

Agenda

Thursday 12 February 2026 10.00am

Audit Scotland office, 102 West Port, Edinburgh
and online via Microsoft Teams
529th meeting of the Accounts Commission

Public session

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| 1. Apologies for absence | Chair | 10:00 |
| 2. Declaration of connections | | |
| 3. Order of business
The Chair seeks approval of business including taking items 10 to 17 in private for the reasons set out on the agenda. | | |
| 4. Minutes and matters arising from previous meeting | Director for the Commission | 10:05 |
| 5. Best Value: Shetland Islands Council | Controller of Audit | 10:10 |
| <i>Break</i> | | 11:15 |
| 6. 2026/27 Scottish Budget briefing and Financial Bulletin supplement | Executive Director of Performance Audit and Best Value | 11:30 |
| 7. Local government policy update | Policy Manager | 11:50 |
| 8. Chair's update | Chair | 12:00 |
| 9. Any other public business
The Chair will advise if there is any other public business to be considered by the Commission. | Chair | 12:10 |

Private session

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| 10. Controller of Audit's update
[Item to be in private as it requires the Commission to consider confidential policy matters.] | Controller of Audit | 12:15 |
| 11. Best Value: Shetland Islands Council
[Item to be in private as it requires the Commission to consider actions in response to a statutory report.] | Controller of Audit | 12:25 |
| <i>Lunch</i> | | 12:50 |
| 12. Integration Joint Boards finances 2024/25 – draft output
[Item to be in private as it requires the Commission to consider the draft of a forthcoming publication.] | Executive Director of Performance Audit and Best Value | 13:30 |

<p>13. Funding Scottish public sector audit [Item to be in private as it requires the Commission to consider confidential policy matters.]</p>	<p>Senior Manager and Manager, Audit Quality and Appointments</p>	<p>13:55</p>
<p>14. Code of Audit Practice 2026 – draft for consultation [Item to be in private as it requires the Commission to consider confidential policy matters.]</p>	<p>Director of Quality and Support</p>	<p>14:20</p>
<p>15. Commission recruitment – principles and options [Item to be in private as it requires the Commission to consider confidential policy matters.]</p>	<p>Director for the Commission</p>	<p>14:45</p>
<p>16. Audit Scotland corporate update (verbal) [Item to be in private as it requires the Commission to consider confidential policy matters.]</p>	<p>Director of Corporate Services</p>	<p>15:00</p>
<p>17. Any other private business The Chair will advise if there is any other private business to be considered by the Commission.</p>	<p>Chair</p>	<p>15:05</p>

Close of meeting 15:05

Member’s forum with Theresa Shearer, Chief Executive Officer of Enable 15:15

Minutes

Thursday 15 January 2026 10.00am

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN, and online via Microsoft Teams
528th meeting of the Accounts Commission

Present: (online unless stated)

Jo Armstrong (Chair) (*in person*)
Malcolm Bell (*item 5 onwards*)
Nichola Brown
Andrew Burns (*in person*)
Andrew Cowie
Carol Evans
Jennifer Henderson
Angela Leitch
Christine Lester
Ruth MacLeod
Mike Neilson

In attendance: (online unless stated)

Sarah Watters – Director for the Accounts Commission (*in person*)
Joe Chapman – Policy Manager for the Commission (*in person*)
Helena Gray – Controller of Audit
Alison Cumming – Executive Director of Performance Audit and Best Value (PABV)
Owen Smith, Director of Audit Quality and Appointments (AQA) (*Items 8 & 13*)
Blyth Deans, Audit Director, PABV (*Items 9 & 10*)
Martin McLauchlan, Senior Manager, PABV (*Item 9*)
Zoe McGuire, Audit Manager, PABV (*Item 9*)
Fiona Lees, Senior Auditor, PABV (*Item 9*)
Garry Quigley, Senior Auditor, PABV (*Item 9*)
Lisa McNeely, Audit Officer, PABV (*Item 9*)
John Cornett, Executive Director of Audit Services (*Item 12*)
Lisa Duthie, Audit Director, Audit Services Group (ASG) (*Item 12*)
Jennifer Doolan, Senior Auditor, AQA (*Item 13*)

1. Apologies for absence

Apologies were received from Derek Yule. Malcolm Bell joined the meeting during item 5 due to an unavoidable clash with other commitments.

2. Declarations of connections

Carol Evans declared a connection to item 13 in respect of her roles within audited bodies. She did not consider her connection material and so would remain in the meeting and participate in the discussion of this item.

3. Order of business

It was agreed that items 8 to 14 would be considered in private, for the reasons stated on the agenda.

4. Minutes and matters arising from previous meetings

The minutes of December's meeting were agreed as an accurate reflection, and the minutes were approved as final. Sarah Watters, Director for the Commission, provided the following updates on actions:

- A summary of the Partnership Working Framework review undertaken across the Commission, Audit Scotland and the Auditor General was shared with Commission members on 18 December 2025
- The Audit Scotland budget presentation to the Scottish Commission for Public Audit was shared with Commission members on 18 December 2025

5. Local Government policy update

The Commission considered a report by Joe Chapman, Policy Manager for the Commission, providing an update on significant recent activity relating to local government. Joe highlighted the following items:

- Scottish Budget and Spending Review – Joe provided an overview of key points relating to local government and noted that a detailed briefing will be provided at February's meeting and a supplement will also be prepared to accompany the Local Government financial bulletin.

A number of discussion points were raised:

- Commission's February budget briefings – members requested data on ring-fenced budgets, along with analysis of inflationary pressures and pay awards across the sector

Action: Executive Director of PABV

- General power of competence – no further info available. Scottish Government had planned to progress this before the election but COSLA has requested more time to consider proposals.
- Housing and homelessness, and education – members highlighted the report's updates in these areas, both of which are key items on the Commission's work programme. The change in capital as part of the budget announcement was also noted.

Following discussion, the Commission noted the report.

Malcolm Bell joined the meeting during the above item

6. Chair's update

The Commission considered an update by Jo Armstrong on recent and upcoming activity. Jo highlighted the following:

- Visit to Comhairle nan Eilean Siar – follow up to the section 102 report on the cyber-attack, and opportunity to discuss their work in relation to a single authority model.
- Commission engagement is being reviewed by Sarah for 2026, to ensure the Chair, Deputy Chair and members continue to build relationships across the sector and promote Commission's work
- Meeting with Ariane Burgess, Convener of the Local Government, Housing and Planning Committee, rescheduled for 28 January.

The Commission noted the report.

7. Any other public business

There being no other business, the Chair closed the public session.

8. Controller of Audit's update (*including audit delivery update*)

The Commission considered an update by Helena Gray, Controller of Audit (CoA), on recent and upcoming activity. Helena also provided a detailed update on audit delivery including the following:

- 2023/24 audits – seven outstanding in total, Helena will continue to monitor each audit as it progresses.
- 2024/25 audits – 26 of 123 audits outstanding, including 11 councils, four of which are expected to complete in January, with a further three by the end of March.

A number of points were discussed, including:

- Commission members were content with the steps Helena is taking to monitor audit delivery and agreed no further action required at this stage.
- Commission members encouraged Helena to reflect on how/when stakeholders, and the wider public should be made aware of concerns relating to delivery of specific audits.

Action: Controller of Audit and Director for the Commission

- Commission members emphasised the importance of reflecting and learning lessons in relation to delayed 2023/24 audits.

Action: Controller of Audit

- Solace and Improvement Service (IS) transformation programme – members asked for any updates on this. Helena, Sarah, and Blyth

referred to recent and ongoing engagement with Solace and IS and the forthcoming Commission members' forum with Solace.

Following discussion, the Commission noted the report.

9. Local government financial bulletin 2024/25 – draft report

Alison Cumming, Executive Director of Performance and Best Value (PABV) presented the draft local government financial bulletin 2024/25. She highlighted a number of key issues:

- Inverclyde and Stirling data returns will not be included when published, which will be made clear in the report
- Information on International Financial Reporting Standard 16 (IFRS 16) has been amended to fully align with the CoA's Annual Assurance and Risks Report which will be published later this year

During discussion a number of specific points were raised that will be considered by the PABV team and an updated draft shared with sponsors.

Members thanked Alison and her team for their hard work on the report, Alison thanked Martin McLauchlan and Mike Neilson for their work on the local government overview reporting programme as they are moving to focus on other areas of performance audit.

