

Best Value Assurance Report

Orkney Islands Council



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
December 2017


The Accounts Commission

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Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
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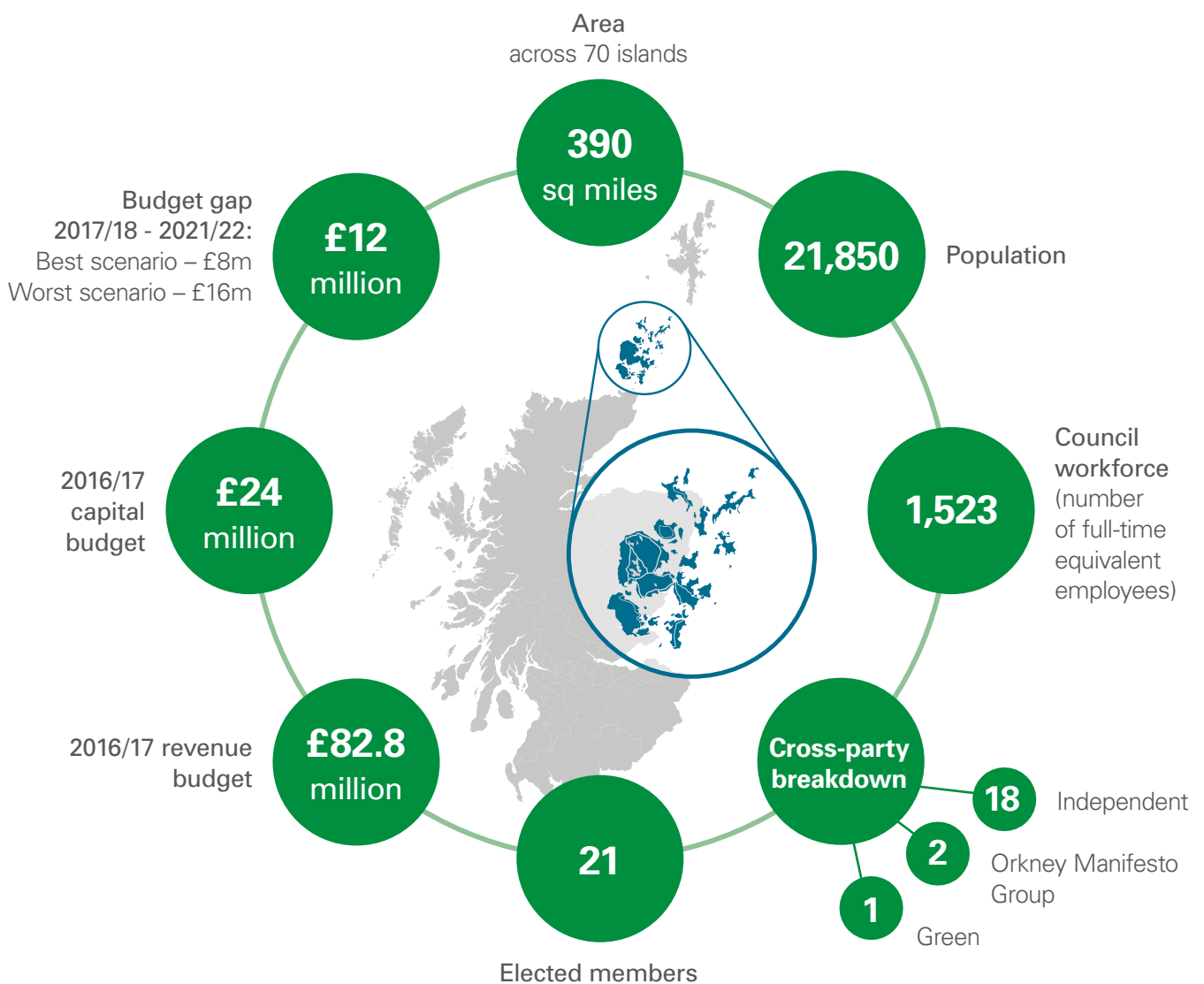
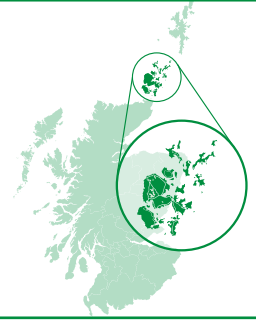


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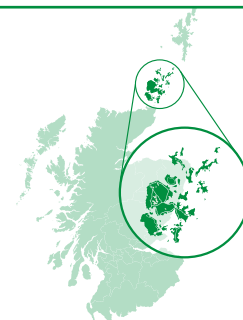


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Key facts

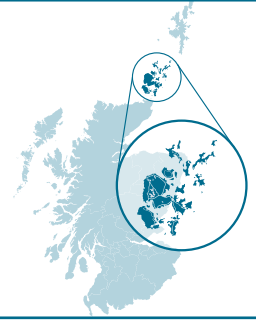


Commission findings



- 1** The Commission accepts the Controller of Audit's report on Best Value in Orkney Islands Council. We endorse the recommendations set out by the Controller of Audit in his report and expect the council to act upon them.
- 2** The council has a good understanding of the long-term challenges which arise from the distinct nature of being an islands council. Members and officers work well together in providing effective leadership.
- 3** This long-term awareness is also demonstrated in the council working well with its partners and in increasingly effective partnership working since our 2014 audit report on the community planning partnership. Both the council and the partnership, however, could do more to demonstrate how outcomes for communities are improving.
- 4** There are some important Best Value obligations on which the Commission expects continuing progress. We note the council's current satisfactory financial position supported by strong reserves. The Commission however emphasises the importance of robust long-term financial and other strategic plans which are integrated to other aspects of resource planning, particularly with assets, workforce and digital strategies. It is crucial that the council can demonstrate efficiency, effective options appraisal and continuous improvement to the people of Orkney and that the council's services are on a cost effective footing for the long-term.
- 5** Citizen satisfaction with council services is pleasing, but there is room for improving service performance.
- 6** We note that the council recognises the challenges around ensuring sufficient capacity to deliver these Best Value obligations. It is important that the council continues to assure itself that its capacity is sufficient to deliver the required change.
- 7** We are pleased to note the coverage in this audit of equalities and diversity matters, given their prominence in the council's values. We commend the council's progress in demonstrating commitment to this value, particularly around engaging with remote communities, where demographic factors may result in increasing inequality.
- 8** We encourage the council to further increase the pace of progress. In line with our new approach to auditing Best Value, the Controller of Audit will monitor progress through the annual audit and update the Commission accordingly.

Audit approach



1. The statutory duty of Best Value was introduced in the Local Government in Scotland Act 2003. The audit of Best Value is a continuous process that forms part of the annual audit of every council. Audit conclusions are reported each year through the Annual Audit Report, addressed to the Controller of Audit and the councillors. In addition, the Controller of Audit will present a Best Value Assurance Report (BVAR) to the Accounts Commission at least once during the five-year audit appointment for each council. This is the first BVAR on Orkney Islands Council under the revised arrangements. The [Appendix \(page 54\)](#) summarises the findings from the previous Best Value reports on the council in 2008.

2. This report seeks to provide the Accounts Commission with assurance on how effectively the council is meeting its statutory duty to deliver Best Value. In particular we focus on the Commission's Strategic Audit Priorities covering:

- the clarity of council priorities and quality of long-term planning to achieve these
- how effectively councils are evaluating and implementing options for significant changes in delivering services
- how effectively councils are ensuring that members and officers have the right knowledge, skills and time to lead and manage delivery of council priorities
- how effectively councils are involving citizens in decisions about services
- the quality of council public performance reporting to help citizens gauge improvement.

3. We are looking for councils to demonstrate Best Value by showing continuous improvement in how they deliver their priorities. The pace, depth and continuity of improvement are key to how well councils meet those priorities in the future. Throughout the report we comment on the council's improvement over time and reflect our conclusions in the [Key messages \(page 8\)](#).

4. Our audit approach is proportionate and risk-based, reflecting the context, risks and performance of the individual council. It also draws on the information from audit and scrutiny work carried out in previous years. In keeping with this approach we conducted some initial work to define the scope of our audit. This included reviewing previous audit and inspection reports, council documents, initial meetings with senior officers and reflecting on our wider public sector knowledge and experience. [Exhibit 1 \(page 7\)](#) shows the key areas we focused on for our audit of Orkney Islands Council.

Exhibit 1

Key areas of focus for our audit



The council's strategic direction including:

- vision and priorities
- planning and performance management



Governance including:

- councillor and officer roles and responsibilities
- 'Following the public pound'



How the council manages its resources, including:

- financial planning and management
- workforce planning and capacity
- IT and digital approach



Partnership working



Community engagement and empowerment



Equal opportunities



Change and improvement including:

- self-evaluation
- change plans and programmes



Performance and outcomes against the council's priorities

Source: Audit Scotland

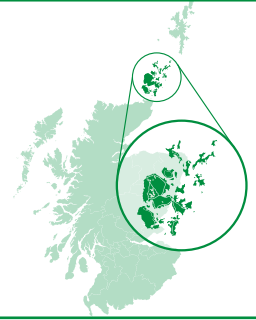
5. The detailed audit work for this report took place between March and June 2017. Our audit work included:

- interviewing councillors, senior officers and community planning partners
- observing a range of council and committee meetings
- holding focus groups with councillors, council staff and community groups
- reviewing documents.

6. This report reflects the work done on the key areas of focus we note above. Our work covers a number of Best Value characteristics included in the statutory guidance (2004), but it does not cover them all. Our audit work in the future, as part of the annual audit of the council, will include follow-up on the findings from this report. It will also include more detailed audit work on other Best Value areas, as appropriate.

7. We gratefully acknowledge the cooperation and assistance provided to the audit team by all councillors, officers, partners and members of the public we contacted during the audit.

