

Best Value

Shetland Islands Council

ACCOUNTS COMMISSION 

Prepared by the Controller of Audit
February 2026

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Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Key facts

566 Square miles

23,190 Population

0% Proportion of all data zones in Shetland that are within the 20% most deprived in Scotland, according to the Scottish Index of Multiple Deprivation (2020)

3596 Workforce (Headcount)
3,168 contracted employees and 428 relief staff

23 Elected members
21 Independent, 1 Scottish National Party & 1 Scottish Green Party (Independent administration)

£134.3m General Fund budget deficit projected over 2025/26 to 2029/30 under the most-likely planning scenario

£163.6m General Fund net revenue expenditure 2024/25

£22.3m Capital expenditure 2024/25 (across the General Fund, Housing Revenue Account, and Harbour Account)

Controller of Audit report

1. This report is made by the Controller of Audit to the Commission under Section 102(1) of the amended Local Government (Scotland) Act 1973. It is based on evidence collected in the 2022/23, 2023/24, and 2024/25 annual audits of the council, with the latter reported in December 2025. [Appendix 1](#) includes links to the 2022/23, 2023/24, and 2024/25 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. The theme for 2024/25 was transformation and how councils are redesigning and delivering services to achieve planned outcomes.

Pace of continuous improvement

3. Shetland Islands Council (the council) has shown improvements in service performance and, despite declining satisfaction with services, performance and satisfaction remain relatively strong compared to other councils. Cost indicators have also improved, but are still relatively high.
4. The recommendations from the previous Best Value Assurance Report are all now either addressed or superseded by subsequent recommendations, as are the recommendations from the 2022/23 Best Value thematic work on leadership.
5. However, in their 2024/25 Annual Audit Report, auditors highlighted that the council is making limited progress with implementing recommendations from the 2023/24 Best Value thematic work on workforce, as well as noting slow progress on transformation.
6. While the council has a strong reserves position, there is a risk that this will be depleted over time if action is not taken to address the forecast medium-term budget deficit and to reduce reliance on reserves to balance the budget. The council needs to make a step change to achieve financial sustainability going forward.

Best Value Assurance Report (BVAR) follow-up

7. The council received a full BVAR in 2022. Auditors noted that the council faced distinct challenges resulting from its geography and

recognised that the council and its partners had a clear shared vision to address these. Service performance was good, with some of the highest satisfaction levels in Scotland.

8. The 2022 BVAR also raised a number of more challenging areas, with the Commission expressing concerns about the council's inability to demonstrate Best Value in certain areas. Key issues included:

- the absence of a clear plan to eliminate the forecast funding gap;
- the council's reliance on reserves to achieve a balanced budget;
- weaknesses in the council's performance management arrangements; and
- a lack of pace and urgency around service transformation.

9. The Commission received a progress update in December 2023, at which point all of the BVAR recommendations were still in progress. The council had prepared a medium-term financial outlook for 2022-27, but had not made significant progress on its Change Programme and was still reliant on reserves to balance its budget.

10. Auditors subsequently reported that the council had completed recommendations on performance management, community engagement, and equality impact assessments. However, challenges remain around unsustainable use of reserves to balance the budget and progressing service transformation at pace, as detailed later in this report. The BVAR recommendations in these areas have been superseded by further recommendations in the 2024/25 Annual Audit Report.

Leadership review

11. The 2022/23 Best Value leadership review noted that the council set out a clear vision in its 'Our Ambition' corporate plan. The plan reflects the challenges facing the islands and the pace and depth of improvement required to realise council priorities in a sustainable manner. It aligns closely with the Shetland Partnership Plan and is supported by service-level operational plans.

12. Political leadership has remained stable since the 2022 elections and elected members take a collaborative approach. The council's committee system provides an effective structure for progressing council business with appropriate challenge and scrutiny. The council's management structure is well-established and the Chief Executive has been in post since 2018.