Following discussion, the Commission:

- Approved the draft local government financial bulletin
- Agreed to delegate final approval of the content of the bulletin to sponsors
- Noted the publication arrangements set out in the report
- Noted the publication arrangements for the accompanying supplement and noted that approval of this has been delegated to the report sponsors

10. Commission expectations and recommendations: Rationale and proposed principles

The Commission considered a report by Blyth Deans, Audit Director PABV, which outlines the rationale for determining how and when the Accounts Commission should utilise 'expectations' and/or 'recommendations' within its performance audit reports.

During discussion, a number of points were raised:

- The Commission thanked Blyth for his report and clear rationale
- Stakeholder feedback – not formally taken yet but can be incorporated during the next stage of development. Anecdotal feedback suggests councils respond well to 'expectations'

- Intention to explore with Audit Scotland Communications colleagues, at a later date, how stakeholders, including the public, would benefit from information about our approach to this work
- Commission members shared a number of feedback points for Blyth's consideration.

Following discussion, the Commission:

- Agreed to adopt the principles for decision making set out in the table at Exhibit 1
- Noted the intention of PABV to return to a future Commission meeting to develop this discussion further and provide links to a wider strategy focused on follow up and impact.

11. Impact of Commission findings: Best Value reports 2022/23 and 2023/24

The Commission considered a report by Sarah Watters which set out a summary of the short- and medium-term impact of findings made by the Commission in response to Controller of Audit Best Value reports based on 2022/23 and 2023/24 Annual Audit Reports (AARs).

During discussion a number of points were raised:

- Members welcomed the report, which they felt gives assurance that recommendations are being monitored along with clarity on how this is done
- Members are keen to see how this develops over time, to build up a picture, in one place, over 3-5 years, taking into account the increase in recommendations that are longer term in nature and will take more than one year to see progress
- Opportunity to use findings to share good practice from those councils who have responded to all recommendations

Following discussion, the Commission:

- Noted the processes now in place to ensure that Commission findings are followed up
- Noted the intention to integrate this work into the wider impact monitoring and evaluation framework.

12. Audit Services Group audit delivery update

John Cornett, Executive Director of Audit Services, and Lisa Duthie, Audit Director: Resource Lead, Audit Services Group (ASG) presented an update on the progress of annual audits carried out by ASG. John confirmed that the end of year three of the five-year appointment round allows a forecast of likely delivery by ASG over the next two years.

During discussion a number of points were raised:

- It is unlikely that any late audits will carry into the next round, but in this event, the incumbent auditor would finish the audit.

A robust handover process is in place, and incoming auditors can start some limited aspects of their work ahead of outgoing auditors completing, if required

- Progress will be monitored until the end of the audit appointment period, which will allow the team to forecast any resource and handover needs

Following discussion, the Commission noted the contents of the report.

13. Firms audit delivery update

The Commission considered a report by Owen Smith, Director of Audit Quality and Appointments (AQA), which provided an update on the firms' audit delivery progress. Owen highlighted some key points:

- AQA is confident that most local government audits will be back on track by the end of the current audit appointment
- Since the report was prepared, one council has delayed their audit sign off to February

During discussion a number of points were raised:

- Several outstanding audits are expected to complete with relatively few further issues
- Members are assured in the knowledge that AQA is aware of and monitoring issues as they unfold

Following discussion, the Commission noted the contents of the report.

14. Any other private business

The Chair raised the following business:

- An overview of planned members' forum sessions for 2026, bringing external speakers to the Commission
- Sarah Watters is in discussion with the Scottish Government's Local Government Division regarding the new Cabinet Secretary with responsibility for local government coming to the Commission, with the aim of June 2026
- Encouraging colleagues to complete the effectiveness review survey which the Accounts Commission Support Team will share in the coming days

There being no further business, the meeting closed at 12:40pm.

Close of business

Accounts Commission Action Tracker
As at: 12 February 2026

Action No.	Date	Action	Action for	Assigned to	Timescale	Progress	RAG Status	Date complete
26/003	15-Jan-26	February budget briefing Commission's February budget briefings – members requested data on ring-fenced budgets, along with analysis of inflationary pressures and pay awards across the sector	Performance Audit and Best Value	Alison Cumming	Feb-26	The points are covered in the papers supporting the item "2026/27 Scottish Budget briefing and Financial bulletin supplement".	Complete	12/02/2026
26/002	15-Jan-26	Audit delivery - sharing concerns Commission members encouraged Helena to reflect on how/when stakeholders and the wider public should be made aware of concerns relating to delivery of specific audits	Controller of Audit	Sarah Watters / Helena Gray	Feb-26	This has been captured in the final Response Framework, to be published in the next few weeks (following engagement with key stakeholders)	Complete	02/02/2026
26/001	15-Jan-26	Audit delivery - lessons learned Commission members emphasised the importance of reflecting and learning lessons in relation to delayed 2023/24 audits.	Controller of Audit	Helena Gray	Apr-26	Not due to be completed until after all the 23/24 audits have been signed off	In progress	

Best Value: Shetland Islands Council

Item 5

Meeting date:
12 February 2026

Director for the Accounts Commission

Purpose

1. This paper introduces the Controller of Audit's report on Best Value in Shetland Islands Council, which has been produced following the 2024/25 audit of the council. The paper outlines the process to be followed, including publication arrangements.

Recommendations

2. The Commission is invited to:
- consider the Controller of Audit's Best Value report
 - note the process to be followed in relation to the report
 - decide how it wishes to proceed
 - approve the proposed publication arrangements.

Background

3. At least once during the current five-year audit appointment, the Controller of Audit (CoA) is required to report to the Commission on Best Value in each council. These reports are based on the best value audit findings reported in Annual Audit Reports (AARs), prepared by independent external auditors. The CoA's report draws the Commission's attention to how effectively a council demonstrates Best Value through continuous improvement in how it delivers its strategic priorities.

4. Best Value audit work is fully integrated into annual financial audit work and is reported in AARs. It also includes follow-up and Best Value work on a particular theme agreed annually, providing judgements on the pace and depth of continuous improvements and service performance.

5. The theme to be looked at as part of 2024/25 audits was transformation and how councils are redesigning and delivering services to achieve planned outcomes. The CoA's report also draws on this work.

6. The Best Value thematic report for Shetland Islands Council and the AAR were presented to the council's Audit Committee on 23 September 2025 and 11 November 2025 respectively.

The Controller of Audit's report

7. The report on Best Value in Shetland Islands Council is made by the CoA under section 102(1) of the Local Government (Scotland) Act 1973 (as amended by subsequent legislation including the Local Government in Scotland Act 2003).

8. The legislation enables the Controller of Audit to make reports to the Commission with respect to:

- the accounts of local authorities audited under the Act;
- any matters arising from the accounts of any of those authorities or from the auditing of those accounts being matters that the Controller considers should be considered by the local authority or brought to the attention of the public; and
- the performance by a local authority of their statutory duties in relation to best value and community planning.

9. A copy of the report was sent to the Chief Executive of Shetland Islands Council on Wednesday 04 February 2026 (the same day it was issued to Accounts Commission members). The council has been advised of its obligations to supply a copy of the report and the AAR on which it is based to each council member and to make additional copies available for public inspection. Once the CoA's report is sent to the council, it is effectively in the public domain.

Process

10. The Commission will consider the CoA's report during the public session of its meeting. Members of the audit team will be present and will be available to answer questions on the evidence and judgements presented in the AAR, with a focus on Best Value.

11. The Commission will then decide, in private, how it wishes to proceed. The legislation provides that, on receipt of a CoA report, the Commission may do (in any order) all, any, or none of the following:

- direct the CoA to carry out further investigations
- hold a hearing
- state its findings.

12. Findings may include recommendations and the persons to whom those recommendations may be made include Scottish Ministers, who have powers to make an enforcement direction requiring an authority to take such action as is specified in the direction.

13. The Commission is obliged to inform the council of its decision on how it will proceed shortly after the Commission meeting – this is done on its behalf by the Director for the Accounts Commission – before making its decision public.

14. If the Commission chooses to make findings, the council is required by statute to do the following:

- consider the findings of the Commission at a meeting of the full council within three months of receiving them
- publish in a newspaper circulating in the local area a notice stating the time and place of the council meeting, indicating that it is to consider the findings of the Commission and describing the nature of those findings (at least seven clear days before the meeting)
- after the council has met, notify the Commission of any decisions made, and publish in a newspaper circulating in the local area a notice containing a summary, approved by the Commission, of the council's decision.

15. The Commission asks the council for a meeting, preferably in the period between the Commission publishing its report and full council considering it, to do the following:

- discuss what the council thinks of the Commission's decision and its findings (if applicable), and what the council will do in response to the Commission's report
- confirm any next steps and review the audit process.