Key messages

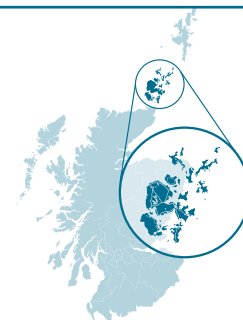


- 1** Orkney Islands Council is the smallest council in Scotland with a complex and challenging local context. The council has a very good understanding of the area and its communities and has clear priorities and ambition for the islands that reflect these. The council has stable, effective leadership with a strong focus on doing what is right for the communities of Orkney.
- 2** Since our 2008 Best Value report, the council has gradually improved how it plans and manages its activities. The council has improved its planning framework, performance management, its use of self-evaluation and the way it engages with communities. The pace of improvement in the council has increased over the past three years since it has focused its improvement work around a change programme and its medium-term financial planning.
- 3** The council has benefited from a strong financial position for many years. Income generated through marine port activities has contributed to substantial financial reserves. This has meant the council has been able to supplement local government funding, to some extent, to help protect front-line services. Nevertheless, certain cost-saving decisions have been taken and, for instance, the senior management team has been halved in size.
- 4** The council has been slow to develop some of the other essential tools for using resources efficiently. Examples include workforce planning, medium to long-term financial plans, asset management planning and digital and IT arrangements. The pace of progress has, however, picked up in recent years and it is important that the council maintains this increased pace to ensure it makes best use of public money. The council should prepare longer-term financial plans to ensure the sustainability, feasibility and practicalities of current spending plans, and to demonstrate that dependency on the Strategic Reserve Fund, to subsidise service delivery, is limited to the short term.
- 5** Orkney residents show very high levels of satisfaction with council services, including some of the highest levels across Scotland. In addition, external service inspections have been positive, especially within the education service. However, when measured against the Local Government Benchmarking Framework indicators, improvement in service performance has tended to be slower in Orkney Islands Council than comparable councils.

- 6 The council works well with its partners and local communities, with some examples of good community engagement and progress in empowering communities. However, the council and the Orkney Community Planning Partnership do not yet measure, monitor and report sufficient evidence to demonstrate how effectively they are making progress towards delivering their outcome priorities for the community.
-

Part 1

Does the council have clear strategic direction?



The council understands the challenges and opportunities for Orkney and has clear priorities that reinforce its ambition for the islands

The council has significantly improved its corporate planning and performance management systems since 2008. This helps the council manage work towards its priorities more effectively. However, measuring and monitoring of performance does not yet clearly evidence how successfully its work is improving outcomes for the community.

Strategic leadership of the council remains stable and effective. A good level of mutual respect and trust exists between officers and councillors.

The council's governance arrangements provide an appropriate and effective framework for decision-making and scrutiny.

Training arrangements for councillors and their engagement in personal development need further improvement.

The Orkney Islands are a challenging environment but the unique context also offers opportunities

8. The Orkney Islands are an archipelago of 70 islands off the north coast of Scotland ([Exhibit 2, page 11](#)). Nineteen of the islands are populated, with 80 per cent of the 21,850 population living on the main island, the Mainland.

9. Orkney has a growing population. It increased from 19,200 in 2001 to 21,850 in 2016 and is projected to increase to over 22,000 by 2039. It has an ageing population profile. The population aged 75 or over is expected to increase by 101 per cent by 2039 ([Exhibit 3, page 12](#)). This presents a challenge in providing sustainable services, particularly in the outer islands. The population growth is predominately on the Mainland. The outer islands show, in general, a gradual outward migration with a higher proportion of those leaving being younger people. This means the age profile of the outer islands is ageing at a higher level than the Mainland.

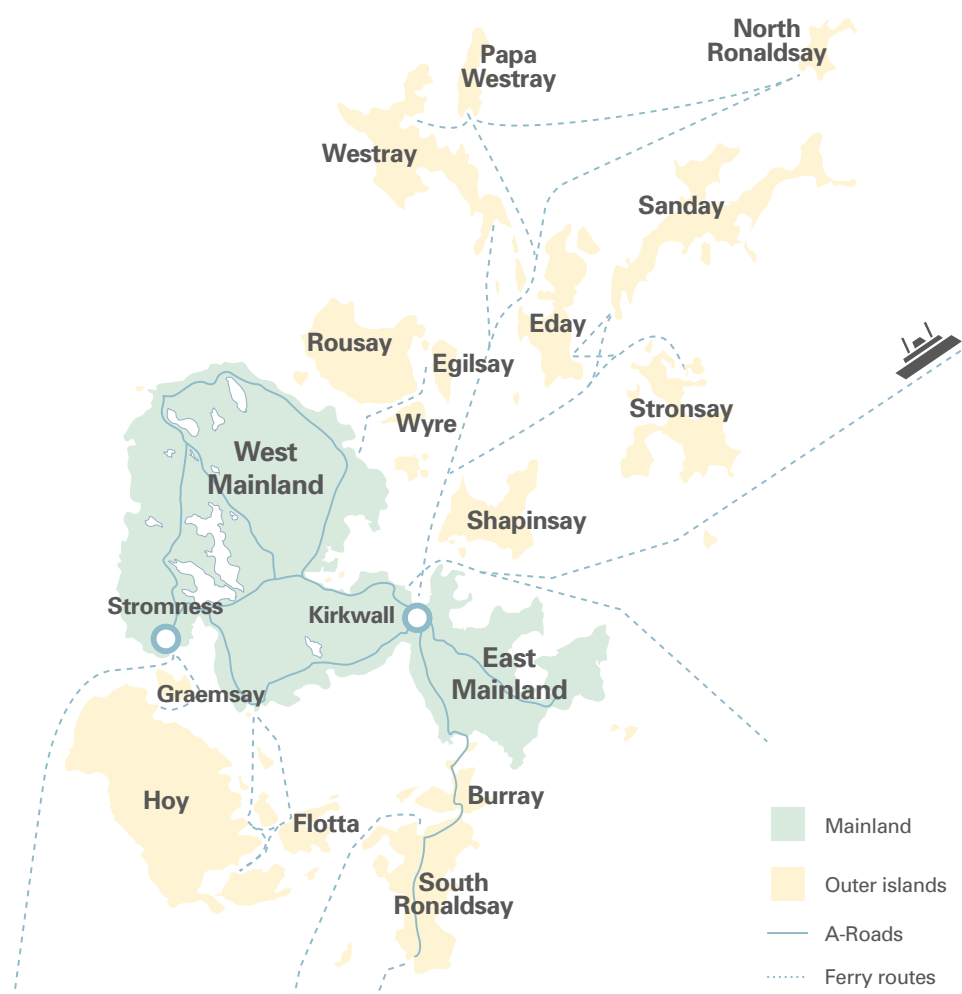
10. Maintaining good transport links is essential to ensure the social and economic sustainability of remote and sparsely populated communities. The council is responsible for major harbour operations at Scapa Flow, as well as a number of harbours, piers and six airfields, serving its island communities. It also operates ferry services and works in partnership with service providers and the Scottish Government to maintain lifeline air services.

Orkney has the smallest population of any council area in Scotland making up 0.4 per cent of the Scottish population

Source: National Records of Scotland

Exhibit 2

Map of Orkney



Source: Audit Scotland

11. The islands benefit from a beautiful landscape, rich cultural heritage and globally significant archaeological sites. Tourism is one of the main industries on the islands and is growing. Notably the Mainland experiences significant numbers of tourists arriving from visiting cruise liners. In 2013, the council completed an extension to the Hatston pier, Kirkwall. This made it the longest deep-water commercial berth in Scotland. In addition to providing a base for freight and renewable energy development, it has attracted large cruise liners. In 2013, 71 cruise ships arrived. The number has increased each year and in 2017, 135 cruise ships arrived. The number of visitors to the islands varies per ship but can mean that several thousand tourists visit Kirkwall and the Mainland attractions in a day.

12. The other main industries on the islands are manufacturing, farming, fishing, and the energy sector, including oil and renewable energy. The council is one of the biggest employers on the islands, alongside the NHS, with a third of jobs in the public administration, education and health sectors.

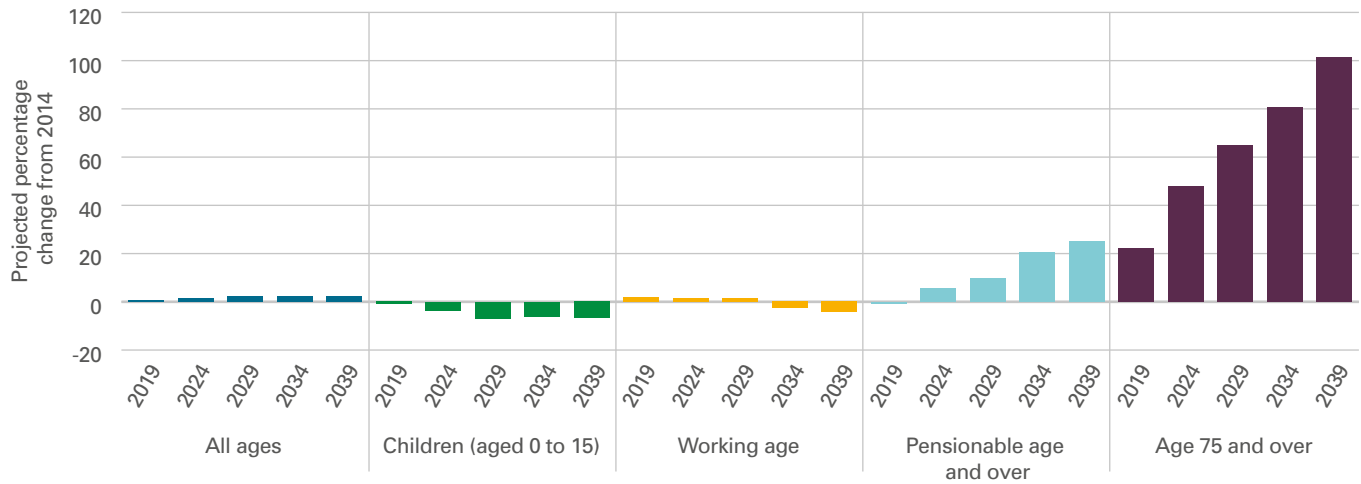
Orkney Islands Council is the smallest of the 32 Scottish councils with a workforce of just over 2,000 staff (approximately 1,500 FTE)

Source: Audit Scotland

Exhibit 3

Orkney Islands population

A. Projections 2014-39 by age group



B. Percentage change from 2001 to 2013 by location



Sources:

- A. National Records of Scotland, Projected percentage change in population (2014-based), by age structure and Scottish area, selected years
- B. Scottish Neighbourhood Statistics, mid-year population estimates (historical geographical boundaries), by age and area 2001-13

13. The area has high employment figures, with 86¹ per cent of the working age population employed in June 2016 compared with a figure of 73 per cent nationally. The unemployment rate at 2.6 per cent is the lowest in Scotland. However, median weekly wage levels of £385.70 are the third lowest in Scotland. The cost of living is high, there is not enough affordable housing to meet demand² and fuel poverty is high. Fuel poverty occurs where greater than ten per cent of household income is spent on domestic fuel use.

