosure issues which were discussed with management. These were all adjusted in the audited annual accounts, and none were significant enough to require to be separately reported under ISA 260.

Good progress was made on prior year recommendations

18. The council has made good progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management and are set out in [Appendix 1](#).

Our audit opinions on the section 106 charity were unmodified

19. Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of Shetland Islands Council are sole trustees, irrespective of the size of the charity.

20. The council administers one section 106 charity, the Zetland Educational Trust Schemes 1961 to 1965. Our duties as auditors of the charity are to:

- express an opinion on whether the charity's financial statements properly present the charity's financial position and are prepared in accordance with charities legislation
- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator (OSCR).

We updated the materiality level for the charity audit

21. We set a planning materiality level of £11,971 for the charity audit, as set out in the 2023/24 Annual Audit Plan. On receipt of the unaudited 2023/24 annual accounts, we revised our materiality level to £12,690 based on the financial results for the year ended 31 March 2024.

Our audit identified and addressed the risk of material misstatement for the charity

22. At the audit planning stage, we identified one significant risk of material misstatement in relation to the charity audit. As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.

23. We undertook audit procedures designed to provide an appropriate level of assurance over the transactions relating to the charity and did not identify any material misstatements due to management override of controls.

24. We have given unmodified opinions on the financial statements of the Trust Schemes. We noted one finding from the audit as disclosed below.

25. In 2022/23 the classification of the Trust funds was amended from unrestricted to restricted funds. This change was based on council legal advice following review of enacting documents. However, due to the historic nature of the donations and associated documentation, it was not possible to separately disclose the individual components of the funds and their related transactions and balances. Narrative disclosures have been added to the 2023/24 Trust annual accounts to explain this. Legal work is ongoing with a view to providing a clearer format to the disclosure in future years.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

The council's budget setting and financial management arrangements operated effectively during 2023/24. Controls within the main financial systems were operating effectively while standards for the prevention and detection of fraud remain appropriate.

The 2023/24 general fund outturn was an overspend of £1.9 million against budget. The returned surpluses on the HRA and Harbour account were both less than budgeted.

Uncommitted general fund reserves increased in the year due to reserve transfers, but the "unsustainable" draw to support the General Fund also increased to £12.4 million.

Savings achieved during the year were mainly non-recurring in nature. More progress is required in identifying and delivering service review and other recurring savings to address future budget gaps.

Delivery of the capital expenditure programme improved in 2023/24 with slippage reduced to £1.4 million.

The council's budget setting and financial management arrangements operated effectively during 2023/24

26. The council has an established budget setting process that supports the setting of a balanced budget. The annual budget setting process links spending plans to the achievement of "Our Ambition" and is informed by community engagement around proposed council tax and housing rents changes. Service level budget proposals are scrutinised by the relevant service committee prior to full council consideration of the budget for approval.

27. The council approved its 2023/24 budget in March 2023, with planned revenue expenditure of £156.7 million. In addition to grant and council tax funding, the budget assumed the "sustainable" use of £33.5 million from general fund balances. The council define sustainable as the value of projected

investment returns that could be used without impacting on the underlying value of investments (£15.4 million for 2023/24) and estimated trading income generated through the harbour account (£18.1 million). The budget gap of £4.8 million was to be met from an “unsustainable” draw on reserves to achieve financial balance. The approved budget included a council tax increase of 4.5 per cent.

28. The council is required by legislation to maintain a separate Housing Revenue Account (HRA) and to ensure that rents are set to a level which will at least cover the costs of its social housing provision. The council approved a 4.5 per cent increase in the average weekly rent levels for tenants for 2023/24. The rent level set resulted in budgeted income of £7.7 million, with a projected surplus of £1.7 million to be utilised on the HRA capital expenditure programme along with contributions from reserves.

29. The council also maintains a separate Harbour Account with projected income of £36.7 million and an anticipated surplus of £18.2 million for the year, to be drawn down to fund the budget gap in the general fund.

30. The council operates a 5-year rolling Asset Investment Plan. The plan details capital expenditure of £21.6 million scheduled for 2023/24 (£12.2 million general fund projects, £9 million HRA projects and £0.4 million Harbour projects), split between the maintenance of existing assets and expenditure on new developments.

31. Quarterly reports on general fund, HRA and capital expenditure monitoring were presented to the Policy and Resources Committee during 2023/24. The reports provided members with a good level of information on the current and forecast year end budget positions along with narrative explaining the key variances and actions being taken to address these.

The 2023/24 general fund outturn was an overspend of £1.9 million against budget

32. Revisions were made to the budget during the year, with a final approved budget of £159.9 million. Actual general fund revenue expenditure in 2023/24 amounted to £161.8 million, an overspend of £1.9 million against budget. The overspend was due to a combination of under and overspends in services. The more significant under and overspends are summarised in [Exhibit 4](#).

Exhibit 4

Summary of significant service under/overspends against budget

Area	£m	Reason for variance
Underspends		
Total vacancy factor across all services	£1.449 million	Actual vacancies exceeded the budgeted vacancy factor across all services

Area	£m	Reason for variance
Economic Development	£0.231 million	Lower than expected applications for Economic Development projects and Economic Development Grant Schemes
Overspends		
Adult Services	£0.961 million	Significant requirement for agency staff
Community Care Resources	£0.524 million	Significant requirement for agency staff offset by overachievement of income from residential care charges
Crown Estate Income	£1.600 million	Crown Estate funding was not received as anticipated. This will be received in 2024/25 as agreed with the Scottish Government

Source: Shetland Islands Council Draft Revenue and Capital Outturn 2023/24

The HRA and Harbour Account both overspent against budget

33. The Housing Revenue Account income during the year was in line with projections, however expenditure on repairs and maintenance was higher than planned, resulting in a surplus of £0.7 million, £0.9 million less than budgeted. The additional expenditure was a primarily a consequence of increased material costs for repairs and maintenance work. This reduction in surplus resulted in a higher than planned drawdown of HRA reserves to support the capital expenditure programme.