Publication arrangements

16. The report is due to be published on 05 March, with the previous day being held for any media interviews. It is planned that Jo Armstrong will front the media for this report.

17. Communications outputs for the Best Value report will be prepared including a news release and social media. A range of communications and engagement work will be undertaken with local and national media and stakeholders, as appropriate.

Conclusion

18. The Commission is invited to consider the recommendations set out at [paragraph 2](#) of this report.

Best Value

Shetland Islands Council

ACCOUNTS COMMISSION 

Prepared by the Controller of Audit
February 2026

Contents

Key facts	3
Controller of Audit Report	4
Appendix 1	14
Appendix 2	15

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.

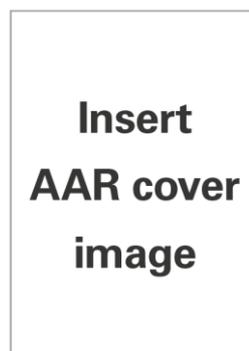
Each Annual Audit Report comprises:

- 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.



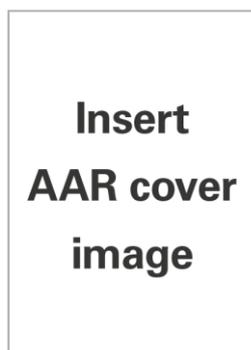
[2022/23 Annual
Audit Report
Shetland Islands
Council](#)

November 2023



[2023/24 Annual
Audit Report
Shetland Islands
Council](#)

December 2024



[2024/25 Annual
Audit Report
Shetland Islands
Council](#)

December 2025

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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2026/27 Scottish Budget briefing and Financial Bulletin supplement

Item 6

Meeting date:
12 February 2026

Executive Director of Performance Audit and Best Value

Purpose

1. This paper presents the regular budget briefing on the 2026/27 Scottish Budget which is presented to the Commission annually and the agreed supplement to the 2024/25 financial bulletin covering 2026/27 funding for local government in the 2026/27 Scottish Budget and the associated draft financial settlement.

Recommendations

2. The Accounts Commission is invited to:

- note the contents of the budget briefing.
- note the contents of the Financial Bulletin 2024/25's budget supplement that is due to be published today (12 February 2026).

Background

3. The draft Scottish Budget for 2026/27 was published on 13 January 2026. The budget was published later than usual due to the later-than-expected publication of the UK Government's Autumn Budget on 28 November 2025. An accompanying provisional financial settlement was issued to councils on 14 January.

4. The budget briefing paper provides members with a headline analysis of the 2026/27 Scottish Budget, sets out key issues relevant to the local government sector, identifies key announcements which relate to the Accounts Commission's work programme, and summarises reaction to the draft budget by local government stakeholders.

5. The Accounts Commission's Local government in Scotland: Financial bulletin 2024/25 was [published on 29 January 2026](#). Due to the Scottish Budget being published later than expected it was agreed that a supplement to the report would be developed to provide an assessment of the implications of the budget and draft local government settlement.

6. The Financial bulletin supplement was subject to delegated sign off by the Commission sponsors of the Financial bulletin (Derek Yule and Mike Neilson) and is due to be published on 12 February 2026, and it will be added to the [Financial bulletin report webpage](#).

Conclusion

7. Overall, the 2026/27 provisional financial settlement for councils provides a total allocation of £15.7 billion, representing a real terms increase of 2 per cent compared to the 2025/26 provisional settlement. This represents an increase in resource allocations while the 2026/27 capital funding of £681.4 million represents a 14 per cent real terms reduction from initial 2025/26 funding.

8. The later than expected publication of the 2026/27 Scottish Budget results in a much tighter timescale for parliamentary procedure and scrutiny. However, the budget is now widely expected to pass following Scottish Labour's announcement that it would not vote against it.

9. Alongside the 2026/27 Scottish Budget the Scottish Government published its Scottish Spending Review. This sets out the Scottish Government's spending plans, at a portfolio level, for the period 2026/27 to 2028/29 (2029/30 for capital). It should be noted that a single year settlement was issued for 2026/27. Council-level funding is not disclosed within the Spending Review, but elements of Scottish Government funding to local government are projected to fall over the spending review period.

10. In spring 2026, the Commission will publish its detailed annual bulletin examining the 2026/27 budgets set by councils, including analysis of anticipated budget gaps, actions to address these, and the decisions made by councils when setting their budgets. The Commission will be invited to approve the draft budget bulletin in May 2026.

Introduction

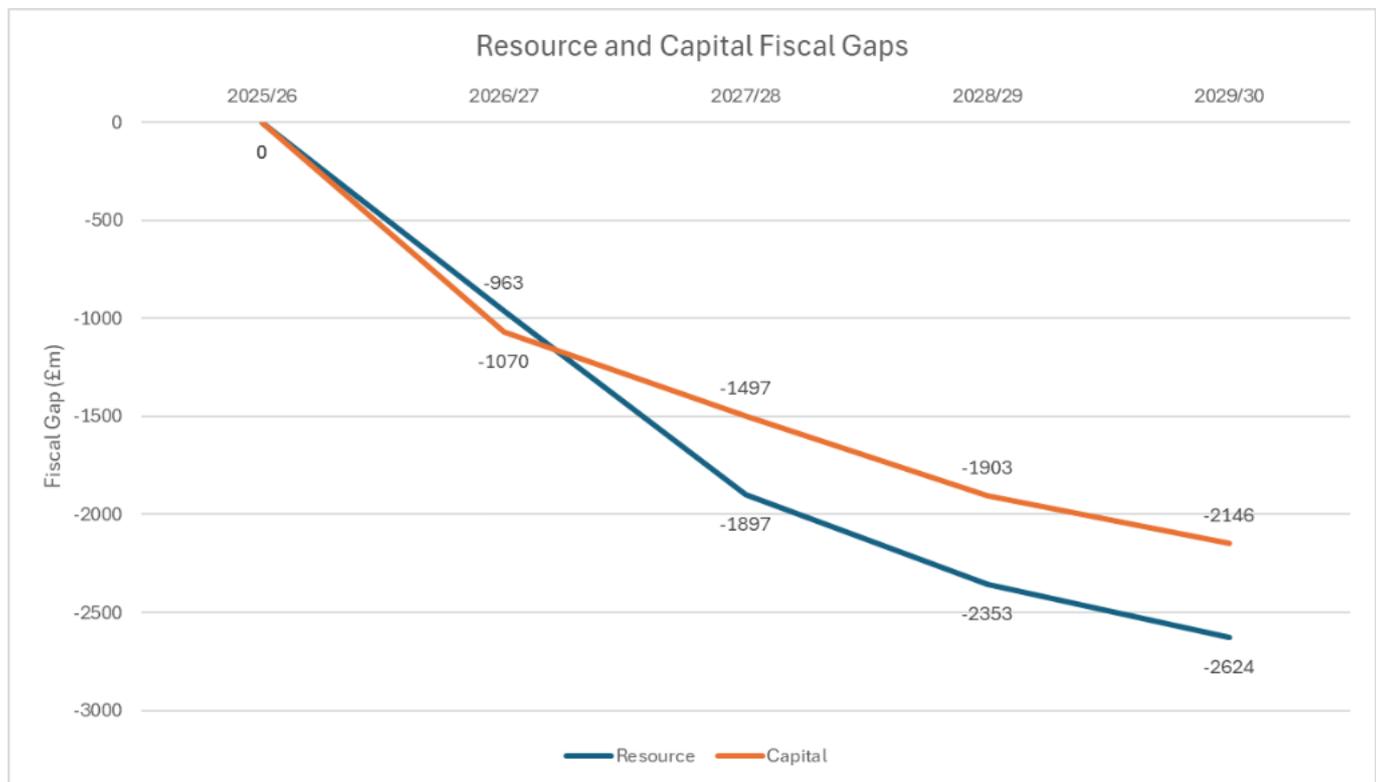
1. The Scottish Government's draft Budget for 2026/27 was published on 13 January 2026. Alongside its draft Budget, the Scottish Government also published its Scottish Spending Review for the period 2026/27 to 2028/29 (2029/30 for capital), its Draft Infrastructure Investment Strategy and Infrastructure Delivery Pipeline, and its Integrated Pay and Workforce Policy.
2. The draft 2026/27 Scottish Budget was published later than usual due to the later-than-expected publication of the UK Government's Autumn Budget on 28 November 2025. This means that Parliamentary procedure and scrutiny of the budget must occur within a much tighter timescale. However, the budget is now widely expected to pass following [Scottish Labour's announcement](#) that it would not vote against it.
3. This budget briefing:
 - provides a headline analysis of the 2026/27 Scottish Budget
 - sets out the key messages included in the Budget relevant to local government as set out in the Commission's budget supplement to the 2024/25 Financial Bulletin which will be published on 12 February
 - identifies key announcements which relate to the Accounts Commission's work programme
 - summarises reaction to the draft Budget by local government stakeholders.