14. The availability and quality of connections to broadband and mobile phone services varies greatly across the islands. The Orkney Islands have the slowest average broadband speeds in Scotland.³ Poor connectivity makes it more difficult to attract investment and limits the viability of small businesses. It also affects the quality of life of communities and reduces equal access to online facilities and opportunities. This is particularly important when communities need to retain and attract young people. The council engages regularly with the UK and Scottish governments to promote more rapid improvements to coverage in Orkney.

The council has clear priorities and significantly improved corporate planning and performance management arrangements to help achieve these

15. The council's 2013 corporate plan sets out its vision of 'working together for a better Orkney' alongside a set of corporate values and clear priorities ([Exhibit 4, page 14](#)). The issues and challenges for the islands' communities and the Orkney Community Planning Partnership's (OCP) priorities are well reflected in the council's and its plan.

16. Community planning is the process by which councils and other public bodies work with local communities, businesses and the voluntary sector to plan and deliver ways to improve the lives of people who live in Scotland. Community planning is led by Community Planning Partnerships. There is a partnership for each of the 32 council areas in Scotland.

17. The council plan was refreshed in 2015 and preparation for a new plan began soon after the May 2017 election, with councillors taking the lead role in developing its content. Officers and councillors show a good knowledge and understanding of local needs and issues.

18. In our 2008 Best Value report, we criticised the council for a lack of clear action plans to support the corporate priorities and weak performance management arrangements. The council has significantly improved its corporate planning since 2008. It has a clear council plan that sets out the corporate priorities and contributing actions. The priorities are evident throughout reports to council committees and in its other strategic and service level plans. For example, the education service contributes to all of the council's priorities but in particular the priority to 'promote successful, thriving communities'. This is evident in the Education, Leisure and Housing service plan. Councillors have ownership of the council plan and monitor progress against the contributing actions every six months.

19. The council has also improved its corporate performance management arrangements. It now has well-established systematic arrangements in place. In 2013, the council began using a software tool to help it better manage performance information, risk management and progress against corporate and service level actions. This has improved monitoring and reporting on progress and performance to management and councillors.

Exhibit 4

Strategic priorities

The council's values and priorities 2013-18.



Council values

- Promoting survival – to support our communities
- Promoting sustainability – to make sure economic, environmental and social factors are balanced
- Promoting equality and fairness – to encourage services to provide equal opportunities for everyone
- Working together – to overcome issues more effectively through partnership working.
- Working with communities – to involve community councils, community groups, voluntary groups and individuals in the process
- Working to provide better services – to improve the planning and delivery of services.



Council priorities

- Care and support for those who need it
- Promote successful, thriving communities
- Housing to meet the needs of Orkney's people
- A low carbon Orkney – renewables, energy and opportunity.
- Orkney's economic development
- Orkney's transport networks
- What we need to do.¹

Orkney's Community Planning Partnership priorities

Healthy and sustainable communities

- People in Orkney are encouraged and supported to adopt healthy lifestyles
- People in Orkney are supported to plan and develop sustainable living and participate in community activities that improve access, build inclusiveness and reduce inequalities
- Orkney has a sustainable workforce.

A vibrant economic environment

- Orkney is an attractive location for young people to live, work and study
- Orkney is widely recognised as a location for innovation and the application of experimental thinking in sustainable development in an island context
- Orkney's economy offers a broad range of community-based employment opportunities.

Positive ageing

- People live independently in their own homes or a homely setting where possible
- People are participating positively in their communities and the economy and are valued for their contribution
- People are enabled to take responsibility for their long-term health and wellbeing.

Orkney Islands Council's priorities

- Care and support for those who need it
- Promote successful, thriving communities
- Housing to meet the needs of Orkney's people
- Orkney's transport networks
- A low carbon Orkney – renewables, energy and opportunity
- Orkney's economic development.

- Orkney's economic development
- Promote successful, thriving communities
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- Care and support for those who need it
- Promote successful, thriving communities
- Housing to meet the needs of Orkney's people
- Orkney's transport networks
- Orkney's economic development.

Note: 1. This priority relates to significant strategic activities the council has focused on during the span of the council plan. These include responding to new legislation and securing external funding opportunities for its community.

Source: Orkney Islands Council, Audit Scotland

The outcomes for the community are difficult to evidence

20. Performance management arrangements have improved significantly, but they do not systematically include monitoring the impact of the council's policies and actions. The council plan targets are focused on process and actions. The priorities reflect the issues for the communities and the plan clearly supports the priorities, but it does not set out how the processes and actions will contribute to improved outcomes for its communities.

21. This means that the council reports on progress against actions and performance in terms of the outputs of its activities and services, such as completion of a building project on cost and time or the cost per user of providing leisure facilities. It does not yet fully set out how well it is achieving the outcomes set out in its priorities. For example, it is clear from the evidence that the council has taken forward a range of actions and projects to 'Promote successful, thriving communities'. It identifies what the success factors of these individual projects are. It can also show the performance of the services that contribute to this priority. However, this does not tell us if the outcomes for the community have improved, in this example, if the communities of Orkney are measurably more successful and thriving, as a result of the policies, actions, projects and service delivery.

Reporting performance to the public has improved

22. In 2008, we assessed public performance reporting as 'underdeveloped'. In recent years, the council has improved this through learning from other councils. Council officers state that the most significant improvements were made in 2013/14. These improvements include developing and introducing specific pages on the council's website for public performance reporting. The council publishes an Annual Performance Report on its website. This shows the council's performance towards meeting the objectives set out in its council plan. This also illustrates performance against Local Government Benchmarking Framework (LGBF) indicators and compares performance against the previous year and the Scottish average for each indicator. The standard of annual performance reporting has improved in recent years.

23. In 2016, the council consulted its community about performance reporting. This revealed that the public had a high interest in the council's performance but generally lacked awareness of the public performance reporting pages on the council's website. In response, the council is enhancing how it reports performance by using social media more effectively.


Strategic leadership of the council remains stable and effective

24. The political and management culture in Orkney Islands Council is collegiate with common purpose and passion for the Islands. Councillors and officers are part of the community and are highly motivated to improve the quality of life for local people. A good level of mutual respect and trust exists between officers and councillors. Roles and responsibilities are understood and respected. Officers are accessible to all councillors and they are confident in the openness of officers.

25. The council has remained predominantly independent. The new leader, voted in following the 2017 election, is an experienced councillor with a good working relationship established with the chief executive and other councillors. Historically, there is a good level of mutual respect among councillors and they work well collectively for the area. Initial indications are that this culture continues with the new council.

Induction training for councillors is good but ongoing training would benefit from more structured arrangements

26. Officers have made a significant effort to support the new council with an enhanced induction process. This includes a rich programme of sessions on council arrangements and national and local issues that will run until the end of the calendar year. Councillors were involved in redeveloping it, and feedback on the programme, at the time of our audit, was positive.

27. Since 2008, officers have provided an increasingly varied programme of seminars for councillors. Councillors that we spoke to during the audit find these sessions valuable and indicated that attendance at them is high. However, more formalised training arrangements for councillors and their uptake of personal development planning has been limited. The Accounts Commission, in its 2016, [*How councils work: Roles and responsibilities*](#)  report, emphasises the *'increasing complexity of the local government environment' and 'the crucial importance of councillors having the skills, knowledge and confidence to provide demonstrable leadership, to undertake a much wider variety of roles, and to manage this complexity effectively'*. The Commission also highlighted that *'training and development should be an ongoing process, not just a one-off induction. Newly elected councillors can be overloaded at the start of their term'*. The council should consider how it can enhance its councillor training and development arrangements and encourage better uptake by councillors of personal development planning.

The management team works well together but the small scale means that management capacity is an ongoing challenge

28. The chief executive has been in post since 1997. He took a temporary chief executive role in Shetland Islands Council in August 2010, returning to Orkney Islands Council in October 2012.

29. The chief executive and his senior management team operate well, showing shared corporate ownership and commitment. There is good communication and the team work effectively together across a wide range of issues with a sense of common responsibility for delivering the strategic plans.

30. The 2008 Best Value report stated that the senior management team *'would benefit from leadership development to support them in improving the strategic focus of the team'*. The council has put in place leadership development programmes to develop the wider management team's skills.

31. In 2011, the council restructured its service departments and reduced its management team from 34 full-time equivalent (FTE) to 18 FTE chief officer posts. The council's management capacity is inevitably limited by its small scale. The council's small corporate management team oversees the delivery of a wide range of services, local policies and priorities, responds to national policy agendas and plans for the council's change programme. The council recognises the limitations of its capacity and has continued to draw on external skills and capacity when this is needed.

32. A significant amount of senior political and management time and effort has been invested, since 2013, working with Shetland Islands Council and the Comhairle nan Eilean Siar, on the Our Islands – Our Future strategy, [*\(Case study 2, page 41\)*](#). The introduction of the Islands Bill to the Scottish Parliament in June 2017 is a significant milestone for the council and its partner island councils.

The council's governance arrangements provide an appropriate and effective framework for decision-making and scrutiny

33. The council has a traditional committee structure in place which provides an appropriate framework for decision-making and scrutiny. In May 2012, it was restructured to align with the revised management structure. Supporting the full council are eight main committees:

- Policy and Resources Committee
- Monitoring and Audit Committee
- Development and Infrastructure Committee
- Education, Leisure and Housing Committee
- Orkney Health and Care Committee
- Licensing Committee
- Planning Committee
- Local Review Body.

34. The framework is supported by clear procedural documentation and councillors and officers have a good understanding and respect for their roles and responsibilities. The council has a history of, and continues to show, a respectful culture among councillors and of making decisions after collaborative discussion.

35. The standard of scrutiny by councillors is generally good with scope to improve the consistency and depth of challenge they give. Increased training for councillors would strengthen the level of scrutiny for decision-making, and on reporting of progress and performance.