34. Lower income from reduced tanker numbers at Sullom Voe and slippage in the capital programme resulted in a net surplus on the harbour account of £13.6 million, £4.5 million less than budgeted.

Uncommitted general fund reserves increased in the year due to reserve transfers, but the “unsustainable” draw to support the General Fund also increased to £12.4 million

35. A key measure of the financial health of a body is the level of reserves held. The council held a general fund balance of £248 million at 31 March 2024, however much of this balance was earmarked for specific purposes. The uncommitted general fund balance was £68 million, an increase of £53 million from the prior year uncommitted balance of £15 million.

36. The 2023/24 general fund budget assumed the use of £38.3 million to support a balanced budget: £15.4 million sustainable use of investment funds, £18.1 million Harbour Account surplus and an additional “unsustainable” draw of £4.8 million from the general fund. The combination of increased expenditure and reduced Harbour Account income during the financial year resulted in the

“unsustainable” draw on the general fund increasing significantly to £12.4 million (2022/23 £4.1 million), utilising most of the uncommitted balance that existed at the start of the financial year.

37. In line with previous budget commitments, the council transferred £68 million at the financial year end from the capital fund and the harbour account reserves to the general fund reserve. These general fund reserves will be used to meet anticipated cumulated use of reserves through to 2028, in line with financial forecasts in the council’s medium term financial plan.

Savings achieved during the year were mainly non-recurring in nature. More progress is required in identifying and delivering service review and other recurring savings to address future budget gaps

38. Three elements of savings were built into the budget: 1% savings of £1.6 million, service reviews of £2.0 million and a vacancy factor of £2.4 million giving total budgeted savings of £6 million.

39. Actual savings achieved during 2023/24 totalled £5.9 million (£0.7 million recurring and £5.2 million non-recurring). The majority of the savings related to ongoing challenges in filling vacant posts, with £4.0 million realised, well in excess of original budget. Only £0.7 million of service review savings were achieved, mainly due to limited savings being realised in Community Health and Social Care.

Delivery of the capital expenditure programme improved in 2023/24 with slippage reduced to £1.4 million

40. In 2022/23, the council experienced high levels of slippage in the delivery of the capital programme, with expenditure £15 million against a planned spend of £25 million. For 2023/24, the approved capital programme amounted to £18.8 million. Actual capital expenditure amounted to £17.4 million of which £9.8 million related to general services, £0.4 million to harbour account and £7.2 million to the housing revenue account. The slippage of £1.4 million was largely due to contractual delays and supply issues.

41. The council approved a five-year Asset Investment Plan (AIP) 2024-29 in March 2024 using new prioritisation criteria. As part of the revised approach, an element of overprogramming has been built into the plan. Approved capital investment for 2024/25 totals £26.8 million, with £17.4 million allocated for the maintenance of existing assets, £13.8 million for new developments with a provision for slippage of £4.4million. To fund the Plan, there is a requirement to draw £5 million from reserves.

Shetland Islands Council has appropriate financial control arrangements in place

42. From a review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach and testing of the operating effectiveness of specific key controls we did not identify any

internal control weaknesses which could affect Shetland Islands Council's ability to record, process, summarise, and report financial and other relevant data and result in a material misstatement in the financial statements.

Internal audit provided reasonable assurance on the council's framework of governance, risk management and control

43. The internal audit function is delivered by Audit Glasgow. We considered internal audit's annual report, presented to the June 2024 Audit Committee, as part of our review of the Annual Governance Statement included within the 2023/24 annual accounts. This disclosed internal audit's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the governance and control environment which operated during 2023/24 in the council.

Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate

44. Shetland Islands Council has a range of established procedures for preventing and detecting fraud and irregularity including anti-fraud, bribery and corruption policy and codes of conduct for councillors and officers. A new whistleblowing policy was approved by the council in December 2023.

45. We assessed these arrangements to ensure they were appropriate and that that documents are readily available to staff and regularly reviewed to ensure they remain relevant and current. Overall, we concluded that the council's arrangements are appropriate.

3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

The council continues to rely on reserves to balance its annual budget, with the gap of £22.8 million in 2024/25 general fund budget being met from reserves.

The council's updated medium-term financial plan shows a projected cumulative budget gap of £81.3 million over 4 years. A total of £68 million was transferred to the general fund from other useable reserves in the year, to be utilised to address the gap through to 2028.

More work is required to reduce reliance on reserves and other unsustainable sources in achieving financial balance each year.

The council continues to rely on reserves to balance its annual budget, with the gap of £22.8 million in 2024/25 general fund budget being met from reserves

46. Our annual audit plan identified a wider scope risk around the financial sustainability of the council. As part of our considerations on financial sustainability, we have reviewed the council's medium term financial planning, including trends and projections, to assess the sustainability of using reserves to balance the budget.

47. General fund reserves continue to be used to balance the annual budget. The approved budget for 2024/25 includes a deficit of £46 million to be funded from reserves. The planned use of reserves comprises 3 elements: the sustainable use of investment returns without impacting on the underlying value of investments (£15.4 million); trading income generated through the harbour account along with other reserve balances (£7.6 million); and an "unsustainable" draw on the general fund for the remaining gap of £22.8 million.

48. This unsustainable draw represents over 13 per cent of the total general fund expenditure for the year and reflects a significant increase on the actual comparable draws in prior years (2021/22 £4.1 million; 2023/24 £12.8 million).

49. The most recent budget monitoring report projects a revenue overspend of £1.0 million and a capital underspend of £2.5 million against revised budgets.

Budget revisions of £1.8 million will also require an increase in the budgeted draw on reserves of £1.2 million.

The updated medium-term financial plan identifies a projected cumulative budget gap of £81.3 million over 4 years

50. The Council prepares a medium-term financial plan (MTFP), which is refreshed annually ahead of the budgeting cycle. The November 2023 update covered the planning period 2023 to 2028. The MTFP summarises the key financial planning assumptions and translates the assumptions and financial modelling into three different scenarios:

- An optimistic, upside scenario
- A central, most likely scenario, and
- A pessimistic, downside scenario.