Context

4. The overall economic and fiscal context for Scotland remains challenging. Continued global uncertainty and instability have impacted both the Scottish and UK economies. The Scottish Fiscal Commission's five-year forecast of Scottish GDP growth remains mostly unchanged. Yet, Consumer Price Index (CPI) inflation peaked at 3.8 per cent in 2025 Q3, higher than previously anticipated. Forecasts now suggest that it will take longer than previously anticipated for inflation to fall to the Bank of England's 2 per cent target. The SFC has also revised down its forecast of Scottish productivity growth, with growth in 2029/30 assumed to be 0.2 percentage points lower than forecast in December 2024.
5. The Scottish Government published its Medium-Term Financial Strategy (MTFS) on 25 June 2025. This projected significant shortfalls in resource and capital funding against planned spending for 2026/27 through to 2029/30:

Exhibit 1

Projected gaps between resource and capital funding and spending at the 2025 MTFS



Source: Scottish Government, [2025 Medium-Term Financial Strategy](#)

The 2026/27 Scottish Budget

6. Total Managed Expenditure (TME) for the 2026/27 Scottish Budget is £67,979 million, a 4.7 real terms increase over 2025/26. This larger increase is driven partially by significant increases to both Annually Managed Expenditure (AME) and non-cash funding. The increase in AME funding is driven by an increased requirement for budget cover for NHS, teachers, and police and fire pensions. The non-cash increase arises largely from increased costs associated with government borrowing to support the student loans system. Both AME and non-cash funding are provided by the UK Government and ringfenced, meaning that these increases do not impact on the Scottish Government’s discretionary spending power.

7. When AME and non-cash funding are removed, the total increase to the Scottish Government’s discretionary funding envelope is lower than the total increase to TME, at 2.3 per cent in real terms, as set out in Exhibit 2 below:

Exhibit 2

Trends in funding types between the draft 2025/26 and draft 2026/27 Scottish Budget in cash and real terms (2025/26 prices)

£ millions	2025/26	2026/27	Cash terms change	Real terms change
Resource	48,315	50,635	4.8 per cent	2.5 per cent
Capital	7,176	7,324	2.1 per cent	-0.2 per cent
Financial Transactions	167	245	46.7 per cent	43.5 per cent
<i>Discretionary funding</i>	<i>55,658</i>	<i>58,204</i>	<i>4.6 per cent</i>	<i>2.3 per cent</i>
AME (inc. NDR)	7,018	8,213	17 per cent	14.5 per cent
Non-cash	807	1,563	93.7 per cent	89.5 per cent
Total	63,483	67,979	7.1 per cent	4.7 per cent

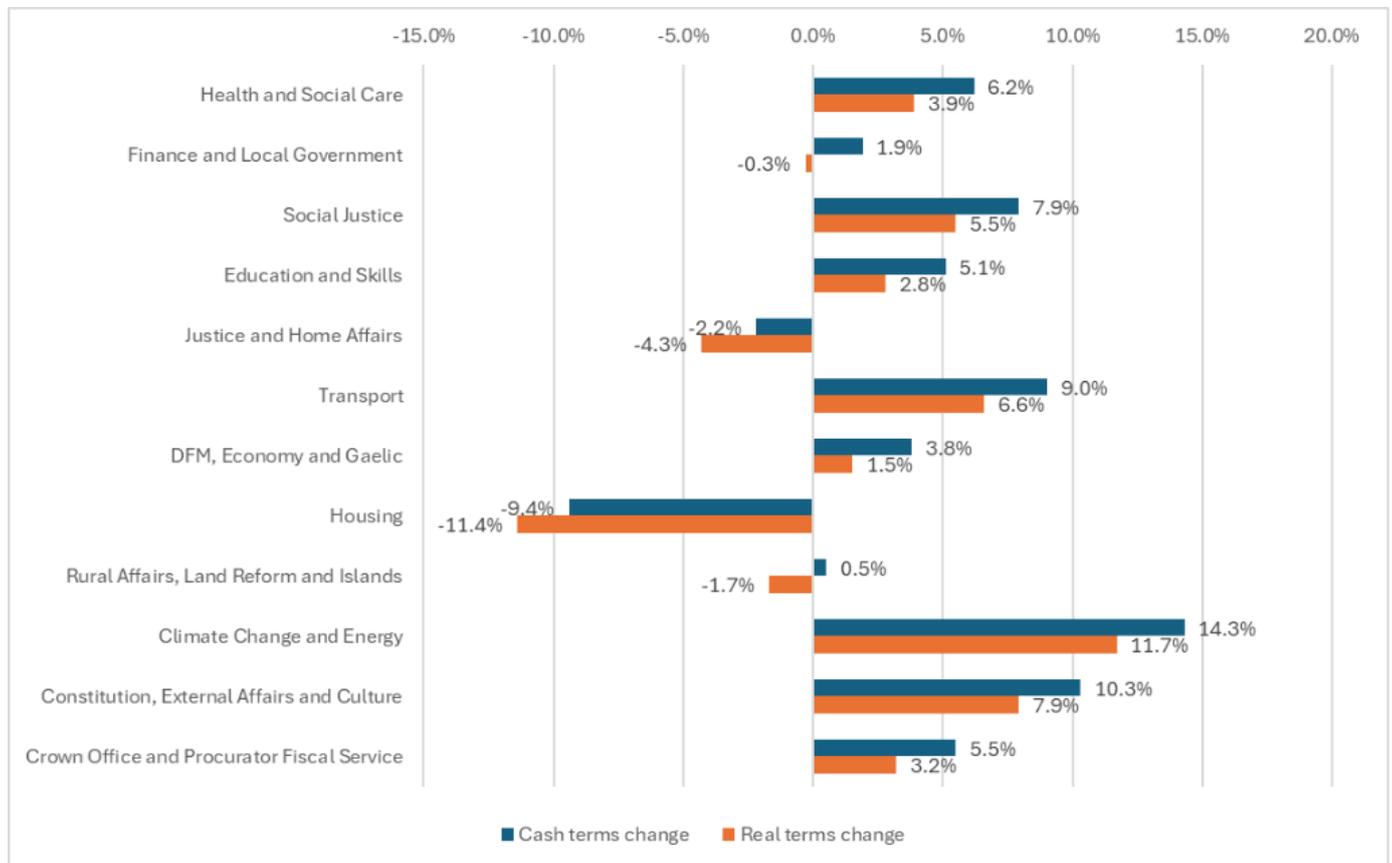
Source: [2026/27 Scottish Budget](#), [2025/26 Scottish Budget](#)

Resource funding

8. Resource funding in the 2026/27 Scottish Budget has increased to £50.6 billion, a 2.5 per cent real terms increase over 2025/26. The change in portfolio resource funding is set out in Exhibit 3 below:

Exhibit 3

Changes in resource funding between the draft 2025/26 and draft 2026/27 Scottish Budgets in cash and real terms (2025/26 prices)



Note: These changes do not reflect the impact of additional funding added in Stages 2 and 3 of the 2025/26 Budget process or the transferring of funding between portfolios in-year.

Source: Audit Scotland analysis of the [2026/27 Scottish Budget](#) and [2025/26 Scottish Budget](#)

9. Most portfolios have seen real terms increases to their resource funding. Health and Social Care has seen the largest resource funding increase in absolute terms, with a £1,225 million increase to funding over 2025/26, representing a 2 per cent uplift over baseline for health boards and additional funding to cover the cost of pay deals. The Social Justice portfolio has received an additional £583 million over its 2025/26 resource funding, primarily to cover forecast increases in social security expenditure.