36. The quality of reports provided to the council and its committees is mainly good. During the audit we identified a few exceptions where the quality of reporting was not adequate. Councillors and officers are aware of these and acknowledged the reports needed more detail and clearer information. Councillors indicated they are broadly happy with the quality and range of information provided to them.

37. Transparency means that the public, in particular local residents, have access to understandable, relevant and timely information about how the council is taking decisions and how it is using resources such as money, people and assets.

38. Council business is conducted in an open and transparent manner and there is a commitment to this by councillors and officers. Councillors have good working relationships and access to officers to ask questions. This helps effective working in the council. Councillors are of the view that conversations they have do not impact on the transparency of full discussion and challenge in public forums.

39. Since June 2015, the council audio casts committee meetings through its website, increasing the community's access to the council's decision-making processes. Committee agendas, reports, minutes and audio files are all available on the council's website.

There is a good level of awareness and commitment to equalities

40. The council has made steady progress with developing its equalities arrangements. Our 2008 Best Value report stated that the council *'does well in providing equal access to services for those in remote locations'* but its approaches to other equalities issues *'need to be more fully developed'*. The council continues to focus on managing the challenges of communities in remote locations but has made good progress in developing wider arrangements. It has also developed a good level of engagement among councillors and managers in the equalities agenda.

41. The council has systematic arrangements in place to ensure equalities issues are part of decision-making processes. The council began using Equality Impact Assessments in 2008. These review how a change or introduction of a new policy, strategy or approach might impact on groups of staff or the public in terms of equalities characteristics (for example gender, ethnicity, sexual orientation) and consider how negative impact can be mitigated. The assessments are now routinely undertaken, reported and published on the council's website. The assessments are included with decision-making papers to committees and full council. Equalities is evident in the council's strategic planning, with the corporate value of 'Promoting equality and fairness' prominent in its council plan.

42. The council works closely with community planning partners on equalities. In 2012, the partnership developed a shared Equality and Diversity Strategy. The strategy recognises 'peripherality', that is, how remote and isolated a community, household or individual is, as a specific issue to consider. The council and partners adapt and adopt the strategy for their own requirements.

43. In 2013, the council set out priority outcomes for equalities and refined these in 2015 ([Exhibit 5, page 19](#)). The council reports on progress against activities contributing to these objectives in annual equalities reports. However, the council needs to identify clear measures to monitor how effectively it is achieving these objectives. The council analyses the workforce and population information it collates, although limited information on some equalities categories and small numbers make it challenging in some cases to make meaningful findings from the data.

44. In 2015/16, 28.4 per cent of the top five per cent earners in the council were female compared to 51.9 per cent across all Scottish councils. Although the council needs to consider this difference, the small scale of the council means that this percentage can be affected significantly by only one or two posts.

45. The gender pay gap in 2015/16, for the wider staff group, is nine per cent in Orkney compared to 4.5 per cent nationally. The council reports that this gap increased slightly between 2016 and 2017. The male-dominated service areas in the development and infrastructure service are a significant contributing factor. Some of the functions within the service, such as marine services, are not part of most councils' remit in Scotland. These services are competing for some staff with private industry in the islands such as the oil and renewable energy sectors and therefore the level of pay reflects this. In this service only 22.9 per cent of the staff are women, compared to a council-wide proportion of 67.9 per cent. As in the wider public sector, a higher proportion of women in this service and across the council are in part-time posts compared to men. The council recognises the gender imbalance across some service areas and acknowledges that this needs to change.

Exhibit 5

Equalities outcomes

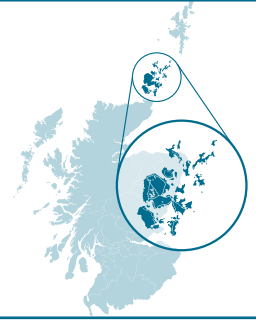
	1	More young, disabled and long-term unemployed people are in work and training
	2	Ensure there are no barriers in recruitment, training or promotion opportunities
	3	Ensure terms of employment and human resource policies and procedures are applied fairly and consistently and in ways that promote equal opportunities and do not disadvantage employees
	4	Ensure a skilled workforce and training in Orkney to optimise opportunities in the renewable sector
	5	Greater sensitivity by employees to the diversity of service users and colleagues and to equality issues
	6	Improve access to the democratic process
	7	An increased proportion of council and education authority communication adheres to the principles of inclusive communication good practice standards
	8	Ensure there are no barriers for looked-after children and young people for opportunities within education.

Source: Annual Equalities report 2017, Orkney Islands Council

46. The gender imbalance across the councillors is also notable. Following the 2017 election, of the 21 councillors, three are women. Before the election, officers identified low numbers of female candidates and supported a female councillor to write a press article to encourage more women to stand. This had a positive impact and increased the pool of female candidates. The council should consider further why the proportion of women candidates is low and how it can influence this for the future.

Part 2

How well is the council performing?



The council's services are working hard to deliver its priorities for the community and citizen satisfaction levels are high, but the council still needs to drive improvement in service performance

The council carries out a lot of work across its services towards achieving its priorities. Although measurable outcomes are not evidenced, the focus is clearly on delivering a positive impact for the community.

Satisfaction with most services has remained high and the council has some of the highest satisfaction scores in the country.

Service inspections have tended to be positive, particularly within the education service.

Improvement in service performance has tended to be slower in Orkney Islands Council, when measured against the Local Government Benchmarking Framework indicators, than comparable councils.

The council works hard to achieve its strategic priorities. However, the links between activities and measurable outcomes for communities are not clearly demonstrated

47. The council's strategic priorities are set out in [Exhibit 4 \(page 14\)](#). For each priority there is a programme of projects, activities and actions. Completing each of these will contribute towards achieving the objectives of the strategic priorities. Progress against the council plan is reported to the policy and resources committee every six months.

48. The council does not clearly demonstrate how its actions and activities have contributed to improved outcomes for the community. In the absence of this information, our report focuses in the following paragraphs on some of the council's actions and activities that may contribute to delivering improved outcomes to communities for each of its priorities.

Care and support for those who need it

Orkney Islands Council has worked well with NHS Orkney to improve the residential care facilities for children in its care and secure foster

placements for children with greater support needs. It is also taking early steps to increase residential care capacity on the Mainland in anticipation of an increasing ageing population

49. From 2010/11 to 2015/16, the proportion of children in the council's care who were being looked after in a community rather than residential setting had declined by over six per cent. In 2015/16, performance in this indicator was the lowest in Scotland at 71 per cent. However, this statistic relates to a small number of children compared to other council areas. At 31 July 2016, Orkney had the smallest number of looked-after children compared to other Scottish councils. In 2015, the Orkney Health and Care Service, a partnership between the council and NHS Orkney, opened a new children's house. This replaced the previous facility with a more modern setting and provides a total of four residential accommodation places for children. A successful intensive fostering project was piloted from 2014–17. Two full-time professional foster carers were recruited for three looked-after children who required more intensive levels of care and support. Two of the children were previously in residential care. The council states it is looking towards the permanent establishment of this service.

50. The overall population of the Orkney Islands is projected to increase over time, with an increasing proportion being elderly people. The council is facing challenges to meet the growing demand for residential care accommodation and care at home services. It is in the process of increasing its capacity to deliver residential care and is due to open new care homes in Stromness in 2019 and in Kirkwall in 2021. This is intended to meet the demand that will be placed on the service by the projected ageing population. The care homes will also provide support to those with higher dependency needs.

51. The percentage of over-65s with intensive care needs receiving care at home declined between 2010/11 and 2015/16. In 2015/16, this figure was below 24 per cent which was the fourth lowest in Scotland. In 2017, a joint inspection report by the Care Inspectorate and Healthcare Improvement Scotland highlighted that there are capacity issues within the care at home service.

52. Between 2013 and 2016, satisfaction with adult social care and social work was the second highest in Scotland, at 72 per cent. Similarly, the council was ranked third highest in Scotland, with 86 per cent of adults receiving care or support, rating it as excellent or good. This had declined from the previous year where the council ranked highest in Scotland for this indicator with 92 per cent.

53. A number of inspections have been conducted by the Care Inspectorate since 2013, including inspections of services for children and young people in Orkney, the Care at Home Service, services for older people in Orkney, as well as inspections of individual care homes. These have been generally positive.

Promoting successful, thriving communities

The council is seeking to involve remote island communities in some aspects of service delivery, increasing employment within these communities. As part of this strategic priority the council is also making positive progress towards improving outcomes for young people through enhanced experiences while they are in education

54. From 2004/05 to 2014/15 the fragility⁴ of the Orkney Islands increased⁵. The council has recognised this within this priority, emphasising local communities participating in delivering some services.

55. The council has delivered a successful 'Empowering Communities' pilot project to support some council services to be delivered at a more local level. This is outlined in [Case study 3 \(page 44\)](#). The council also has a Community Development Fund which supports community-based projects. An example is the refurbishment of the Kelp Store in Papa Westray. The council contributed 50 per cent of the funding towards the project from its Community Development Fund to refurbish the building, which is used as a heritage and craft centre and for local events.

56. The education service has a history of good performance. The 2015 refresh of the council plan included a range of objectives aimed at improving outcomes for children through education. As part of this the council is currently developing an initiative called the 'Orkney Offer'. The aim is to allow senior school pupils to have vocational as well as academic experiences while at school to allow them to develop skills and enter positive destinations. One such 'offer' being developed is the 'Foundation Apprenticeship'. This involves college study and a work placement while still learning at school, and could allow the pupil to achieve the first year of a modern apprenticeship by the time they leave school. This also helps develop a skilled workforce within Orkney.

57. Since 2012, Education Scotland has inspected eight primary schools (all of which included early years establishments that were also inspected), one secondary school and one nursery. These have been positive and reflect the high quality of the education service within the Orkney Islands. During this period only one of these schools required follow-up visits to resolve issues identified in relation to working relationships, meeting children's learning needs, self-evaluation and religious observance. Improvements to these areas were subsequently made to the satisfaction of the inspectorate.