51. The central scenario within the plan identified an anticipated cumulative budgetary deficit of £81.3 million by 2027/28 (2024/25 £15.7m; 2025/26 £15.9m; 2026/27 £19.1m; 2027/28 £30.6m).

More work is required to reduce reliance on reserves and other unsustainable sources in achieving financial balance each year

52. By the time the budget was approved in March 2024, the 2024/25 projected deficit had increased to £22.8 million, with further increases projected in the most recent financial reporting. The council transferred £68 million to the general fund from other reserve balances in 2023/24 to help manage projected deficits through to 2028. While this will address some of the pressure in the short to medium term, the scale of the current cumulative deficit will require significant work to reduce reliance on reserves or other unsustainable sources and achieve financial balance each year.

Recommendation 3

Work requires to be done to reduce reliance on reserves, or other unsustainable sources, in order to achieve financial balance each year.

4. Best Value

Councils have a statutory duty to make arrangements to secure continuous improvement in the performance of their functions.

Conclusions

The council continues to make progress with the recommendations in the 2022 BVAR

Thematic work identified that the council continues to face significant recruitment challenges to fill vacant positions and is exploring different initiatives to address these.

Best Value audit work is fully integrated within our annual audit work

53. Councils have a statutory duty to make arrangements to secure continuous improvement in the performance of their functions. Expectations are laid out in the [Best Value Revised Statutory Guidance 2020](#).

54. As set out in the [Code of Audit Practice](#), Best Value audit is integrated within our annual audit work and will be assessed comprehensively over the period of the audit appointment. This will include an annual evaluation of the council's approach to demonstrating improvement in its services and public performance reporting. We will also follow up findings reported previously on Best Value to assess the pace and depth of improvement.

55. As part of the new reporting arrangements, the Controller of Audit will also report to the Accounts Commission on a council's performance in meeting its Best Value duties at least once every five years. A report on Shetland Islands Council's performance is currently scheduled for 2026.

56. For 2023/24, the scope of Best Value work included conclusions on:

- Workforce Innovation (2023/24 thematic work)
- Council service performance improvement
- Effectiveness of council performance reporting
- Progress made against Best Value improvement actions made in previous years.

57. As set out in the [Code of Audit Practice 2021](#), Best Value audit is integrated with other wider-scope annual audit work. Therefore, in addition to the work set out in the remainder of this section, Best Value work has informed the content and conclusions set out in parts 3 to 5 of this Annual Audit Report.

Thematic work identified that the council continues to face significant recruitment challenges to fill vacant positions and is exploring different initiatives to address these

58. For 2023/24 the Accounts Commission directed auditors to conduct a Best Value thematic review of workforce innovation and how councils are responding to workforce challenges through building capacity, increasing productivity and innovation. Our [report](#) on this work was presented to the Audit Committee on 12 November 2024. The key findings in the report were:

- The council continues to face significant recruitment challenges to fill vacant positions. The Workforce Strategy 2020-25 and Workforce Plan set out the council's guiding principles that it will use to address the council's challenges and workforce priorities.
- The council does not presently have service-level workforce plans, and progress has been slow to develop these. Council services are in the process of developing service-level workforce plans to fully understand the council's workforce challenges and opportunities and to help support the delivery of the workforce strategy and plan.
- The council has committed to the better use of technology, but it is at an early stage of its digital adoption compared to other councils and lacks a consistent and strategic approach across services. The council provides digital training opportunities for staff but more needs to be done to address digital exclusion of staff.
- The council's flexible working policy has been developed to support the council and employees in achieving a positive work-life balance, and the council has used its flexible working policy to recruit difficult-to-fill posts.
- The council is exploring different initiatives to address workforce challenges such as its 'grow our own' programme but it recognises the need for scaling up its efforts while vacancies are increasing. The council is still to fully understand its skills needs and gaps.
- The council has effective partnership working in place, working well with its partners.
- The absence of service level workforce plans means the council doesn't have an overall strategy of how temporary, relief and casual contracts are used to support council services. The council has set up a project group to collate an overview of the use and numbers of temporary and casual workers and to better understand how they are being used by services.

- Council services report quarterly on performance to their relevant committees. This includes risks associated with staff recruitment and retention, but the council is still to develop a set of performance indicators to monitor and report against the 18 key measures set out in its workforce plan.

59. Audit recommendations contained in the report and management responses are set out in [Appendix 1](#).

The council has made good progress on implementing previous Best Value improvement actions, with most complete or mainstreamed into council improvement activity

60. Shetland Islands Council received a full Best Value Assurance report (BVAR) in August 2022. We assessed progress against the recommendations in the BVAR as assessed as part of our [Best Value thematic review](#) in 2022/23 and reported this to the Audit Committee in September 2023.

61. Officers presented an internal assessment of progress against the council's action plan to the full council in June 2024. This concluded that substantial progress had been made in all areas and the majority of actions had been completed. A decision was taken that updates on the strategic action plan should be a standing item on the audit committee agenda.

62. We undertook a further assessment of progress against the original recommendations in the BVAR as set out in [Exhibit 5](#), with progress on the 2022/23 thematic review recommendations included separately at [Appendix 1](#). Most actions have now been completed, with those still in progress integrated into council improvement activity. We will continue to assess this progress and report on the council's arrangements to secure continuous improvement as part of our annual audit work in future years.