13. In their 2024/25 Annual Audit Report, auditors noted that the council generally has effective and appropriate vision, leadership and governance. This was evidenced by the involvement of service users, delivery partners

and other stakeholders in developing the council's vision, strategy, and priorities and the council operating in an open and transparent manner.

14. Auditors also raised some specific issues around governance in their 2024/25 Annual Audit Report, with some key governance documents not having been updated for over five years. This increases the risk of misalignment with current practices or legislative requirements. Auditors also found that the council were not consistently meeting the required timescales for responding to requests under freedom of information and data protection legislation.

15. To address these issues, the council has committed to establishing a Governance Working Group and undertaking a wider review of information governance and records management. The timescale for conclusion of the review has been deferred to June 2026, to allow it to incorporate any changes which may arise from the ongoing management restructuring review, due to be reported to the council in May 2026.

Citizen and community engagement

16. In the 2022 BVAR, auditors found that the council had engaged well with communities on some topics but had not consulted them on its 'Our Ambition' corporate plan or on its budget. They also identified scope for improvement in how the council demonstrated the influence of its community engagement on plans and services, and highlighted the need to ensure that locality plans were in place.

17. Auditors recorded these recommendations as complete in their 2023/24 Annual Audit Report. Since then, the council has engaged with communities on its 2024/25 and 2025/26 budgets. It also ran an 'Our Place – Your Say' survey in early 2025 to gather lived experience to inform its Local Development Plan, corporate plan, and ongoing service design.

18. In their 2024/25 Best Value thematic work, auditors noted that the council had performed considerable community engagement around its transformation projects. While auditors noted a limited number of Equality Impact Assessments were available to review given the early stage of work, the council could evidence the identification of impacts on vulnerable groups through its engagement. The council now needs to ensure that it delivers on its plans for its communities.

Effectiveness of performance reporting

19. In the 2022 BVAR, external auditors judged that the council had been slow to introduce appropriate performance management arrangements and the 2022/23 Annual Audit Report highlighted that the council was not fully compliant with the Commission's Statutory Performance Information Direction.

20. Following internal and external auditor recommendations, the council approved revised performance management arrangements in June 2023. It implemented a reporting framework and a suite of performance indicators aligned with its Corporate Plan priorities. In March 2024 these performance indicators were streamlined to 99 (from 118 previously). The council regularly reviews which indicators it measures.

21. Progress against these indicators is monitored through the live interactive 'Our Ambition' dashboard, which is publicly available on the council's website. Local Government Benchmarking Framework (LGBF) reporting is integrated into the performance management arrangements through the dashboard.

22. Performance is monitored regularly through quarterly directorate performance reports to relevant committees and through the live interactive dashboard on the council's website. An annual performance report is produced and is published on the website. However, due to staffing shortages in the Communications team, the most recent Annual Performance Report for 2024 was largely narrative in nature and lacked detailed performance data.

23. Auditors concluded the council works collaboratively with the Shetland Partnership, which includes a broad range of partners and community organisations. The Partnership Plan (2018-2028) sets out a shared vision and priorities focused on reducing outcome inequalities across Shetland. Progress is regularly reviewed, with the latest annual report published in September 2025.

24. Auditors concluded the council's performance management framework now supports effective performance reporting and scrutiny of performance. Auditors also concluded the council now has suitable and effective arrangements in place for the preparation and publication of statutory performance information.

Reported performance

25. In 2024/25, the auditor reported the council's service performance has improved compared to previous years and other councils. Good performance was noted in areas such as financial sustainability indicators; satisfaction with council services; school attendance and youth participation; and the condition of 'A class' roads and operational buildings.

26. Auditors also highlighted several areas where performance was weaker. Cost indicators showed the council paying a relatively high amount to deliver key services, and the council performed less well than most other councils on LGBF indicators related to tackling climate change.

27. An overview of movements on all LGBF indicators as of December 2025 is shown in Exhibit 1 alongside the averages for all Scottish councils.