58. Adult satisfaction with local schools in the Orkney Islands was consistently the highest in Scotland between 2010/11 to 2015/16. Pupil attainment has improved over time, measured by attainment of five or more awards at levels 5 and 6.⁶ In 2015/16, attainment at level 5 was 64 per cent which was above the Scottish average of 59 per cent. In the same year, attainment at level 6 was 28 per cent which was below the Scottish average of 33 per cent. Between 2010 and 2016, the proportion of pupils entering positive destinations improved, but in 2015/16 performance in this indicator was 91 per cent, which was below the Scottish average of 93 per cent.

Housing to meet the needs of Orkney's people

The council has increased its social housing stock in recent years. Fuel poverty remains an issue, particularly in the outer islands, and the council has developed a strategy and action plan to address this issue

59. The demand for affordable housing has been increasing in the Orkney Islands in recent years. The council also has the highest level of fuel poverty in Scotland, which is in part due to the standard of housing stock as a result of its age and condition.

60. The council has performed well in terms of increasing the availability of social housing on the Mainland. Between 2009 and 2015, the council reported that a total of 466 social houses were built (by both Orkney Islands Council and Orkney Housing Association Ltd). However, only ten of these were built on the outer islands. Between 2010 and 2016, the council built 208 properties distributed on the Mainland and the isles of Westray and Sanday where the demand for social housing is higher. Demand is lower in other islands, for example, on Hoy and

Flotta, where the current housing stock is greater than the need, a programme of sale is in progress. The council is working well to increase the provision of affordable housing in the Orkney Islands. In March 2017, the council reported that, out of a target of 35, it had built 24 new affordable houses since April 2016, all of which were social rented houses. Furthermore, the council reported that 32 private properties were being built under the Scottish Government's new Help to Buy Scheme. In 2015/16, the council reported that 51 affordable houses had been built between Orkney Islands Council and Orkney Housing Association Ltd.

61. As part of its council plan, the council also increased the availability of supported accommodation for young homeless individuals in 2015 by providing an additional six accommodation units.

62. The council has performed less well in tackling the issue of fuel poverty, which it set out to do through improving heating and insulation in both social and private housing stock. The Scottish House Condition Survey found that between 2013 and 2015 the Orkney Islands had the highest levels of fuel poverty in Scotland. The high level of fuel poverty is linked to a range of factors including, the low average household income, the cost of heating as a result of no mains gas, the harsh climate, and the age and condition of housing stock. There are higher levels of fuel poverty in the outer islands, where living costs are higher and the housing stock is older. The council developed a Local Housing Strategy for 2011-16, one of the key priorities of which was to eradicate fuel poverty by 2016. However, fuel poverty rates are still high. The council has established a new fuel poverty strategy to cover the period from 2017 to 2022. This sets out an action plan for tackling this issue and aims to reduce levels to the Scottish average by 2022, and eradicate fuel poverty by 2032.

63. The council has made progress in bringing council housing standards raising to meet the Scottish Housing Quality Standard. This is the Scottish Government's measurement of housing quality in Scotland and sets the minimum standard for social housing quality. Performance in this indicator improved by 63 per cent between 2010/11 and 2015/16. In 2015/16, however, the council still had the second worst performance for this indicator at less than 86 per cent. In addition, in 2015/16, 89 per cent of council dwellings were energy efficient in the Orkney Islands. This was the second lowest performance in Scotland. The energy efficiency of houses has improved by over 58 per cent in the Orkney Islands between 2010/11 and 2015/16.

64. In 2016, the council conducted a tenant satisfaction survey. This found that 87 per cent of respondents were very, or fairly, satisfied with the overall service provided by the council's housing service. This compares to a figure of 88 per cent in 2013.

A low carbon Orkney – renewables, energy and opportunity

The council is taking positive steps towards reducing carbon emissions in the Orkney Islands

65. The council has performed well in reducing carbon emissions through a proactive approach to implementing low carbon technologies. However, its island context makes it challenging to reduce at the same rate as other councils. Carbon emissions within the Orkney Islands reduced by over 24 per cent between 2004/05 and 2014/15; according to the Improvement Service's Community Planning Outcomes Profile. Nationally this reduced by over 34 per cent during the same period. In 2014/15 Orkney's figure was 10.5 tonnes per capita compared to the Scottish average of 5.7.

66. The council continues to be involved in a number of projects which are investigating the use of low carbon technologies. One example is the Surf N Turf Project which is currently in the early stages of examining the generation of hydrogen from locally produced tidal and wind energy to be used as a fuel source, including providing energy for the council's ferries. In 2011, the council provided funding, along with the European Regional Development Fund, to develop the quay area of Lyness for use in Orkney Islands marine renewables industry. In 2014, the council received funding for an electric bus to introduce low carbon public transport and use locally produced renewable energy.

67. The council is exploring several strategic projects focused on energy generation from renewable technologies. One example being considered is whether to establish an Orkney energy company with the council being the project developer. The aim is to offer a community tariff to reduce heating costs and therefore contribute to reducing fuel poverty. It is also anticipated that the approach could contribute to reduced carbon emissions and generate income for the council.

68. In partnership with Highlands and Islands Enterprise, the council is in the process of developing a Research and Innovation Campus. The aim is to develop the marine renewables industry in Orkney and contribute to the developing 'Orkney Offer' through academic and employment opportunities. [Case study 1 \(page 37\)](#) discusses this further.

Orkney's economic development

The council is innovative and diverse in its approaches towards improving Orkney's economy

69. The employment rate in Orkney improved between 2004/05 and 2014/15 and sits above the Scottish average. During this time weekly earnings increased, however these remain lower than the Scottish average.

70. The council is performing well in improving Orkney's economy and is involved in a wide range of projects targeted towards this. These range from projects to develop tourism, the academic research and renewable energy sectors to promoting the local food and craft industries. A significant aspect of the work to promote the economy has centred on marine services. Examples of this include commercial fishing, crude oil processing at the Flotta Oil Terminal, ship-to-ship crude oil transfer operations and associated discharge of ballast water in Scapa Flow. The Orkney Islands have experienced year-on-year growth in the cruise industry and 135 cruise ships, carrying 113,085 passengers, arrived in 2017. The council, with its partners Highlands and Islands Enterprise and Historic Environment Scotland, commissioned a study in 2016 to investigate factors that may impact on the growing tourism industry in Orkney. The council plans for this to feed into a wider tourism management strategy.

71. The percentage of council procurement spent in local businesses increased between 2010/11 and 2015/16. In 2015/16, this was the second highest level in Scotland at over 44 per cent compared to the national average of below 20 per cent.

72. The number of Business Gateway start-ups per 10,000 of the population declined between 2010/11 to 2015/16. Despite this, in 2015/16 the council had 19.8 Business Gateway start-ups compared with the Scottish average of 16.9.

73. Since 2013, as part of the council plan, the council has provided a number of work experience placements, modern apprenticeships and graduate traineeships. The aim is to help young and unemployed people gain skills to support them in employment. 'Foundation Apprenticeships' are also being developed by the council in schools, with a Health and Social Care Foundation Apprenticeship being offered in August 2016. The council reported that there was no uptake for this and have stated that it will develop this further to encourage people to take part.

Orkney's transport networks

The council considers the needs of communities when planning ferry and air services. Orkney's roads are some of the best in Scotland

74. Good transport links are of paramount importance to sustaining island communities, particularly the non-linked outer islands. This is recognised in this priority within the council plan.

75. The council has taken positive action towards identifying pressures on the inter-isles air and ferry transport services and consults with community councils on the scheduling of these services. The council continues to invest in its airfield infrastructure, including the resurfacing of airfield runways, installation of new fire-fighting equipment, and the construction of new terminal and garage facilities. In 2015, runways in Papa Westray's and Stronsay's airfields were resurfaced. The council has a proposed runway resurfacing maintenance programme with provisional work planned until 2027/28. An inter-island transport study was also carried out in 2016 on behalf of the council and its partners, Highland and Islands Enterprise, Transport Scotland and HITRANS. This involved community consultation and has helped to identify issues concerning transportation within the island communities. The final published report includes options appraisals for each of the islands.

76. As part of the Our Islands – Our Future agenda [Case study 2 \(page 41\)](#), Orkney and Shetland Islands councils have pursued changes to the funding of ferry services. The Scottish Government has committed to the principle of 'fair funding' for Orkney and Shetland councils' inter-island ferry services⁷ and discussions on this issue continue. In August 2017, the Scottish Government announced that lower fares will be introduced from 2018 for services between the islands and the Scottish mainland, bringing Orkney (and Shetland) more in line with the arrangements currently in place with other island authorities.

77. The council had the best scores in Scotland for the percentage of B and C-class roads requiring maintenance from 2014 to 2016. The council was also ranked sixth for A-class roads during this time. From 2012 to 2016, the council was ranked best in Scotland for unclassified roads requiring maintenance. In 2015, the council funded and constructed a new road infrastructure for the new hospital in Kirkwall. It is currently completing flood resilience works in Kirkwall to improve the protection of the town's centre and road links from coastal flooding in periods of adverse weather.

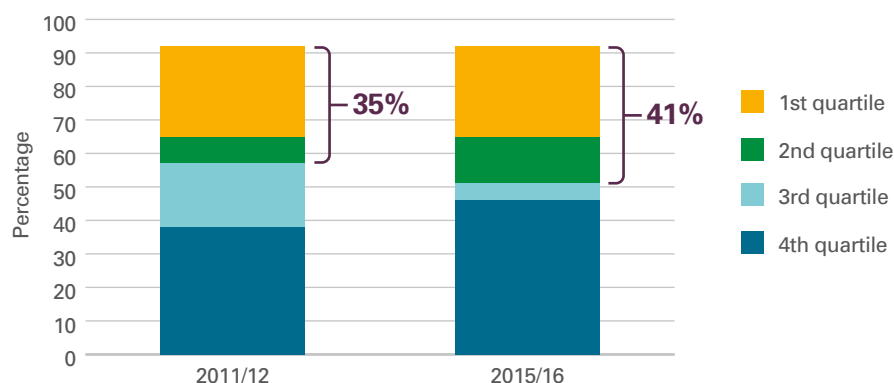
Orkney Islands Council's improvement in service performance has been mixed in recent years

78. When measured against the Local Government Benchmarking indicators, Orkney Islands Council's performance improved between 2010/11 and 2015/16. Over this period, the percentage of comparable performance indicators in the top two quartiles improved from 35 per cent to 41 per cent. The percentage of performance indicators in the bottom quartile increased during this period from 38 per cent to 46 per cent ([Exhibit 6](#)).