Exhibit 5

BVAR recommendation	2022/23 summary of progress	2023/24 update
<p>The council should improve performance management and reporting by:</p> <ul style="list-style-type: none"> – ensuring performance indicators are in place for plans and strategies at the time of their development – setting targets for its performance indicators as 	<p>In Progress</p> <ul style="list-style-type: none"> • The council has established a performance framework which aligns with its council plan priorities. • There are 118 indicators identified that align to the priority areas and this 	<p>Complete</p> <ul style="list-style-type: none"> • A mid-term progress report on Our Ambition was presented to the council on 27th March 2024. It presented a balanced view of progress with links to data in the interactive dashboard. • A revised, streamlined set of 99 performance indicators

- appropriate and in a timely manner
- ensuring annual performance reporting is balanced, uses a mixture of qualitative and quantitative information (including recently agreed performance indicators) and clearly draws out areas for improvement and associated improvement actions
 - ensuring monitoring is in place for the council’s early intervention and prevention projects.
- number of indicators may be excessive.
- Performance targets have only been set one year ahead and only for 70 per cent of indicators.
 - The Council’s website has good, detailed action and performance data, but these are not clearly focussed on key priorities in Our Ambition.
 - Service plans are up-to-date and consistent with the Council plan.
 - Annual performance reporting against the council plan is available on the website but is mainly narrative and focuses on achievements.
- to support Our Ambition was proposed and approved on 27th March 2024.
- The council’s website has good, detailed action and performance data, linked to the themes of Our Ambition.
 - Monitoring of early intervention and prevention projects is documented through Pentana, including the Anchor project, parenting programmes and Children’s Services Early Action Programme.

Elected members should work with council management to set out how it will meet the estimated funding gap

- The council should improve how it involves elected members in budget-setting

In Progress

- The council approved a balanced revenue budget for 2023/24. The budget gap of £3.2 million for 2023/24, was addressed by continued use of the general fund.
- The council continues faces a significant challenge in being able to set balanced budgets in the future. The central scenario indicated a potential cumulative budgetary deficit of £106 million by 2026/27.
- The council’s own BV action plan monitoring update notes that “budget seminars were delivered, and members’ feedback sought on savings proposals, council tax, rent levels and service reviews.
- For the 2023/24 budget the council engaged with people on council tax

In Progress

- An engagement project team was established in August 2023, chaired by the Chief Executive. Key highlights from the project include:
 - Directorate features on budget challenges
 - Animations for social media / Mareel
 - Workforce Challenges leaflet
- A follow-up public survey on the Council’s finances is planned for December 2024.
- The council continues to face a significant challenge in being able to set balanced budgets in the future. The central scenario indicated a potential cumulative budgetary deficit of £81 million by 2027/28.
- We will continue to monitor council actions in this area in 2024/25 as part of follow up

increases as well as with tenants on rent increases. For the 2024/25 budget the council plans to implement an engagement programme starting in August 2023 to build in community priorities.

on our wider scope work on financial sustainability.

The council needs to fully embed its Change Programme by:

- identifying, developing and aligning its supporting projects and activities
- setting clear timescales
- fully resourcing its work including the PMO Team ensuring there is a dedicated core hub for its work
- creating a clear plan of how it will address savings identified in the MTFP

In Progress

- The Council's own BV action plan monitoring update notes that SIC Change Programme Delivery Plan approved 23 November 2022. Hub and Spoke model agreed.
- Progress reports on the change projects are reported to the policy and resources committee quarterly and the actions are given a red-amber-green status. The actions are spread over the 29 service plans and linked to the Our Ambition themes.
- A small resource is available to drive forward the change projects.
- The council needs to continue to develop its approach to driving forward the projects to ensure they are achievable within the resources available.

In Progress

- CMT now acts as a Sponsoring Group for the Change Programme with progress on development and delivery of Change Programme projects reported to the Group every quarter.
- Members are informed of Change Project progress through quarterly performance reports to the relevant committee. Directorate and Service Plans are also automatically updated through the same process
- Costs and savings identified in the Change Programme will be used at Department level in determining 25/26 and future budgets.
- We will continue to review progress in this area as part of our 2024/25 wider scope audit through consideration of the updated MTFP and savings targets, alongside achievement of savings in 2024/25 financial year.

The council should align all plans and strategies under Our Ambition to meet its priorities, specifically:

- workforce planning
- the Asset Improvement Plan
- financial planning

In Progress

- Service plans are up-to-date and consistent with the Council plan. The council has developed three-year service plans for each of the five directorates. These are updated annually and last

In Progress

- Three-year Directorate Plans for each of the five directorates were approved in March 2024.
 - They were developed in parallel to the update of the Council's Our Ambition and
-

– the Change Programme

updated on 15 March 2023. The delivery plans are clearly aligned with the priorities in the Our ambition plan and demonstrates how each service will deliver its priorities.

- A council-wide workforce strategy and workforce plan exists, but both are being updated to align with Our Ambition. The council created a workforce strategy in December 2020 and a workforce in September 2021. An update on the workforce plan was taken to the Council in June 2023, which outlined the actions they are taking to address recruitment and retention issues.
- The council has a five-year Asset Investment Plan (AIP) 2023-28, approved on 15 March 2023. There is still no clear link between the projects within the AIP and how they will help the council achieve its priorities set out in Our Ambition.
- The council has prepared a medium- term financial outlook (MTFO) 2022-2027, which is refreshed annually ahead of the budgeting cycle. The latest update was September 2022. The MTFO is currently undergoing review, and it is expected to be revised by September 2023.
- The council has the change programme embedded within all other plans that it undertakes. The council's change programme is not confined

the agreed Medium Term Financial Plan.

- These were supported by annual service plans for each service.
 - Workforce challenge identified as most significant driver for service change. Service level workforce planning toolkit has been developed and managers will be supported in 2024 to better understand their workforce pressures and find solutions
 - The council approved a five-year Asset Investment Plan (AIP) 2024-29 in March 2024 using new prioritisation criteria which link to Our Ambition.
 - The Council has prepared a medium- term financial outlook (MTFO) 2023-2028, which is refreshed annually ahead of the budgeting cycle. The latest update was November 2023. The MTFO is currently undergoing review, and it is expected to be revised by November 2024.
 - In 2024/25 we will monitor progress on workforce planning through follow up of Workforce innovation recommendations elsewhere in this report, and the MTFP work as part of our wider scope work on financial sustainability.
-

to one policy document, it is however included as part of each of the service plans.