10. Once £772 million of newly baselined funding has been accounted for, the Finance and Local Government portfolio has received an additional £207.5 million in additional resource funding, which amounts to a 0.3 per cent real terms decrease. The reduction in resource funding for Justice and Home Affairs is a result of a technical change to the treatment of police and fire pensions, and does not impact on the portfolio’s resource spending power. The Housing portfolio has also seen a reduction in

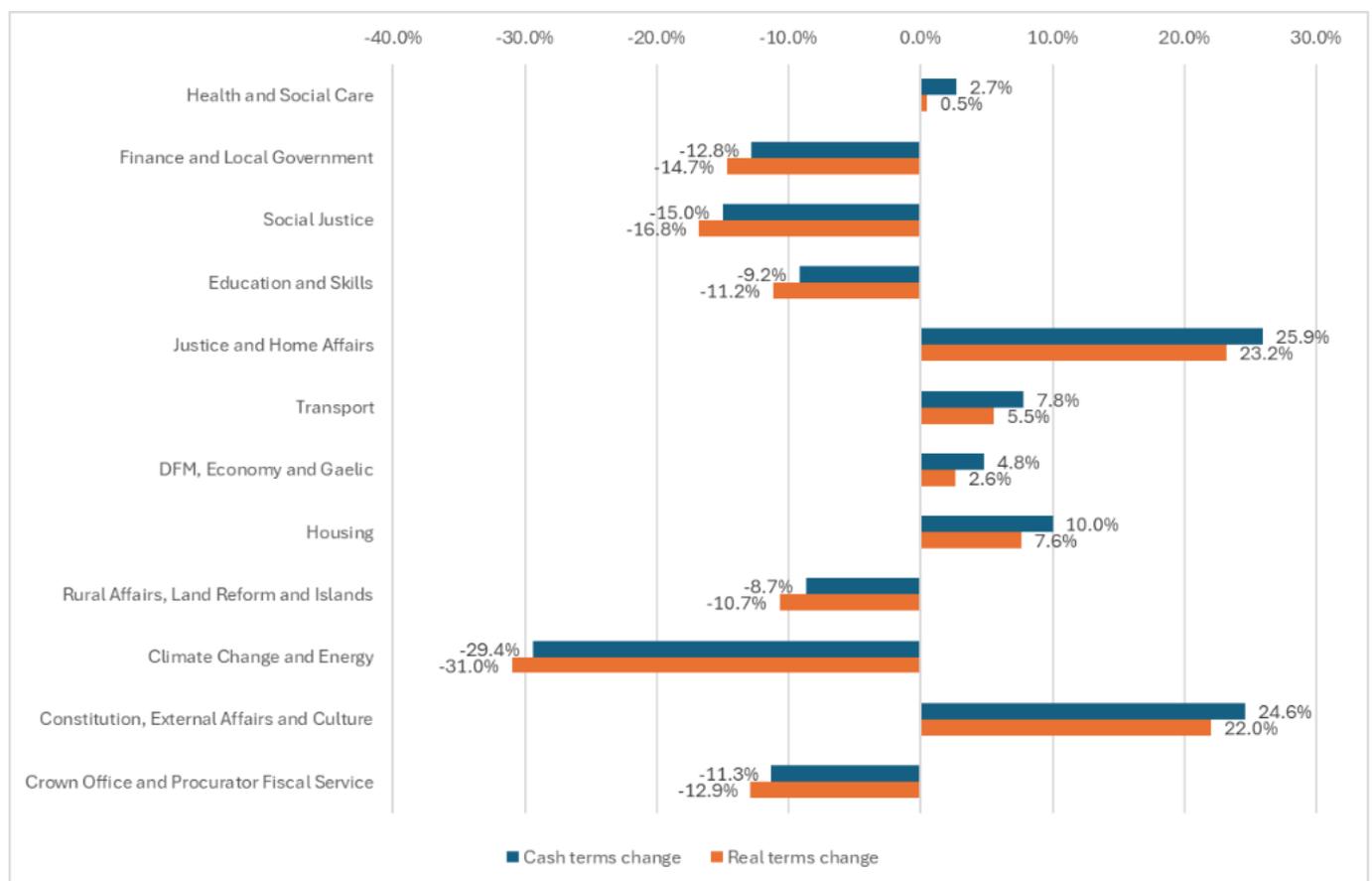
resource funding, but due to changes in portfolio structure during 2025/26, it is not clear where these reductions have impacted.

Capital funding

11. Capital funding (excluding Financial Transactions) in the 2026/27 Scottish Budget has seen a cash terms increase of 2.1 per cent, but a real terms decrease of 0.2 per cent.

Exhibit 4

Changes in capital funding (excluding financial transactions) between the 2025/26 and 2026/27 Scottish Budgets in cash and real terms (2025/26 prices)



Note: These changes do not reflect the impact of additional funding added in Stages 2 and 3 of the 2025/26 Budget process or the transferring of funding between portfolios in-year.

Source: Audit Scotland analysis of the [2026/27 Scottish Budget](#) and [2025/26 Scottish Budget](#)

12. The Scottish Government continues to face pressures on its capital funding and expenditure and have had to reduce capital spending in 2026/27 by £856 million compared to the expected level of capital spending set out in the June 2025 Medium-Term Financial Strategy.

13. The Transport portfolio has seen the largest increase to its capital allocation, with an additional £166.3 million over its 2025/26 funding. This

increase will cover costs associated with the A9 dualling, sustainable transport, railway rolling stock replacement, and ferry upgrades, among other projects. Justice and Home Affairs has received a £132.4 million increase, primarily due to costs associated with the Scottish Prison Service and the delivery of HMP Glasgow and HMP Highlands, as well as the costs of delivering the recommendations of the 2025 Deaths in Custody Independent Review of Fatal Accident Inquiries.

14. The Climate Change and Energy portfolio has seen decreases to its capital budget of £134.9 million, resulting from reductions in expenditure for offshore wind, industrial decarbonisation, and flood risk management. The reduction in capital funding in the Finance and Local Government portfolio is primarily due to reductions in capital funding for local government.

Local government funding settlement

15. The supplement to the Accounts Commission’s Local government in Scotland: Financial bulletin 2024/25, tabled alongside this briefing, provides an analysis of the 2026/27 local government funding settlement. At a high level it notes that the total provisional allocation for 2026/27 of £15.7 billion represents a £313 million real terms increase (2 per cent) compared to the 2025/26 provisional settlement. This represents an increase in resource allocations while the 2026/27 capital funding of £681.4 million represents a 14 per cent annual real terms reduction from initial 2025/26 funding.

16. In presenting the [budget statement](#) to parliament, the Cabinet Secretary for Finance and Local Government stated that the 2 per cent increase for local government funding was “a settlement that is fair” and urged councils to “translate this into reasonable decisions on Council Tax”.

17. The Financial bulletin supplement also provides analysis of the Scottish Spending Review, which the Scottish Government published alongside the 2026/27 Budget. While it doesn’t set out council-level funding, it outlines that all elements of Scottish Government funding to the Local Government and Finance portfolio are projected to fall over the spending review period.

Key issues and announcements relevant to local government

Council Tax

18. The Scottish Government announced that the cap on council tax premiums for second and empty homes is set to be removed, subject to parliamentary consent. Removing the cap was a commitment in the Scottish Government’s Programme for Government 2025 and, if approved, will enable local authorities to determine the level of council tax premium that applies for second and empty properties from 01 April 2026. The cap is currently set at 100 per cent of the applicable council tax. This change

has been welcomed by COSLA as a positive step in providing councils with greater local flexibility.

19. The Scottish Government announced that from 01 April 2028 two new council tax bands will be introduced for high value properties (band I for properties over £1 million and band J for those over £2 million). It states that this will bring greater fairness to the system and increase revenues for local authorities. A targeted programme of revaluations will be undertaken for these properties, with funding of £5 million allocated by the Scottish Government. While this does not affect the 2026/27 budget settlement, the detail of this announcement will need to be worked through. In its response to the budget, COSLA welcomed the announcement but highlighted the need for local authorities to be engaged in its development. The Scottish Government estimates that fewer than one per cent of households will be affected by this change. To date neither the Scottish Government nor COSLA have produced an estimate of how much additional revenue this could generate.

20. The Fraser of Allander Institute has commented that this adds complexity to the council tax system, with the targeted revaluation of some properties taking place in the context of concern about the outdated valuations underpinning the system as a whole. It also highlights the uneven distribution of high value properties across local authorities and the need to consider how the impact of this on funding might be managed.

Non-Domestic Rates

21. Non-Domestic Rates (NDR) income is expected to increase by 9.1 per cent in real terms from £3,114 million in 2025/26 to £3,398 million in 2026/27. However, the Scottish Government notes that revenues raised from NDR will be 6 per cent lower in real terms in 2026-27 than pre-COVID. In the 2026/27 Budget, the Scottish Government has allocated almost £100 million more to the NDR pool than previously planned, due to the pool being forecast to be in surplus in 2025/26. This will effectively bring some of the forecast growth in NDR receipts in 2027/28 forwards to 2026/27. The Scottish Government has stated it will continue with its plan to balance the forecast deficit in the NDR pool in future years in a phased manner by 2028/29.