Exhibit 6

Comparing Orkney Islands Council's performance over time

The percentage of Orkney Islands Council's comparable performance indicators in the top two quartiles increased from 35 per cent in 2010/11 to 41 per cent in 2015/16.



Note: Measuring council performance involves considering a range of how all councils are performing, from lowest to highest for each indicator. From this it is possible to see how one council compares to all councils. Relative performance against other councils is divided into four equal bands, or quartiles. The first quartile contains the best-performing councils for that indicator and the fourth quartile includes the poorest-performing councils.

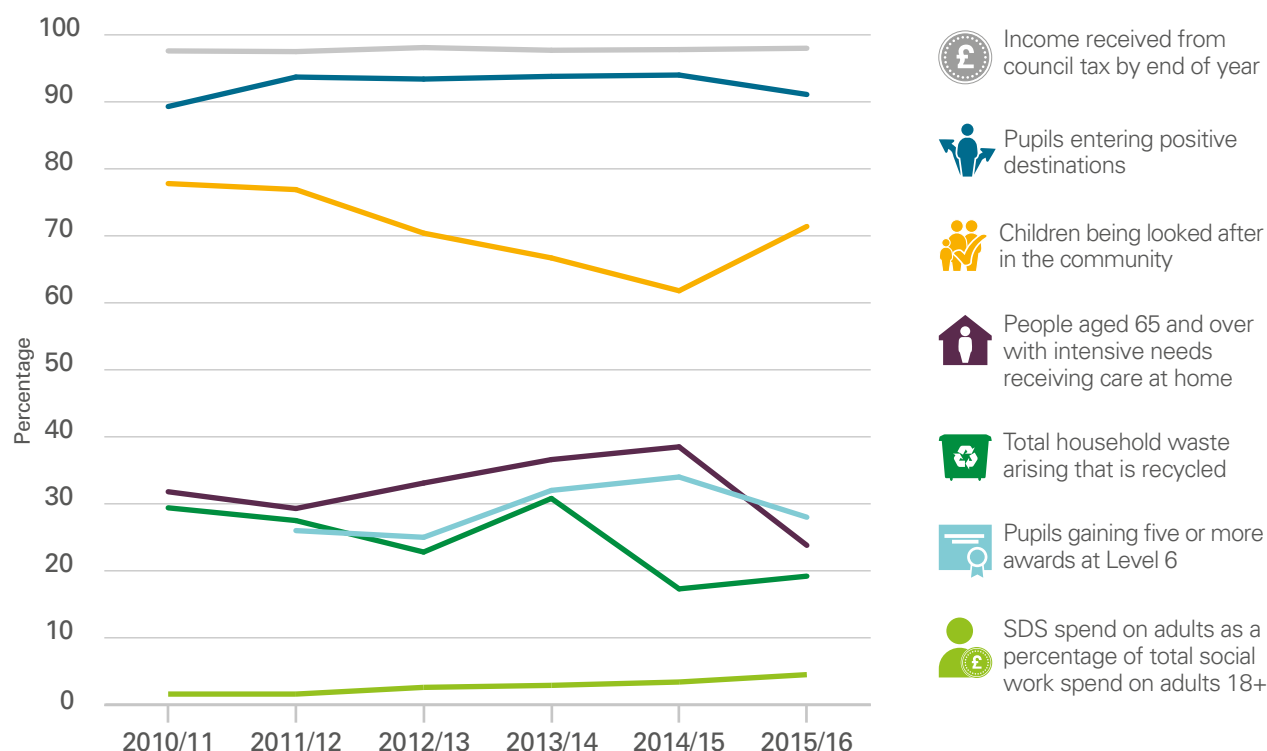
Source: Audit Scotland; and *Local Government Benchmarking Framework*, Improvement Service, 2015/16

79. The Accounts Commission's report, [Local government in Scotland: Performance and challenges 2017](#)  found that over the last five years Scottish councils' performance has been maintained or improved. This was based on selected Local Government Benchmarking Framework (LGBF) measures that give an indication of council performance in key service areas for the public. Orkney Islands Council improved in four of these indicators and declined in three ([Exhibit 7, page 27](#)).

Exhibit 7

Orkney Islands Council's performance against selected indicators 2010/11 to 2015/16

Orkney Islands Council's performance has improved on the four of these indicators over the last five years.



Note: SDS = Self-directed support.

Source: Audit Scotland; and *Local Government Benchmarking Framework 2015/16*, Improvement Service

80. The LGBF also allows councils to compare their performance against a range of indicators of service delivery to the Scottish average. Councils with similar profiles are also arranged into family groups which are based on factors such as population density and levels of deprivation. This allows councils with similar characteristics to compare and benchmark performance. Compared to the Scottish average for 2015/16, Orkney Islands Council displays below average performance for six of the seven selected indicators ([Exhibit 8, page 28](#)). Relative to its family group, the council tends to sit on the lower end for performance in most of the selected indicators ([Exhibit 8](#)). There has been a mixed picture in terms of the rate of the council's improvement in performance between 2010/11 and 2015/16. In comparison with the family groups, relative improvement has generally been slower than for other councils. However, it is important to take account of the council's islands context and small scale when comparing performance to the Scottish average and to its family groups.

Exhibit 8

Orkney Islands Council's performance relative to the Scottish average and family group, 2015/16

	Indicator	Orkney Islands	Scotland	Family group ¹	% point change (2010/11-2015/16)
Family group based on levels of deprivation	Percentage of pupils gaining 5+ awards at Level 6 or higher ²	28%	33%	Performance ranges from 28% to 62%	Orkney Islands Council 2% (performance improved) Scotland 7% Family group ranges: 2% to 12%
	Self-directed support ³ spend on adults 18+ as a percentage of total social work spend on adults 18+	4.5%	6.7%	Performance ranges from 2.6% to 7.9%	Orkney Islands Council 2.9% (performance improved) Scotland 5.1% Family group ranges: 1.2% to 7.6%
	Percentage people aged 65+ with intensive care needs receiving care at home	23.8%	34.8%	Performance ranges from 20.4% to 43.8%	Orkney Islands Council -8.0% (performance declined) Scotland 2.5% Family group ranges: -19.8% to 16.5%
	Children being looked after in the community	71.4%	90.4%	Performance ranges from 71.4% to 95.4%	Orkney Islands Council -6.4% (performance declined) Scotland -0.6% Family group ranges: -6.4% to 3.2%
	Pupils entering positive destinations	91.1%	93.3%	Performance ranges from 90.3% to 97.5%	Orkney Islands Council 1.8% (performance improved) Scotland 3.4% Family group ranges: 1.8% to 6.3%
Family group based on population density	Percentage of income due from council tax received by the end of the year	98%	95.7%	Performance ranges from 95.6% to 98%	Orkney Islands Council 0.4% (performance improved) Scotland 1% Family group ranges: -0.2% to 1.3%
	The percentage of total household waste that is recycled	19.2%	44.3%	Performance ranges from 9.2% to 47.1%	Orkney Islands Council -10.2% (performance declined) Scotland 5.6% Family group ranges: -11.1% to 14.7%

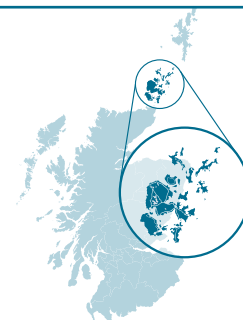
Notes:

1. Family group based on deprivation – Orkney Islands, Aberdeen City, Aberdeenshire, East Dunbartonshire, East Renfrewshire, Edinburgh City, Perth and Kinross and Shetland Islands. Family group based on population density – Orkney Islands, Aberdeenshire, Argyll and Bute, Dumfries and Galloway, Eilean Siar, Highland, Scottish Borders and Shetland Islands.
2. 2010/11 data was not available for this indicator, therefore data ranges from 2011/12-2015/16.
3. Self directed support (SDS) aims to give individuals who receive social care support, along with their carers and families, more choice over how their social care support is delivered. This is intended to improve outcomes for the individual.

Source: Audit Scotland; and *Local Government Benchmarking Framework*, Improvement Service, 2015/16

Part 3

Is the council using its resources effectively?



The council has been slow to develop some of the essential tools for ensuring it uses resources efficiently. It has made better progress in the last few years and needs to maintain this pace of improvement

The council has substantial reserves for its size and compared to other councils. These have increased significantly over the last six years. Using its reserves has allowed the council to meet short and medium-term budget pressures and thus, to a degree, protect front-line services.

The council has been slow to develop medium and long-term financial planning, workforce planning, asset management planning and its digital and IT arrangements. It has made better progress over the past three years and it needs to continue this pace of improvement to ensure that it makes the best use of public money.

The council should prepare longer-term financial plans to ensure the sustainability, feasibility and practicalities of current spending plans, and to show that dependency on the Strategic Reserve Fund, to subsidise service delivery, is limited to the short term.

The council's financial management is effective, and it now has a good medium-term financial strategy

81. The council has effective internal financial management arrangements in place and has improved its financial planning since our Best Value report in 2008.

82. Councillors have a key role in agreeing the council budget each year. All councillors receive training annually on the budget process to ensure they fully understand underlying assumptions and implications of the spending decisions they make.

83. Detailed scrutiny of financial performance is delegated to the policy and resources committee. The committee reviews the council's quarterly revenue and capital monitoring financial reports. These provide a good overall picture of the budget position at service level but are typically three months out of date by the time councillors on the committee review them. Nonetheless councillors are generally content with the reports they receive.

84. In 2008, there was no evidence of a link between budgets and corporate priorities and this continues to be the case. To comply with good practice, the priorities of the council that are set out in the council plan should feed into the allocation of revenue and capital resources for each service. This will ensure that the council optimises the use of resources at its disposal.

85. The council has been slow to respond to the need to prepare medium to long-term financial plans due to its strong financial position. The level of usable reserves held by the council has increased significantly over the last six years and this has enabled the council to fully fund service costs up to now and plans are in place for this practice to continue in the short term.

86. In 2014/15, the council prepared a four-year Medium-Term Resource Strategy (MTRS) for the period 2015/16 to 2019/20 which was approved by the policy and resources committee in February 2015. Since then the strategy has been updated annually and the current MTRS now covers the five-year period of 2017/18 to 2021/22. The MTRS includes different scenarios and is based on reasonable assumptions. It also provides a framework to enable the clear alignment of resources to the council's spending priorities.