Overall, the exhibit shows a good level of improvement since base years, but in the most recent year more indicators declined than improved.

28. The proportion of the council's indicators in the top two quartiles, when compared to other councils, has improved by 9 percentage points (to 57 per cent) since the base year. The council ranks fifth nationally for indicators in the top two quartiles and is in the top two for both of its family groups.

Exhibit 1

Shetland Islands Council – LGBF indicator summary December 2025

Council movements are shown alongside Scotland averages in brackets.

	Cost indicators	Performance indicators	Satisfaction indicators	All indicators
Movement in last year				
- Improved	55 (49)	30 (43)	27 (24)	35 (42)
- Stayed the same	5 (11)	26 (22)	9 (9)	20 (19)
- Declined	40 (40)	44 (34)	64 (68)	45 (39)
Movement since base year				
- Improved	65 (54)	63 (66)	18 (7)	58 (58)
- Stayed the same	0 (2)	6 (6)	0 (2)	4 (4)
- Declined	35 (45)	31 (28)	82 (90)	38 (38)
Indicators in the top two quartiles				
- Most recent year	35	56	100	57
- Base year	25	51	73	48

1. Scotland average movements are shown in brackets

Source: LGBF as of 18 December 2025

29. At service level, LGBF indicators generally show good improvement since base year. Environmental services saw the highest proportion of indicators showing improvement since base year (79 per cent), while in culture and leisure services only 38 per cent of indicators improved.

30. The council had a higher number of indicators in the top two quartiles since base year in all service areas except for children's services and tackling climate change. This signals that performance is generally strengthening compared to other councils.

Workforce planning

- 31.** In 2023/24 the Best Value thematic review focused on workforce innovation and how councils are responding to workforce challenges.
- 32.** In January 2024, the council published 'Our Workforce Challenge', which set out the recruitment challenges facing the council. There are more jobs in Shetland than people to fill them and the council's workforce is getting older, with a high proportion reaching retirement age.
- 33.** The council faces significant difficulties filling vacant positions and retaining staff, with a specific set of challenges as an island council. The problem is particularly acute in some areas of the council such as Community Health and Social Care, which is dependent on the use of agency workers.
- 34.** The Workforce Strategy 2020-25 and Workforce Plan 2021-26 set out the council's guiding principles that it will use to address its challenges and workforce priorities. The council's workforce plan was developed with the aim of building workforce capability through upskilling, re-skilling and increasing flexibility.
- 35.** The council has a flexible working policy which it has used to support recruitment to difficult-to-fill posts. For example, it has recruited planning professionals based outside Shetland with an agreement that they spend an agreed number of weeks per year in Shetland.
- 36.** Digital technology will be essential in supporting the workforce to deliver services in the future. Auditors highlighted that the council had committed to better use of technology but was at an early stage of adoption compared to other councils and lacked a consistent approach across services. To address this, the council approved a Digital Innovation and AI Feasibility project in September 2025.
- 37.** In the 2024/25 Annual Audit Report, auditors noted that two 2023/24 workforce recommendations around regular review of the Workforce Plan and engaging with other local authorities on digital adoption had been completed. However, four actions were still ongoing.
- 38.** The ongoing actions related to the development of service-level workforce plans (of which 21 out of 27 were complete), better understanding how services used agency workers, setting measures and targets for the workforce plan, and developing a joined-up approach for using digital services to enhance productivity and service delivery.
- 39.** While the council has demonstrated progress in some areas, auditors assessed in their 2024/25 Annual Audit Report that, overall, progress against the 2023/24 workforce review recommendations has been limited. As noted below (see paragraph 41), this creates a risk to delivering the council's ambitions on transformation.