22. For 2026/27 the Scottish Government has announced decreases in the Basic, Intermediate and Higher NDR rates in 2026-27, which it states reflect overall growth in rateable values. The Basic rate is set to decrease from 49.8p to 48.1p, the Intermediate rate from 55.4p to 53.5p and the Higher rate from 56.8p to 54.8p (expressed as the pence paid per £ of rateable value).

23. The Small Business Bonus Scheme is to be continued for a further three years, providing relief from Non-Domestic Rates (NDR). Transitional support of £184 million was also announced to support businesses affected by upcoming revaluations.

24. Alongside this, targeted support was announced for retail, hospitality and leisure businesses with a rateable value of £100,000 or less. This will provide 15 per cent relief from 2026/27 for three years, capped at £110,000 per business per year. In addition, 100 per cent NDR relief will be available for the next three years for retail, hospitality and leisure premises located on islands (as defined by the Islands (Scotland) Act 2018), as well as specified remote areas. This relief will also be capped at £110,000 per business per year.

Islands connectivity

25. Local government will receive £11.4 million in resource funding and £15.5 million in specific capital grants for inter-island connectivity in 2026/27. The resource element of this is a £25 million reduction on funding in 2025/26.

26. In addition to inter-island connectivity funding for local government, the Scottish Government announced the allocation of £1.8 million to the Transport portfolio for the removal of peak fares on Northern Isles Ferry Services to Orkney and Shetland.

27. The Scottish Government's [Infrastructure Delivery Pipeline](#), which it published alongside the budget, announced plans for an Islands Accelerator Model as part of the National Islands Plan. This will involve work with Shetland Islands Council, Orkney Islands Council, and Comhairle nan Eilean Siar to agree a mixed model funding package for social and economic infrastructure. It expects this to unlock significant additional investment in, amongst other things, fixed link enhancements and improvements to infrastructure. An agreement is not yet finalised and there is limited additional detail on the plans.

Pay awards and pressures

28. Scottish Government estimates indicate the pay bill for local government and teachers in 2024/25 was around £10.8 billion, of which around £3.9 billion relates to teachers.

29. Alongside the 2026/27 budget the Scottish Government published its Integrated Public Sector Pay and Workforce Strategy. This applies to the local government sector. It restates the Public Sector Pay Policy for 2025/26 to 2027/28 which set an overall pay award envelope of 9 per cent across the period, with a 3 per cent cap for an individual year. The Scottish Fiscal Commission has noted that all pay awards agreed in 2025/26 and 2026/27 were over 3 per cent and that remaining pay awards are likely to be in line with inflation (3.2 per cent in November 2025, expected to fall to 2.5 per cent over 2026). It also highlights that many existing awards have inflation protection guarantees, which are likely to be triggered, leading to additional costs. The Scottish Government plans to publish a Workforce Management Governance Framework in Spring 2026, which will include the local government workforce.

30. In the 2026/27 budget the Scottish Government has allocated £160 million to support real living wage commitments for social care. COSLA has said this is not sufficient having assessed that £175 million was needed ([Scottish Budget delivers cut to social care, warns COSLA](#)).

Implications for the Commission's work programme

31. The table below sets out updates and announcements from the 2026/27 Scottish Budget which relate to planned outputs in the Accounts Commission's work programme.

Exhibit 5

Relevant developments from the 2026/27 Budget for the Accounts Commission's work programme

Product (indicative timing)	Developments related to the 2026/27 Budget
Accounts Commission only	
School Education (February 2027)	Within its draft Infrastructure Investment Strategy and Infrastructure Delivery Pipeline, the Scottish Government states that it will continue to use revenue funding for school estate projects, through an update of the Learning Estate Investment Programme (LEIP)
Social Care (March 2027)	£160 million has been allocated to support real living wage commitments for social care in the 2026/27 budget. This is below the £175 million need set out by COSLA.
Joint with AGS	
Digital (various outputs tbc)	An additional £30 million announced for development of the MyCare digital health app.
Housing (March 2027)	<p>Funding for the Homelessness Prevention Fund, which was previously ringfenced funding transferred to local authorities in year, has now been baselined into the General Revenue Grant allocation. For 2026/27 this is £23.5 million.</p> <p>£4.1 billion of public sector investment committed to the Affordable Housing Supply Programme through the spending review (2026/27 – 2029/30). Alongside this the Scottish Government states it will work with partners such as the Scottish National Investment Bank to attract further private investment.</p> <p>On 22 January 2026 the First Minister <u>announced plans</u> to establish a new housing agency (More Homes Scotland) to lead a public sector delivery model for housing. The agency is expected to start operating from 2027/28 and be fully functional in 2028/29, subject to the outcome of the Scottish Parliament election.</p>
Early Learning and Childcare (April 2028)	£11 million included in 2026/27 settlement for improvements to pay for ELC workers in commissioned services

Reaction to the Budget

COSLA

32. In their [full response](#) to the 2026/27 Scottish Budget, COSLA leaders stated that it was “a very poor settlement which fails to address the dire financial situation of local government in Scotland”. The statement noted that there has been no increase to capital funding and that the settlement does not fully cover the cost of the Scottish Government’s commitment to paying the Real Living Wage to social workers.

33. In response to the medium-term settlement set out in the Scottish Spending Review, COSLA stated that it poses an ‘unsustainable reality’ for councils and would result in damaging cuts and service reductions.

34. COSLA warned that councils would face a difficult decision to increase charges and raise Council Tax rates to meet the budget gaps they face.

UNISON

35. [UNISON’s Scottish secretary, Lilian Macer](#), stated that the 2026/27 Scottish Budget “fails local government” and “does not go far enough to address the deepening crisis facing public services”. She highlighted that social care staff will continue to be paid close to minimum wage, and that the failure to address the challenges facing social care will have ripple effects on the NHS through delayed discharges and growing pressure on health service staff.

Institute for Fiscal Studies (IFS)

36. [The IFS stated that](#), as in England, the planned new council tax bands for high-value properties risk “wasting an opportunity for a much needed full scale revaluation of council tax” and argued that they should be a stepping stone to wider reform of the council tax system.

Fraser of Allander Institute (FAI)

37. [The FAI called the reforms to council tax ‘incoherent’](#), stating that it could have been worse but is also not good enough. They noted the inconsistencies of basing the new bands for high-value properties on up-to-date valuations whilst all other properties will continue to pay tax on their 1991 values. The FAI also highlighted the disconnect between the Scottish Government’s emphasis on the need for consensus to successfully take forward council tax reform, and the implementation of the new bands without apparently having gained such consensus.

38. The FAI also described the Scottish Spending Review settlement for local government as ‘very difficult’. It noted that the Scottish Government has identified social care as an area of growing demand, which will place further pressures on local government in the future.

Local government policy update

Item 7

Meeting date:
12 February 2026

Policy Manager for the Commission

Purpose

1. This regular report provides an overview of significant recent activity relating to the Accounts Commission and local government. This report complements the [weekly news updates](#) by highlighting key issues. A version of each monthly report is shared with local government stakeholders for their information.

Recommendations

2. The Commission is invited to note this report and consider any implications for its work programme.

Recent publications

3. Media coverage and engagement for recent publications is as follows:

- **[Delayed discharges: A symptom of the challenges facing health and social care](#)** (8 January)
 - *Coverage:* Interviews on BBC, STV and local radio; widespread coverage in newspapers and online media. Issues raised in First Minister's Questions; range of stakeholder responses.
 - *Engagement:* 2,200 downloads in January. 9,000 views, 3,500 video views and 430 engagements including 210 link clicks in the first week. Very high numbers overall, and broadly similar to the Auditor General's NHS Overview report. Boosted by a few shares from stakeholders, and some comments on X.
- **[Community health & social care: Performance 2025](#)** (8 January)
 - *Coverage:* N/A. *Engagement:* 650 downloads of the briefing and 1,050 registered views of the webpage in January.
- **[Best Value: North Lanarkshire Council](#)** (15 January)
 - *Coverage:* Limited – articles on Daily Record ('Lanarkshire Live' section), Scottish Housing News and the council website.
 - *Engagement:* 450 downloads in January. 11,750 views, 100 video views and 575 engagements including 50 link clicks in the first week. These exceptionally high figures for a Best Value report were driven by the council sharing our post on Facebook.