87. The council has not yet developed a longer-term financial plan. Longer-term financial planning would ensure the sustainability, feasibility and practicalities of current spending plans. The council accepts that longer-term financial plans are essential to ensure that funds are used to deliver the priorities of the council and that reserves continue to provide benefit for the people of Orkney in the way intended. The council has advised that capacity issues are preventing progress with longer-term financial planning.

88. The council has a high level of financial reserves that it has relied on, to some degree, in meeting financial pressures and protecting front-line services. While the reserves have been used to supplement local government funding allocations, the council has still had to make some difficult decisions. Over the past six years the council has made £10.6 million in savings, including almost halving the senior management team. The council approved its 2017/18 budget in February 2017. The budget was set at £82.4 million with confirmed Scottish Government revenue funding to the council for 2017/18 of £67.1 million. This leaves a funding gap of £15.3 million. The council has agreed to fund £7.4 million of the gap from reserves and the remainder will be met through income, fees and charges, and efficiency savings.

89. The council's budget information and financial projections for 2017/18 to 2021/22 forecast a likely funding gap of £12 million over the five years. Detailed proposals on how to achieve savings of £12.0 million, which are additional to the budget savings of £10.6 million that have been delivered by the council since 2011/12, are under development. Plans to bridge part of the gap have been identified including savings generated from delivery of the council's change programme.

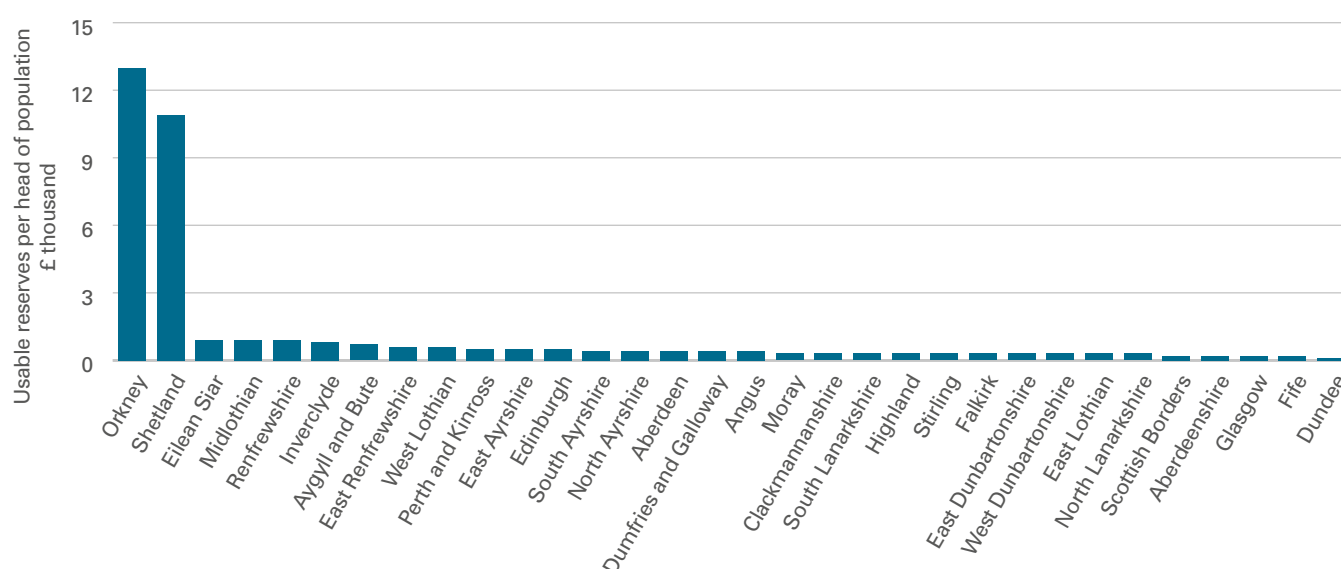
90. One of the key measures of the financial health of a council is the level of financial reserves it holds. Orkney Islands Council has been in a strong financial position over a number of years with increasing levels of usable reserves. Councils can use usable reserves for a variety of purposes such as funding one-off revenue or capital costs and cushioning the impact of reductions to budgets.

91. The total reserves the council holds has increased from £455.49 million in 2012/13 to £547.25 million in 2016/17. At the same time, the level of usable reserves the council holds has increased from £225.99 million in 2012/13 to £260.85 million in 2016/17. The level of reserves the council holds is significant for its size and it has one of the highest levels of usable reserves per head compared to all other Scottish councils, as illustrated in [Exhibit 9](#).

Exhibit 9

Usable reserves position per head of population by local authority

Orkney Islands Council, based on entity accounts, has the highest level of usable reserves per head of population in Scotland; Shetland Islands Council has additional significant funds in a charitable trust.



Source: Councils' unaudited entity accounts 2016/17; Audit Scotland

92. Close to 90 per cent of the usable reserves are in the council's strategic reserve fund. The strategic reserve fund is an investment fund with the purpose to provide for the benefit of Orkney and its inhabitants. It was established under the Orkney County Council Act 1974. It includes investment returns from surplus funds relating to harbour fees from the Flotta Oil Terminal and previous payments made by the terminal operators. The fund's investments have performed well with an overall increasing trend in value.

93. The council is facing rising demands for services, increasing costs, and reductions in central government funding. In recent years, the council has approved contributions from the fund to supplement its funding from the Scottish Government and local taxes raised through council tax and non-domestic rates. This means that the council has used the strategic reserve fund to help prevent some cuts to services for the people of Orkney.

94. Although the strategic reserve funds are substantial, the council does not plan to rely on these for managing funding pressures in the longer-term (five years and beyond). It does plan to use them in the short (one year) to medium term (up to five years) to lessen the impact of change and savings it will have to make over the coming years.

95. The high level of reserves further supports the need for long-term financial planning to ensure that funds will be used to achieve strategic aims and benefit the people of Orkney.

Arrangements are in place for managing the council's investments

96. The council has an investment strategy which is updated on an annual basis. In 2016/17, £185 million of the council's funds were managed by externally appointed fund managers who are required to comply with the council's investment strategy. The investment management agreements between the council and the fund managers stipulate guidelines on the duration and limits on types of investment, in order to contain and mitigate associated risks.

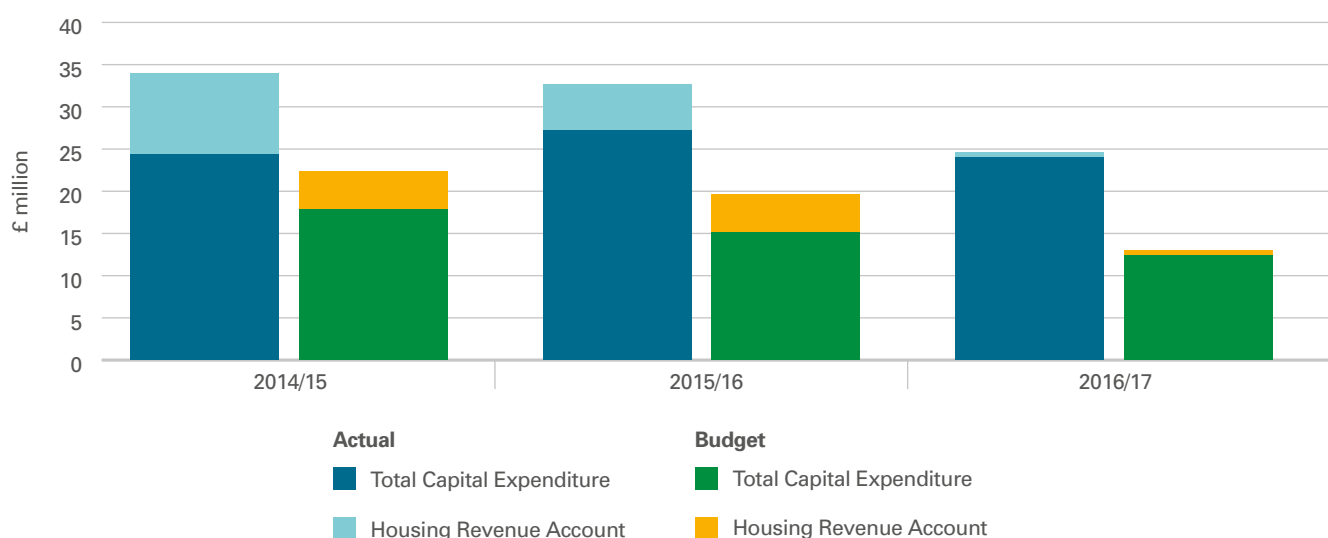
97. The council's overriding objective is to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The performance of the managed funds for the Strategic Reserve Fund is closely monitored.

The council has a history of not completing capital projects on time

98. The council's comfortable financial position has allowed it to be ambitious in agreeing its capital programme for a number of years. However, the desire to invest heavily in capital projects (such as new buildings or transport infrastructure) has been difficult to fulfil due to limited capacity. This has resulted in the council having a history of slippage, that is not completing capital projects and applying the allocated budgets within the planned timeframe. [Exhibit 10](#) demonstrates the level of slippage in the capital budget since 2014/15.

Exhibit 10

Capital slippage compared to budget (General Fund and HRA)



Source: Orkney Islands Council

99. To deal with the slippage the council, in 2015, established a new capital programme management team, undertook a detailed review and revision of its capital project monitoring processes, and has prepared a revised capital investment plan to reflect current timescales for completing individual capital projects. The council should ensure that slippage and rescheduling of general fund capital projects does not have a significant impact on strategic priorities that rely on capital projects being completed on time.

The council has been slow to develop its approach to corporate asset management planning

100. A council must manage its assets, such as buildings, land, vehicles and equipment, effectively to make the best use of public resources in delivering quality public services. Orkney Islands Council has been slow to develop structured and systematic arrangements for corporate-wide asset management.

101. While the council's corporate asset management plan has been in place since 2013, the council has recently improved its corporate asset management planning process through its capital planning and asset management strategy group. A management framework has been established to improve the integration of asset management planning and investment decisions.