In respect of community engagement, the council should:

- engage communities on key strategic plans and developments, including the
- council plan and annual budget
- demonstrate how the results of community engagement exercises have fed into
- plans and services
- ensure locality plans are in place

In Progress

- A Community Engagement strategy has not yet been prepared. The council plans to develop a community Engagement Strategy for Shetland, however there is currently no timetable for this.
- The council's Community Development department engaged in a series of Community Conversations with members of the community, community groups, third sector organisations and staff teams over the last year. In February 2023 the council, its partners, Hub North Scotland and Scottish Futures Trust (SFT) produced a report "Nort Natters." The report took a place-based approach. A series of community engagement events were undertaken.
- The council is improving resident involvement in budget setting. For the 2023/24 budget the Council engaged with people on council tax increases as well as with tenants on rent increases. For the 2024/25 budget the Council plans to implement an engagement programme starting in August 2023 to build in community priorities.

Complete

- A Participation & Engagement Policy, incorporating a high-level action plan for implementation, was approved on 27th March 2024.
- Underpinned by the National Standards for Community Engagement, the Policy aims to ensure community engagement and participation is consistent across all Council services.
- The Policy will sit alongside an online Participation Hub, which is currently being developed and will include a toolkit of different engagement methods.
- For the 2024/25 budget the Council again engaged with tenants on rent increases. Council Tax was frozen in the 20
- Actions over last 12 months to ensure ongoing promotion of and engagement with tenant participation (see **PY-BV3** response in [Appendix 1](#)).

In respect of impact assessments, the council should:

In Progress

- The council has reviewed current templates

Complete

- Additional resource and staffing approved in June

- develop a consistent approach in carrying out EIAs
- for Integrated Impact Assessments (IIA), ensuring all statutory requirements are covered for equalities. It also completed an IIA on the council's 2023-2024 budget.
- 2024 to support the co-ordination of a consistent and compliant approach to impact assessments and information governance across the council.
- Impact assessments continue to be completed for a range of projects/issues, recent examples including school mothballing and school transport policy.
-

Source: Audit Scotland

5. Vision, leadership, governance and use of resources

Public sector bodies must have a clear vision and strategy and set priorities for improvement. Through effective planning, they work together with partners and communities to improve outcomes, make best use of resources and foster a culture of innovation.

Conclusion

The council has an established vision, strategy and priorities based on challenges facing the islands.

The council has effective and appropriate governance arrangements in place. It operates in an open and transparent manner.

The council improved its performance management arrangements to address prior year audit recommendations. This has improved compliance with the SPI Direction.

Audit work has addressed the wider scope risk on workforce challenges identified in the Annual Audit Plan

63. Our annual audit plan identified a wider scope risk at the council around workforce challenges affecting service delivery. The council continues to face significant ongoing challenges in recruiting and retaining staff which could impact on service delivery.

64. We addressed this risk by conducting a Best Value thematic review on workforce innovation. The findings of this work are summarised in the Best Value section of this report (see [paragraph 58.](#) and recommendations included at [Appendix 1.](#)

The council has an established vision, strategy and priorities based on challenges facing the islands

65. The council continues to have a clear vision based on challenges facing the Islands. These are contained in “Our Ambition”, the council’s corporate plan,

which sets out the priorities that the council will work towards over the five-year period to 2026.

66. Annual updates on delivery of “Our Ambition” are reported to the council, setting out key achievements and progress against targets. The updates are also published on the council’s website.

The council has effective and appropriate governance arrangements in place

67. Shetland Islands Council’s governance arrangements have been set out in the Annual Governance Statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate and effective, supporting decision-making and scrutiny.

68. Scrutiny arrangements appear to be working well in the council.

The council operates in an open and transparent manner

69. The council continues to operate in an open and transparent manner, with agendas, reports and minutes of council and committee meetings published on the council’s website. Committee meetings are open to the public and also webcast live through the council’s website, with recordings publicly available after the meetings.

70. The council provides public access to a wide range of information through its website including the financial and budgeting information, register of councillors’ interests, current consultations and service performance data.

71. In addition, the website home page provides updates on recent developments and links to useful information, including how to access cost of living support and advice.

The council improved its performance management arrangements to address prior year audit recommendations, resulting in improved compliance with the SPI Direction

72. Following approval of revised performance management arrangements in June 2023, the council established a reporting framework and performance indicators aligned to its Corporate Plan priorities. The council’s Performance Management Framework 2019-24 includes details of the requirements for performance indicators to be an integral part of the development of strategies and plans.

73. In our 2022/23 Best Value thematic review we noted there was a lack of focus and medium/long term targets on some of the council performance measures (see **Recommendation PY-BV2** in [Appendix 1](#)). In response the council reviewed and streamlined the performance indicators to ensure they reflected agreed priorities and appropriate targets.

74. A mid-term progress report on “Our Ambition” was presented to the council on 27 March 2024. In response to prior year audit recommendations (see

Recommendations PY-BV1 in [Appendix 1](#)), the report format was updated to present a more balanced view of performance linked to council priorities. A revised, streamlined set of 99 performance indicators was also approved at the same meeting. The “Our Ambition” interactive dashboard provides up to date performance information on these indicators.

75. The [Accounts Commission’s 2021 Statutory Performance Information Direction](#) defines the performance information that councils must publish. The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced, and engaging performance information.

76. In our 2022/23 annual audit report we noted that published information was not sufficiently balanced or focused to demonstrate full compliance with the Direction. We have assessed the action taken by the council as noted above and concluded it now demonstrates compliance.

Overall performance remains relatively strong compared to other councils

77. Each year the council’s performance is compared against all other Scottish councils through the Local Government Benchmarking Framework (LGBF). The latest LGBF data relates to 2022/23 and was published in March 2024. Over 54 per cent of the council’s LGBF indicators were in the top two quartiles. This was similar to last year.