- [Local government financial bulletin 2024/25](#) (29 January)
 - *Coverage*: Interviews for TV and radio with BBC, STV, local and specialist media. Articles on all main news websites and various sometimes strongly-worded political and stakeholder reaction.
 - *Engagement*: 700 downloads in the first 3 days. 13,200 views, 5,600 video views and almost 1,000 engagements including 300 link clicks. Extremely high social media engagement (3-5 times higher than last year's bulletin) driven by comments on Facebook, councils re-sharing, and interest on LinkedIn.

Media and Parliamentary monitoring

4. The above reports continued to receive Parliamentary and media attention and comment throughout the month, including [an evidence session with the Public Audit Committee](#) on the delayed discharges and health and social care performance reports on 21 January.

Local and Scottish government finance issues

5. The [Scottish Budget for 2026/27](#) was published and announced to Parliament on Tuesday 13 January. Alongside the Budget, the Scottish Government published a new multi-year [Spending Review](#). Members are receiving a detailed briefing from Audit Scotland colleagues at this month's meeting. Links to other analysis are provided in the publications section at the end of this report. Given opposition parties' positions, the Budget is expected to pass, with no major amendments, by the end of February.

6. Shona Robison gave evidence to the [Finance and Public Administration Committee](#) and the [Local Government, Housing and Planning Committee](#) on Tuesday 27 January. Key areas of discussion included:

- The size of the real-terms increase in funding to local government given different interpretations by different analysts, whether this is sufficient to meet rising demand, and the need for reform
- Presentation of comparisons with the previous year's Settlement and with the position after the Autumn Budget Revision, and the rationale for baselining some but not all routine in-year transfers
- The outlook for local government in the Spending Review – Ms Robison clearly indicated an expectation, based on previous experience, that allocations are indicative and likely to change.

7. COSLA produced its initial '[Budget Reality](#)' analysis immediately after the announcement, and later published a fuller response titled: [What does the 2026-27 Budget mean for Councils?](#). The latter followed discussion by COSLA Leaders, who agreed the budget is "a very poor settlement which fails to address the dire financial situation in local government", while the Spending Review reflects "a "deprioritisation of the sector".

8. A number of councils warned about the implications for their 2026/27 budgets. A few examples of this are provided below:

- [Comhairle nan Eilean Siar](#) said it is facing a £4.1 million deficit in the coming financial year, and highlighted its budget consultation as it considered options for council tax rises, service cuts, increased charges and use of reserves. Council leader Paul Steele said the authority could not continue to cut services back year after year, and called for "open and frank" discussions with the Scottish government to find real solutions for council funding.
- [Inverclyde Council](#) also opened a consultation seeking residents' views on council tax and a range of savings options as it looks to close a cumulative budget gap of £8.6 million over the next two years. Proposals include library closures, cuts to employability services, ceasing of civic events, and reduced community safety and street cleaning, with a total of 70 jobs at risk.
- [West Lothian Council](#) leader Lawrence Fitzpatrick said the authority is facing 'years of funding cuts' and needs to be "honest with the public". He said the settlement "falls well short of covering the continuing rise in the cost of delivering essential services". More than 10,000 people responded to the council's budget consultation – the council's biggest ever consultation response.
- [East Lothian Council](#)'s Provost warned that tough decisions will be needed after a report by officers stated that the funding announced by the Scottish Government left a £2.7 million gap in the council's 2026/27 budget. This updated a previous report which had said that without extra funding, the gap would be £6.9 million and require a 13 per cent council tax increase; this figure may now be revised.
- [Moray Council](#) set out the "key themes shaping budget proposals" alongside an updated Short to Medium Term Financial Plan, with graphics illustrating 'where the council's money comes from' and the proportions of its budget spent on different services.

9. The UK Government unveiled the allocation of a total of [£140 million of funding to five Scottish regions under the Local Growth Fund](#) (LGF). The programme is designed to support projects aimed at driving economic growth, with funding provided via Regional Economic Partnerships. This was described as "new investment", but the LGF is a replacement for the previous government's UK Shared Prosperity Fund (SPF). The Industrial Communities Alliance published [an assessment of the funding](#) (*PDF link*), and members can view [this briefing on Pride in Place and the LGF](#).

10. The announcement was widely criticised by councils:

- The leaders of Dundee City Council, Glasgow City Council and Midlothian Council, among others, strongly criticised the reductions

in funding compared to the SPF, as well as the new requirement for 70 per cent of the money to be spent on capital projects.

- They also pointed out the “impractical” three-year timescale for completing capital projects, queried the shift in focus away from employability and poverty reduction programmes, and warned that hundreds of jobs are at risk due to the changes.
- Meanwhile, council leaders across the Highlands and Islands questioned the decision not to allocate any funding to the region. They called on the UK Government to revise the methodology to take into account the high cost of living in the islands, and to put in place transitional measures to mitigate the funding ‘cliff edge’.

11. The Scottish Government’s consultation on the future of council tax closed at the end of January. Responses from councils in both Edinburgh and Glasgow called for a “more progressive” system, including more bands with steeper rates for the highest-value properties, and regular revaluations. Councillors in Glasgow also [called for wider reform of local taxation](#), ‘looking beyond’ council tax and taking into consideration where councils provide services to a wider population than their own tax base.

12. The Scottish Government [published its draft amendment to the Visitor Levy Act](#), intended to provide more flexibility and choice to councils in designing the levy. It is hoped the Bill will be passed in the current session.

13. Alongside coverage of the money held by councils due to historical overpayments of council tax, it was also reported that over £55 million in council tax is owed to the City of Edinburgh Council, according to figures obtained via FOI, including £16.2 million unpaid for 2024/25.

Policy area updates

Education

14. Scotland’s largest teaching union, the EIS, is asking its members to vote again on whether to go on strike over their workload, after a ballot that closed in mid-January failed to reach the 50 per cent turnout threshold required for a legal mandate. Eighty-six per cent of those who did vote backed strike action. The new ballot closes on 4 March. A ballot by the NASUWT also failed to reach the threshold, but it has said it will “continue to push for implementation of the promised class contact time reduction”.

15. There have been a range of stories arising from releases or analysis of education-related statistics in the past month, including the following:

- [Most newly-qualified teachers are not securing permanent jobs](#). Of around 2,300 teachers who completed their probation year in 2024/25, only a quarter got a permanent post; about 44 per cent are on temporary or fixed-term contracts, while just under a third are in “other” roles – either supply teachers, or not in teaching at all.

- [At least 70,000 pupils have missed half of school](#), and more than 6,000 have not been to school at all, in Scotland in the last six years. Not all councils provided full (or any) statistics, so the actual numbers are likely to be higher.
- [Hundreds of applications for places in additional support needs \(ASN\) schools](#) are being rejected, while the number and proportion of children classified as having ASN have risen to record levels. Jenny Gilruth has announced a national review of ASN provision, led by former Chief Inspector of Education Janie McManus.

Health and social care

16. Glasgow City Integration Joint Board (IJB) revealed that it is facing a [budget gap of £53 million in 2026/27](#), with officers working on a plan to minimise the impact on services. The IJB says a key factor in its budget pressure is the constrained ability of the council to provide financial support as it underwrites the IJB's overspend on homelessness, which is even greater than the overall shortfall currently faced by the IJB.

17. The Scottish Government says there have been more than 130 requests for support through its '[displaced worker scheme](#)', aimed at boosting the recruitment of social care workers who are in the UK but lack sponsorship for a visa. The scheme covers additional costs faced by employers when hiring people in this position to fill existing vacancies.

Housing and homelessness

18. A new national housing agency is to be established by the Scottish Government, aimed at helping to accelerate housebuilding. 'More Homes Scotland' is expected to start operating from 2027/28, subject to the outcome of the Scottish Parliament election. The agency's functions and operating model will be co-designed by the Cabinet Secretary for Housing, Scottish National Investment Bank (SNIB) and local authorities.

19. The role of the SNIB in supporting the new agency is intended to help attract more commercial investment, which represents about one sixth of the planned £4.9 billion investment in new affordable housing over the spending review period. However, sector bodies representing housing associations and tenants have criticised the level of spending especially in 2026/27, and reliance on the private sector to deliver affordable homes.

20. It was reported that the [City of Edinburgh Council is set for a large underspend on housing](#), including £45 million allocated for buying existing homes and £14 million for building new ones. Officers said the underspend on purchasing is due to challenges in securing good value and there has been slippage in its housebuilding programme, but insisted the money is committed and will be spent this year or next.