Transformation

40. The council has a Change Programme aligned to its 'Our Ambition' corporate plan for 2021-26. As of the 2024/25 Best Value thematic review on transformation, this comprised 21 projects. Auditors found that progress to develop detailed project plans had been slow, with most projects still lacking these. There is a risk that many projects will not be commenced within the timescales of the current corporate plan. Auditors highlighted the need for the council to ensure that it is clear about what it is able to deliver within the resources it has available, and to what timescale.

41. The council has a Project Management Office to support delivery and has actively targeted resources to support transformation projects. It also launched a graduate development programme in 2024 to increase project and programme management capacity. However, there remains limited staff capacity within the council to progress transformation at both the senior leadership and officer level, which presents a risk to the programme overall.

42. The council has established arrangements for quarterly reporting against its Change Programme projects to its Corporate Management Team (CMT) and elected members. But auditors highlighted that reports could be enhanced to include reporting against time, project costs and estimated benefits. The latest quarterly report in late 2025 included overviews of anticipated project benefits, upcoming milestone dates, key risks and budgets for 13 out of 24 Change Programme projects.

43. The council has shown a willingness to work with partners in Shetland and beyond on transformation, collaborating with organisations in both the public and private sectors. It has used a variety of UK and Scottish Government funding sources to support investment in Change Programme projects.

44. The council is in a relatively strong financial position in the short term and has committed to continue to explore opportunities to support transformation within the constraints of its investment strategy. It now needs to increase the pace of progress and ensure that it delivers its plans on behalf of communities.

Financial management and sustainability

45. Key financial information for the council is included in Exhibit 2.

Exhibit 2**Shetland Islands Council – key financial information**

	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)
Budget setting				
Total net General Fund expenditure, including:	139.6	155.1	168.8	178.4
- Savings & increased income ¹	(3.3)	(8.4)	(12.8)	(8.2)
 Total core funding, including:	 (109.2)	 (118.4)	 (122.9)	 (134.5)
- Council tax	(10.3)	(10.8)	(11.2) ²	(12.6)
- Percentage increase in council tax	3.0%	4.5%	0.0%	5.0%
 General Fund budget deficit	 30.4	 36.7	 45.9	 43.9
Planned to be met via:				
- Use of reserves: sustainable investment returns	14.4	15.4	15.4	15.4
- Use of reserves: other sustainable reserves including trading income	10.6	18.1	7.6	7.5
- Use of reserves: unsustainable ³	5.4	3.2	22.8	20.9
 Actual	 	 	 	
Reserves				
Contribution to / (Use of) reserves	(39.9)	14.0	(29.9)	
Total usable reserves carried forward, comprising:	389.6	403.6	373.7	
General Fund ⁴ :	72.0	129.0	113.9	
Earmarked	29.1	31.0	65.4	
Uncommitted	42.9	98.0	48.5	
Unrealised investment gains	96.4	119.5	120.7	
Other ⁵	221.2	155.1	139.1	

Note 1: Services set savings targets when the budget is prepared, but there is inconsistent reporting of savings achieved.

Note 2: The increase in council tax income in 24/25 relates to the decision to increase second homes and long-term empty property rate levels.

Note 3: Based on the council's assessment of the sustainable level of reserves per its annual Budget Book.

Note 4: Excluding unrealised investment gains.

Note 5: Includes the Harbour Reserve Fund, Housing Revenue Account, capital reserves, and other statutory reserves.

Source: The council's annual Budget Books, committee papers, and audited annual accounts.

Financial management

46. In 2024/25, auditors found that the council had effective and appropriate arrangements for financial management. They noted that there were no significant weaknesses in internal controls, that policies and procedures were clear and up-to-date, that the council's finance function is suitably qualified and experienced, and that effective measures were in place for scrutiny.

47. While overall financial arrangements were effective, auditors noted that some specific controls around the housing rents system and aged debt were not consistently in operation during 2024/25 due to lack of staff capacity. Despite these weaknesses, the auditors were able to obtain the assurance required to support the audit opinion on the financial statements. In response, the council committed to allocating staff to perform the relevant housing rents system controls and revising its procedures around aged debt.