78. Poor performance compared with other councils was noted in the following areas: cost per school pupil (primary and secondary), numeracy levels, home care costs per hour for people aged over 65, the gender pay gap and net cost of waste collection per premises.

79. Strong performance compared with other councils was noted in the following areas: satisfaction with local schools, libraries, parks, refuse collection and street cleaning, school attendance and exclusion rates, participation rates for 16- to 19-year-olds and the state of ‘A class’ roads.

80. The performance section of the council’s website contains a link to the Improvement Service’s Local Government Benchmarking Framework dashboard. This allows interested users to compare the council’s performance against other councils.

The council has improved compliance with the SPI Direction

81. The [Accounts Commission’s 2021 Statutory Performance Direction](#) defines the performance information that councils must publish. The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced, and engaging performance information.

82. In our 2022/23 annual audit report we noted that although the council reported a range of detailed performance information through committees and the council website, it was not sufficiently balanced or focused to reflect the priorities in the council’s corporate plan, “Our Ambition”. In response the council

reviewed and streamlined the performance indicators to ensure they reflected agreed priorities, and updated its reporting of performance information through the annual progress report to ensure it presented a balanced picture (see **Recommendations PY-BV1** and **PY-BV2** in [Appendix 1](#)).

The council is working effectively with partners to meet stated outcomes and improvement objectives

83. Our outcomes for public audit note that tackling complex social and environmental challenges requires better collaboration across public bodies, with an increase in the pace and scale of reform needed across the Scottish public sector. While public bodies need to deal with immediate financial pressures, they also need to change how services are delivered to people in a way that more effectively meets their needs.

84. The council works with partners through the Shetland Partnership Plan 2018-2028. The partnership is made up of a wide range of partners and community bodies. The plan identifies a shared vision and priorities to improve the lives of everyone in Shetland. The key focus of the plan is to reduce inequality of outcome in Shetland. The four shared priorities are participation, people, place and money. Progress in delivering the plan is regularly assessed and the latest annual report was published in September 2023. This included monitoring of a number of outcome indicators. The plan is supported by the Shetland Partnership Delivery Plan 2023/28 which outlines the key activity required to deliver the shared priorities.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Partnering arrangements with related parties</p> <p>The council has partnering arrangements with a number of related parties. These include an arrangement with the Shetland Charitable Trust to support the delivery of care services through funding and provision of assets, set out in the Rural Care Model of 2010. While the agreement includes provision for regular review of the model, the extant document does not fully reflect current working arrangements.</p> <p>Risk – the council is deemed to have legal or financial obligations because matters have not been clearly documented and agreed..</p>	<p>The council should review and refresh the partnering and funding agreements it has with Shetland Charitable Trust and other bodies to ensure they are fit for purpose and clearly document arrangements in place, including asset and funding provisions.</p> <p>See issue 1 in Exhibit 3</p>	<p>Partially Accepted</p> <p>The Council approved revised CSOs in September 2023 and has implemented revised processes for contract monitoring, which is overseen by the Council’s central procurement team.</p> <p>The agreement with SCT is long standing and a review has been anticipated for some time, however, this has been delayed due to the expectation that there would need to be revised arrangements negotiated as part of the commissioning work required by the IJB through strategic commissioning arrangements that will see different models of care across Shetland.</p> <p>However, the contractual arrangements will now be reviewed separately to take account of the issues raised here.</p> <p>Responsible officer: Director Corporate Services</p> <p>Agreed date: September 2025</p>
<p>2. Remuneration Report - Trade Union (Facility Time Publication Requirements) Regulations 2017 disclosures</p>	<p>Management should put arrangements in place to ensure the required information is collated in time for disclosure in the</p>	<p>Partially Accepted</p> <p>Regulations require the publication of information by the end of July, after the deadline for submission of</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>The regulations require a range of information on the time and costs of employee involvement in trade union activity to be published by the council each year.</p> <p>These disclosures have been required since 2020/21 but the council does not yet have processes in place to collate current year data, or information on the time spent on paid trade union activities, for publication in the unaudited annual accounts in June.</p> <p>Risk: The time and costs associated with staff involvement in trade union activity is not reported.</p>	<p>remuneration report in the 2024/25 unaudited annual accounts.</p> <p>See issue 2 in Exhibit 3</p>	<p>the unaudited accounts at the end of June.</p> <p>The council is dependent on provision of data from Trade Unions and will engage with them to seek earlier provision of data.</p> <p>Responsible officer: Executive Manager – HR</p> <p>Agreed date: June 2025</p>
<p>3. Reliance on reserves</p> <p>The council continues to rely on reserves to balance its annual budget.</p> <p>Risk – The council is not able to demonstrate that it is in a financially sustainable position.</p>	<p>Work requires to be done to reduce reliance on reserves, or other unsustainable sources, in order to achieve financial balance each year</p> <p>Paragraph 52.</p>	<p>Accepted</p> <p>The previous Medium Term Financial Plan (2023-28) included discussion on reserves. The current version (2024-29) has not done so but rather, given the importance, is now intended to be contained within a separate policy that discusses investments / reserves and stresses to members the importance of moving to a sustainable position. Sustainability is an ongoing journey but the creation of a standalone policy is a valuable step to ensuring members reflect on this.</p> <p>Responsible officer: Executive Manager - Finance</p> <p>Agreed date: March 2025</p>