21. Glasgow City Council's housing convener, Cllr Ruari Kelly, suggested [redirecting funds and sharing resources](#) across local authority boundaries could help tackle homelessness in the city and across Scotland. Glasgow

is facing a £56 million overspend arising from pressure on homelessness services, with nearly 5,000 households in temporary accommodation, and use of B&Bs and hotels costing around £4.5 million per month.

22. Delays in reaching decisions on planning applications for local housing schemes have also been highlighted as a “major issue” and potential “barrier” to housebuilding by industry body Homes for Scotland. Official statistics for 2024/25 show:

- A rise in the number of ‘major’ housing developments (50 or more homes) being processed, from 77 to 101, and the average decision time fell to 44.4 weeks after peaking at 59.8 weeks in 2023/24
- Applications for smaller ‘local’ developments (fewer than 50 homes) fell for the third year in a row – from 3,653 to 3,289 – and average decision times for these remained at a record high of 19.4 weeks
- For both major and local housing developments, decision times far exceed statutory timeframes of 16 weeks and 8 weeks respectively.

23. The average times above are ‘mean’ averages – median averages were substantially lower (and the same as or lower than the previous year) because some, more complex applications can take much longer to be determined. As an example, it was reported that [nearly 100 applications in Argyll and Bute have been waiting at least a year](#), which the council attributed partly to limited resources and budget cuts.

Infrastructure and communities

24. A number of towns across the south of Scotland have published their [proposals on how to spend a share of £20 million](#) offered as part of the Borderlands Growth Deal Place Programme, funded by the UK and Scottish Governments. This initiative is distinct from the UK Government’s Pride in Place programme, which is providing £20 million *each* to various towns in Scotland and the rest of the UK, though both initiatives involve communities themselves identifying projects and developing plans.

25. Community leaders from across the rural south are joining with those in the Highlands and the north east in [opposing the Scottish Government’s position on renewable energy developments](#), following a ‘convention’ of more than 40 community councils and other organisations. The Scottish Government aims to generate around half of the country’s overall energy consumption from renewable sources by 2030 and denies that the views and concerns of rural communities are being ignored.

26. Angus Council has [decided against taking a blanket approach to the use of 20mph speed limits](#) in built-up areas, after a public consultation showed strong local opposition to the proposal. The Scottish Government wants to roll out 20mph limits across the country by the end of March, but has said it is for councils to decide where and how they should be applied. Angus has decided to continue introducing limits on a case-by-case basis, and will have to give up £250,000 of funding for the initiative.

Council leadership and public appointments

27. North Ayrshire Council's leader, Cllr Marie Burns, and deputy leader, Cllr Shaun Macaulay, announced a surprise joint resignation. No reason was given, although Cllr Burns has said she will not be standing in the 2027 election. Cllr Tony Gurney and Cllr Christina Larsen immediately took over as the SNP group's leader and deputy leader respectively, and were expected to be elected to lead the council at a meeting on 11 February.

28. Ruth Binks has been appointed as the new HM Chief Inspector of Education in Scotland. The post was newly established by legislation passed last year, which transferred inspection functions from Education Scotland, providing greater independence. Ms Binks is currently Director of Education at Inverclyde Council, and was previously a head teacher; she is expected to begin the role at the end of March.

Other updates

29. The Local Government Information Unit (LGIU) published its third annual report on '[The State of Local Government Finance in Scotland](#)' – based on a survey of Council Leaders, Chief Executives and Directors of Finance. Overall, the survey showed a continuing lack of confidence about the sustainability of local government finances. Members can view a [summary of key points and survey results](#).

30. The Auditor General has recently published the following reports:

- [Best Value in policing: Joint Best Value audit of policing in Scotland](#) with HM Inspectorate of Constabulary in Scotland.
- [Administration of Scottish income tax 2024/25](#): additional assurance to the Scottish Parliament following the [report by the National Audit Office](#) which has statutory responsibilities in this area.

31. Publications and analysis relating to the Scottish Budget include:

- Scottish Government:
 - [Scottish Budget 2026 to 2027](#) (main Budget document)
 - [Scottish Budget](#) (collection of all documents)
 - [Scottish Spending Review 2026](#)
 - Responses from Shona Robison to pre-budget scrutiny by the [Finance and Public Administration Committee](#) and the [Local Government, Housing and Planning Committee](#)
- Scottish Fiscal Commission:
 - [Budget and Spending Review underscore tight fiscal outlook as Scottish Government plans efficiencies and reform](#)
 - [Scotland's Economic and Fiscal Forecasts – January 2026](#)

- Scottish Parliament Information Centre (SPICe):
 - [Initial reactions to the final Budget of Session 6](#)
 - [Budget Bingo: a full house? – key themes in pre-budget scrutiny for 2026-27](#)
 - [Scottish Government responses to pre-Budget scrutiny: evidence of action, but few outcomes?](#)
 - [Scottish Budget 2026-27](#) (detailed briefing)
- Fraser of Allander Institute (FAI):
 - [A Budget where the silences were loudest](#)
 - [More on the 2026-27 Scottish Budget](#) (podcast and transcript)
 - [Council tax and the Spending Review](#)
 - [Are the Scottish Government spending all the two-child limit savings on reducing child poverty?](#)
- Institute for Fiscal Studies: [Immediate response to the Scottish Budget and Spending Review](#)
- LGIU: [Scottish Budget 2026-27 – highlights for local government](#)
- BBC News: [Scottish Budget](#) (collection of articles and analysis)

32. Other recent publications and updates of possible interest to members are listed below.

- LGIU: [LGIU's look ahead for Scottish local government in 2026](#)
- LGIU: [Resource pack: Ask the Expert: The state of local government finance in Scotland](#)
- SPICe: [Buy now, pay later: borrowing and the Scottish Budget](#)
- FAI: [Paving the way for preventative budgeting in Scotland](#)
- FAI: [How poverty rates in Scotland compare with the rest of the UK](#)
- Public Health Scotland: [Together we can: 10-year strategy to 2035](#)

Conclusion

33. The Commission is invited to note this report and consider any implications for its work programme.

Chair's update

Item 8

Chair of the Accounts Commission

Meeting date:
12 February 2026

Purpose

1. This report provides an update on the engagements and work of the Chair of the Accounts Commission since the Commission met last in January and upcoming engagement before the next Commission meeting.

Engagement and Commission business

Commission business

- Regular meetings with Sarah Watters (Director for the Commission), Helena Gray (Controller of Audit) and Lee Ovens (Executive Assistant)
- 21 January: Visit to Comhairle nan Eilean Siar, with Andrew Burns (Deputy Chair) and Sarah Watters, for the follow-up meeting on the section 102 report (also involving Claire Gardiner as the Auditor), and a meeting to discuss single authority models

Audit Scotland engagement

- Regular meetings with Alison Cumming (Executive Director of Performance Audit and Best Value), Vicki Bibby (Chief Operating Officer) and Stephen Boyle (Auditor General)
- 21 January: Future Public Audit Model (phase 2) 'Sounding board' meeting; 'Funding public sector audit' sub-group meeting
- 27 January: Audit Modernisation Programme (AMP) Board session
- 29 January: Audit Scotland Board meeting and Remuneration and Human Resources Committee (RemCo) meeting; Board 'deep dive' on AMP; post-Board meeting with Colin Crosby (Audit Scotland Board Chair), Vicki Bibby and Stephen Boyle
- 3 February: Annual Assurance and Risks Report sponsor meeting

External engagement

- 23 January: Regular (every second month) meeting with Catriona MacKean, Scottish Government Deputy Director for Local Government
- 28 January: Meeting with Ariane Burgess, Convener of the Local Government, Housing and Planning Committee

Forthcoming activities

- Regular meetings with Sarah Watters, Helena Gray and Lee Ovens
- Regular meetings with Alison Cumming, Vicki Bibby and Stephen Boyle
- 13 February: Meeting with COSLA Presidential team (with Andrew Burns and Sarah Watters)
- 24 February: Future Public Audit Model (phase 3) 'Sounding board' meeting
- 25 February: Bi-annual meeting with Ellen Leaver, Scottish Government Director for Local Government
- 03 March: Audit Scotland Board – Risk Deep Dive: Cyber Resilience and Recovery
- 05 March: Audit Scotland Audit Committee and RemCo meetings
- 11 March: Accounts Commission Strategy Seminar

Conclusion

2. The Commission is invited to:

- Note this report and enquire about any areas of interest.