Delivery of the capital programme

48. The council spent £22.3 million on capital projects in 2024/25, which was £4.8 million less than budgeted. This was mainly due to delays caused by contractor shortages, supply problems, and uncertainty around rising costs. Budget monitoring for 2025/26 projects a £3.6 million capital underspend. This mainly reflects £3.3 million of slippage in Housing Revenue Account projects.

Financial sustainability

49. The council is in a strong reserves position relative to other Scottish local authorities. However, excluding unrealised investment gains of £120.7 million which can fluctuate until crystallised, the General Fund balance fell to £113.9 million at 31 March 2025, with only £48.5 million unearmarked. This partly reflects use of reserves to balance the budget, which has been a long-term trend.

50. The 2025/26 budget included a £43.9 million deficit to be funded from reserves. This is £20.9 million above the sustainable level of General Fund draw according to the council's own assessment.

51. Quarter 1 budget monitoring reports forecast a £5.1 million revenue overspend in 2025/26, primarily driven by a £3.1 million projected reduction in harbour income. This will reduce the sustainable reserve draw by £2.7 million while increasing the unsustainable draw required by £4.7 million.

52. To support budget planning further ahead, the council produces a Medium-Term Financial Plan (MTFP) each year. This models optimistic, most likely, and pessimistic scenarios.

53. The MTFP for 2025-30, presented to the Council in October 2025, projects a cumulative deficit of £134.3 million by 2029/30 under the most-likely scenario. This is a sharp increase from the previous four-year

forecast of an £83.1 million deficit by 2028/29, mainly due to higher-than-expected inflation and slower income growth.

54. The MTFP recognises that even under the most optimistic scenario, reserves will continue to be depleted unless action is taken to prioritise activities and develop tangible plans for sustainable change. In light of this, it sets out ten key actions to be taken, including: developing a five-year plan for harbour income and expenditure; an in depth review of fees and charges; and ensuring staffing plans are aligned to service requirements.

55. In their 2024/25 Annual Audit Report, auditors noted that the council was already progressing some of these ten key actions, such as staffing plans and the fees review, while others were still to be developed.

56. The council has also been progressing work to sustain its income from the local energy industry through the green transition. Oil and gas activities have historically been a key income stream for the council, and maintaining this income through the transition to other energy sources would contribute to long-term financial sustainability. The council set up the 'Opportunity for Renewable Integration with Offshore Networks' (ORION) project to facilitate this through partnership working. There are several agreed and potential future income streams arising from this work.

57. While the council is taking steps to support its longer-term financial sustainability, without timely further action, the council risks depleting reserves through "unsustainable" draws. A step change is required to achieve financial sustainability going forward.

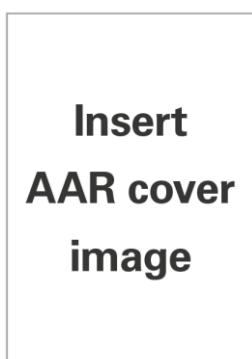
Appendix 1

Annual Audit Reports

These reports summarise the findings from the 2022/23, 2023/24 and 2024/25 annual audits of Shetland Islands Council.

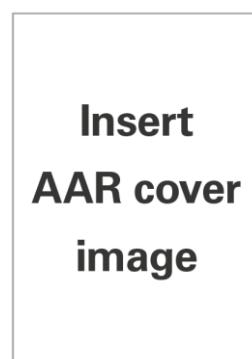
Each Annual Audit Report comprises:

- 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.



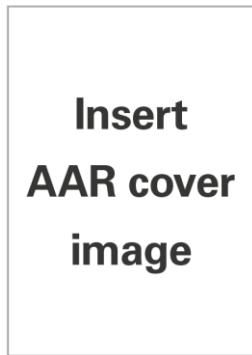
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[2024/25 Annual
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Appendix 2

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

Shetland Islands Council



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