2023/24 recommendations from the BV thematic report

Issue/risk	Recommendation	Agreed management action/timing
<p>BV1 Review of the Workforce Plan was delayed</p> <p>The Workforce Plan 2021-26 is due to be reviewed on an annual basis. The 2022 review was delayed due to other priorities and the first review of the Workforce Plan was completed in June 2023.</p> <p>Risk – without regular review the Workforce Plan may not adequately reflect the current challenges and opportunities facing the council.</p>	<p>The council should ensure that its workforce plan is reviewed regularly and incorporate information from service-level workforce plans once they have been developed.</p>	<p>There was a delay to the Strategic Workforce Plan update in 2024 due to the vacancy of the Executive Manager - HR and then prioritisation of Service Workforce Planning Guidance being issued (as per recommendation 2 below).</p> <p>The Strategic Workforce Plan was reviewed and updated in Sept/Oct 2024 and an update will go to Policy & Resources Committee on 2 Dec 2024. A further review will take place in 2025 with a new Strategic Workforce Plan developed for 2026 onwards incorporating information from Service-level Workforce Plans as appropriate. Thereafter, the Workforce Plan will be reviewed on an annual basis alongside Service and Directorate plans and the annual budget setting process.</p> <p>Responsible Officer: Executive Manager HR</p> <p>Agreed date: December 2024 with annual updates thereafter as required.</p>
<p>BV2 Service level workforce plans</p> <p>The council does not presently have service-level workforce plans, and progress has been slow to develop these. Council services are in the process of developing service-level workforce plans to fully understand the council's workforce challenges and opportunities and to help support the delivery of the workforce strategy and plan.</p>	<p>The council needs to finalise its service level workforce plans so that these can support the delivery of the council's workforce strategy and plan.</p>	<p>Service Workforce Planning Guidance was issued to all Directors, Executive Managers and Team Leaders in May 2024. A Workforce Planning Guidance overview was provided across all Directorates by the Executive Manager - HR between May-Sept 2024. Service Workforce Plans are expected to be living documents; as such a Sharepoint site was created for Service Workforce Plans to be uploaded, once complete, allowing plans to be updated as and when required.</p> <p>Service Workforce Plans have been initiated in all Directorates and completed Workforce Plans started</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk –the council may fail to deliver on the workforce strategy and plan.</p>		<p>being uploaded to the Sharepoint site in Summer 2024.</p> <p>Ongoing support in completion of Service Workforce Plans is provided by the HR team. The Sharepoint site is monitored regularly where plans are reviewed and themes understood, which in turn supports completion of Recommendation 1 noted above.</p> <p>Responsible Officer: Executive Manager HR</p> <p>Agreed date: December 2024 with annual reviews thereafter</p>
<p>BV3 Joined up approach to developing digital technology and the workforce</p> <p>The council lacks a consistent and strategic approach to the use of digital technology to improve workforce productivity.</p> <p>Risk – This could lead to duplication of tasks, wasted resources and less informed decision-making processes.</p>	<p>The council should develop a consistent joined-up approach to develop and adapt digital services to help improve workforce productivity and service delivery.</p>	<p>The ICT Management Board comprises representatives from across all Departments of the Council.</p> <p>Regular updates on Digital First work programmes; information on best practice from other LAs and internal service innovation will be presented to the Board and relevant practices will be promoted using the Council’s employee engagement platform.</p> <p>Responsible Officer: Executive Manager ICT</p> <p>Agreed date: October 2025.</p>
<p>BV4 Adoption of digital technology</p> <p>The council has committed to the better use of technology, but it is at an early stage of its digital adoption compared to other councils.</p> <p>Risk – The council may not have adequate digital technologies to support its workforce to deliver efficient and effective</p>	<p>As the council is at an early stage in the adoption of digital infrastructure it should look at how other councils have integrated systems to improve workforce productivity and service delivery</p>	<p>In addition to sharing best practices (see BV3 above), ICT, Performance and Improvement will engage with services via the Project & Analysis, Digital First and Business Intelligence Teams to document and streamline business processes and embed new ways of working utilising available digital technologies.</p> <p>We will document business transformation projects in Pentana for reporting to senior management and Council Members.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>council services in the future.</p>		<p>Responsible Officer: Executive Manager ICT</p> <p>Agreed date: October 2025</p>
<p>BV5 Use of agency workers</p> <p>The council has a high reliance on agency workers, and a lack of service-level workforce plans means the council doesn't have an overall strategy of how those agency workers are used by council services.</p> <p>Risk – The council's current reliance on agency workers may present business continuity risks for services.</p>	<p>The council needs to finalise its project work to better understand how agency workers are used by services, to inform strategic planning.</p>	<p>A number of projects have been initiated that will require work to be done with regard to the use of agency workers to supplement the in-house workforce.</p> <p>An overview will be maintained by the Council's PMO with regular updates to CMT as the Sponsoring Group for all the Council's change programmes. A report on progress and detailed timelines for any remaining work with regard to agency workers will be presented to the next meeting of the Sponsoring Group on 19 November 2024.</p> <p>Responsible Officer: Director Corporate Services</p> <p>Agreed date: Report to CMT on 19 November 2024 with timelines for work streams.</p>
<p>BV6 Measuring the impact of workforce planning</p> <p>The council has still to develop measures and targets to monitor and report on progress against the workforce plan.</p> <p>Risk – workforce planning arrangements may not be supporting the delivery of the council's strategic priorities</p>	<p>The council needs to finalise the development of its set of performance indicators, which should be SMART, to monitor and report against the 18 key measures set out in its workforce plan.</p>	<p>This recommendation is fully agreed and work has already begun on the development of SMART Performance Indicators.</p> <p>These will be included in the 2025 update of the Workforce Plan.</p> <p>Responsible Officer: Executive Manager HR</p> <p>Agreed date: December 2025</p>

Follow-up of prior year recommendations

Recommendation	Agreed Action	Progress
<p>PY1 Review of Access</p> <p>Periodic reviews should be carried out to ensure that access is limited to appropriate users.</p>	<p>In line with the recommendation, carry out periodic reviews on the list of employees with access to the system and action any changes as required.</p> <p>Executive Manager - Finance December 2023</p>	<p>Complete</p> <p>Audit testing during 2023/24 confirmed that periodic reviews of those with access to the system are now carried out and documented.</p>
<p>PY2 Income Management System - Daily Reconciliations</p> <p>The review and any actions taken should be evidenced.</p>	<p>In line with the recommendation, document the review of the daily reconciliation and exception reports.</p> <p>Executive Manager - Finance December 2023</p>	<p>Complete</p> <p>Auditing testing during 2023/24 confirmed that the control is in operation, with the review of the daily reconciliation and exception reports being evidenced.</p>
<p>PY3 Reserves</p> <p>The Council should review and update the reporting of income and expenditure projections in the medium term financial outlook, to ensure they include all reasonable assumptions and elements of the financial position and their impact on projected reserve balances.</p>	<p>As part of the development of the MTFP 2023-28 we will engage with external audit around good practice on the content and disclosure within medium term financial planning. This would be reflected into the next MTFP, due in July 2024.</p> <p>Executive Manager - Finance July 2024</p>	<p>Superseded</p> <p>The presentation of information in the Medium-Term Financial Plan has been amended to include more clarity on the financial position and impact on projected reserves.</p> <p>See new recommendation around reliance on reserves.</p>
<p>Recommendations from Best Value Thematic Review 2022/23</p>		
<p>PY-BV1 Annual progress reporting</p>	<p>We will work with Services to present a more balanced view including both good performance</p>	<p>Complete</p> <p>A mid-term progress report on Our Ambition was presented to the council on 27 March 2024. It presented a balanced</p>

Recommendation	Agreed Action	Progress
<p>Annual Progress Reporting should present a balanced view of progress and demonstrate links to data in the interactive dashboard</p>	<p>and areas where performance could be improved. To be included in the Q2 Directorate Performance Reports. We will review how data is linked in the Dashboard by December 2023. The Annual Progress report 2023 will present a balanced view of progress and demonstrate links to date in the interactive dashboard</p> <p>Responsible officer: Chief Executive</p> <p>Agreed date: June 2024</p>	<p>view of progress with links to data in the interactive dashboard. The report is available on the website.</p>
<p>PY-BV2 Performance Indicators</p> <p>The framework of indicators and actions to support “Our Ambition” should be streamlined and reduced to enable focus on the areas that demonstrate progress on key priorities.</p>	<p>We will review the Performance Indicators with Services to ensure that they reflect the priorities in Our Ambition and that there is no overlap/duplication. Since Performance Indicators are approved by Council we would look to take a report to Council in the final quarter of 2023/24 in order to begin 2024/25 with the revised indicators.</p> <p>Responsible officer: Chief Executive</p> <p>Agreed date: March 2024</p>	<p>Complete</p> <p>A revised, streamlined set of 99 performance indicators to support Our Ambition was proposed and approved on 27 March 2024. These indicators will form the basis of the 2024/25 Annual Performance report which will be reporting during 2025. This will be subject to audit consideration as part of the wider scope audit in 2024/25.</p>
<p>PY-BV3 Resident participation in decision making</p> <p>Further engagement is required to encourage tenant participation in Council decision making.</p>	<p>The next Tenant Satisfaction Survey will be due in Spring 2026. Further development of our Tenant Participation Strategy is planned with refreshed engagement with tenants using a variety of methods.</p> <p>Responsible officer: Anita Jamieson</p>	<p>Complete</p> <p>Actions over last 12 months to ensure ongoing promotion of and engagement with tenant participation include updating of register of interested tenants and the recording of preferred method of contact information for most tenants.</p> <p>Dedicated groups of tenants can now be contacted digitally for their views on specific topics, eg. changes to the Letting</p>

Recommendation	Agreed Action	Progress
	<p>Agreed date: Spring 2026</p>	<p>Standard, proof-reading and commenting on the draft Annual Report to Tenants.</p> <p>A focus group on rent consultation with interested tenants is planned in the near future</p> <p>On track for completion of full tenant survey in compliance with Scottish Housing Regulator requirements by Spring 2026.</p>
<p>PY-BV4 Community Engagement Strategy</p> <p>A community engagement strategy should be completed</p>	<p>A community engagement policy is in development and will be reported to the Council for approval in December 2023</p> <p>Responsible officer: Vaile Simpson</p> <p>Agreed date: December 2023</p>	<p>Complete</p> <p>A Participation & Engagement Policy, incorporating a high-level action plan for implementation, was approved on 27th March 2024.</p>
<p>PY-BV5 Use of reserves</p> <p>The Council needs to address its significant increase in reliance on reserves, if it is to avoid impacts on services in the long-term as reserves run out.</p>	<p>The position is well understood and forms a key pillar of influence on Council decision making. However, in common with most, if not all LAs, sustainability is an elusive target. An alternative approach will be agreed by Senior Managers for use in 2024/25 revenue budget setting, which seeks to establish balanced budgets, with a demonstrable reduction in reliance on reserves year on year.</p> <p>Responsible officer: Paul Fraser</p> <p>Agreed date: March 2024</p>	<p>Superseded</p> <p>The council approved a balanced revenue budget for 2024/25. The budget gap of £22.8 million will be financed via an unsustainable use of resources.</p> <p>The council is not yet able to demonstrate it is in a financially sustainable position and has more to do in achieving financial sustainability.</p> <p>Audit progress on this action will be followed up through recommendation 3 above.</p>
<p>PY-BV6 Capital programmes</p> <p>The Council should assess whether capital programmes are optimistic and if an</p>	<p>Officers accept that the Capital Plan has seen a high level of underspend. An alternative approach will be agreed by Senior Managers for use in 2024/25 budget setting,</p>	<p>Complete</p> <p>The council approved a five-year Asset Investment Plan (AIP) 2024-29 in March 2024 using new prioritisation criteria. The plan allows for an element of slippage in the overall approved programme.</p>

Recommendation	Agreed Action	Progress
adjustment is required to plans. Capital and workforce plans should be aligned to Our Ambition plan.	which seeks to ensure that the approved capital plan reflects only projects that are certain to proceed, thus creating a more stable financial position. Responsible officer: Paul Fraser Agreed date: March 2024	

Shetland Islands Council

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