102. The framework ensures that asset management planning is dealt with at a sufficiently senior level. The senior management team, acting as a capital working group, is chaired by the chief executive. The group provides oversight of the management of corporate assets within the council and ensures that all asset management decisions are made from a strategic level perspective.

103. Detailed asset management plans underpin the council's corporate asset management plan. Work is ongoing to refine these plans and to ensure a revised corporate asset management plan is in place when the current plan expires in 2018.

Workforce planning has been slow to progress but a foundation is now in place

104. In 2008, the council had a strategy in place for workforce planning and management but this was not implemented and the council has made limited progress since then. In 2010, the appointed auditors highlighted workforce planning arrangements as a key factor in the council's ability to respond to the tightening financial climate. In 2011/12, the council undertook a range of savings initiatives which included a management restructuring and a reduction in 81 staff posts but without a workforce plan in place. This means that the changes were made without a clear assessment of how the changes would impact on its ability to manage and deliver services.


105. In 2014, the council agreed a Human Resource Strategy 2014-18. This outlines the priorities for workforce planning but does not consider workforce needs, financial constraints and skills. The 2015/16 Annual Audit Report highlighted that progress against this strategy had not been reported to councillors. Since then, a progress update was provided to the council's human resources sub-committee in June 2016.

106. In June 2016, the policy and resources committee noted that the need to reduce workforce costs was critical to making anticipated budget reductions. In the autumn and winter of 2016/17, service level workforce plans and an

In December 2016 the council had a total of 2,044 staff, including 311 teachers. The council also employs around 270 relief workers

Source: Orkney Islands Council

organisation-wide plan were produced and agreed by the relevant committees. These recent workforce plans are basic but provide a starting point for the council to develop richer workforce planning. This ought to include detailed information on skills requirements, capacity-building, training and development, succession planning and long-term forecasting, to support the change programme.

107. The Accounts Commission's [*Local government in Scotland - performance and challenges 2017*](#)  report highlighted the need to plan and manage reductions to council workforces. Failing to do this can affect the skills mix and ability of the organisation to deliver services effectively. This is particularly important for Orkney Islands Council, which has specific contextual issues to consider, including:

- An ageing population and workforce profile, which creates a growing demand for some services and an increasing challenge to recruit and retain staff to meet this need. Approximately 45 per cent of the council's staff (627) are over 50 years of age. Over the past five years the number of FTE staff aged 60-64 has increased from 78.3 to 128.7, those aged 65 to 69 has increased from 8.5 to 30.7, and those aged 70 and over has increased from 2.1 to 6.
- The council's small scale (1,523 FTE staff in March 2017) has inherent staffing challenges. Losses of a few staff can have an amplified effect on the capacity of teams and the skills range, particularly when individual officers have sole lead and knowledge of an area of work.
- The impact on the community as the largest employer on the Islands.

Sickness absence rates have increased

108. Sickness absence rates have compared favourably to national rates in recent years. However, in 2015/16, the average number of days lost rose from 6.5 to 8.1 days for teachers (national average of 6.1 days), and from 8.8 to 9.3 days for other employees (national average of 10.6 days).

109. The council has improved its arrangements for managing sickness absence. A new policy was agreed in July 2016 and the council actively monitors this with regular reporting to committees.

Information technology has been a long-term challenge for the council but recent changes have resulted in progress.

110. Information technology (IT) has been a long-term challenge for the council. Its wider digital strategy for delivering digital services to its communities, such as customer booking or requests through its website, has also been slow to progress. The main issues for the council since our 2008 Best Value report have included staff and skills shortages and an under-investment in infrastructure in the last seven years.

111. Responsibility for IT was transferred in 2016 from the chief executive office to the executive director of corporate services. The executive director of corporate services extended the job designation and remit of the head of facilities to include IT which increased management capacity.

27 per cent of teachers and 31 per cent of other staff are aged between 45 and 54 years

Source: Orkney Islands Council

112. The increase in management capacity has resulted in delivering positive changes, including monitoring and reporting on performance of the service, and completion of the IT Strategy and the Digital Strategy. The service team structure is now being reviewed (including consideration of new more flexible ways of working) to support delivery of the IT Strategy and the Digital Strategy.

113. The IT service manager has reviewed the infrastructure and has identified a proposed IT Capital Replacement Programme allocation for financial years 2017/18 and 2018/19 including replacement servers and networks. This work started on 1 April 2017, building on the preceding capital replacements programmes.

The council has improved arrangements to ensure it complies with the Code of Guidance for funding external bodies

114. Local authorities have a statutory responsibility to comply with the Accounts Commission/COSLA Code of Guidance on funding external bodies and Following the Public Pound (FtPP).

115. Council financial regulations contain a section on FtPP. These emphasise that services must follow the council's guidance for allocating funds to external organisations. The guidance applies where funding is provided, or transferred, to arm's-length bodies such as a company, trust or voluntary organisation.

116. In 2008, we reported that accountability arrangements for arm's-length bodies funded by the council needed strengthening. The council has demonstrated improvement since the last Best Value report. The principles of the Code of Practice on Following the Public Pound are generally being followed and some areas of good practice are evident. Board members now regularly receive service and financial performance reports and training is provided to ensure members fully understand their role in relation to arm's-length organisations.

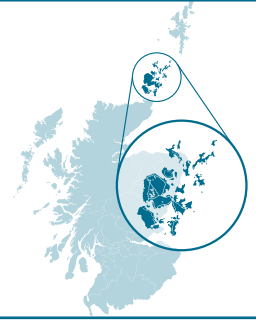
117. The following companies are regarded as arm's-length organisations through their association with the council:

- Orkney Towage Company Limited and Orkney Ferries Limited – the council holds 100 per cent of the shares in these two companies, which are managed by the executive director development & infrastructure. Responsibility for towage operations was transferred to the council in 2016 to improve accountability as well as safety management of towage operations. Towage performance is monitored through development and infrastructure service specific performance indicators.
- The Pickaquoy Centre Trust is a charitable trust formed in 1999 to provide leisure facilities within Orkney Islands Council's area to the general public. An internal audit review performed in 2015/16 found that some aspects of good practice were evident but improvements could be made, both with regard to the service agreement and to the operating arrangements between the council and the trust.

118. The improved arrangements will be further explored and reported on during the remaining period of our audit appointment.

Part 4

Is the council working well with its partners?



The council works well with its partners and communities. There is still more to be done, however, to harness the potential of the Community Planning Partnership

The council has a long-standing culture for working closely with local partners.

The integrated arrangements for health and care, through the Integration Joint Board (IJB), have been established effectively and it is functioning well.

Revised arrangements for the Orkney Community Planning Partnership are not yet demonstrating their potential for improving outcomes for the community.

The council has maintained a steady pace in developing its engagement and more recently its empowerment arrangements. There are examples of good community engagement and empowerment.

The council works effectively with the other Islands councils on issues they have in common.

The council has a long-standing culture of working closely with local partners

119. The council has a history of working effectively with local partners, including: other public sector organisations, the third sector, private sector and with the local community. The council works closely with others at both a strategic level and at the front-line of service delivery.

120. The OCPP is not yet fulfilling its potential as the driving force for improving outcomes for Orkney. We explore this further in [paragraphs 136–141](#) and outline progress since the Accounts Commission published a report about [Orkney Community Planning Partnership in 2014](#) . However, the council works well with partners on common priorities. For example, the council works closely with Highlands and Islands Enterprise Orkney (HIEO) on promoting economic prosperity.

121. The council has a history of working effectively with the local enterprise body. Partnership working is helped by the co-location of the council's Business Gateway staff with HIEO, in an office near council headquarters. The two bodies have worked closely on projects ranging from major oil and shipping programmes such as Flotta Oil Terminal, ship-to-ship transfer in Scapa Flow, to promoting

'Orkney the Brand' for products and produce made in Orkney. HIEO has increasingly worked with the council on issues such as Orkney's internal ferry and transportation services, tourism, housing and the energy and renewables sector.

[Case study 1](#) outlines an example of the joint work to develop the energy and renewables sector in Orkney.

Case study 1

Orkney Research and Innovation Campus



Orkney Islands Council and Highlands and Islands Enterprise have entered into a partnership agreement to establish a research and innovation campus in Stromness. Funding for the campus has been agreed: HIE up to £5.15 million, OIC £1.5 million, and the Scottish Government and COSLA have awarded £0.5 million, from the Regeneration Capital Grant Fund. The council is transferring ownership of old Stromness Academy and Primary School to the project. The schools will be refurbished to form part of the campus. The work is planned to begin in 2017/18. The vision for the 3.75 acre campus is to:

- support the growth of existing research and innovation activity
- support the expansion of companies in Orkney's marine renewables, energy and low carbon sector
- attract academic institutions and businesses with an interest in carrying out a wide range of research projects in an island setting including energy resources, transport needs, culture and economy.

In addition to the economic benefits for the islands, the aim is that by growing existing businesses and with the creation of new enterprises this will provide more opportunities to attract and retain young people looking to live, work and study in the islands.

Source: Orkney Islands Council, Audit Scotland

122. The council and partners recognise the need to identify opportunities to save public money and improve services through shared arrangements. In addition to the co-location with HIEO, the council also shares accommodation with Police Scotland in Stromness. The Warehouse Building opened in May 2015. It includes council customer services, registrar services, library services, and provides office space for police and council staff, and a shared public counter service.

123. In the spring of 2017, the OCPP established a Property Asset Management and Use short-life working group. The group is reviewing how public-owned properties can be used more effectively. This includes shared use, joint service arrangements and ensuring arrangements are in place so that one partner does not sell a building that could be of use to another, or build premises without considering the opportunities for joint approaches with partners.

124. The council continues to recognise the value of working closely with the third sector, for example with Voluntary Action Orkney (VAO), an umbrella organisation for many of the third sector bodies in Orkney. The council commissions services from VAO for volunteer management and for a counselling

centre. In 2016/17, the council approved maintaining a one per cent increase in annual grants to the third sector. The council and the wider OCPP support the third sector to build and maintain local initiatives that contribute to community wellbeing, such as activities for older people.

125. The council and the OCPP also use the different knowledge and skills available through the third sector to assist engagement with specific service user groups and communities. An example of the partnership's approach to community engagement and empowerment led by VAO is illustrated in [paragraph 151](#).

126. The council has a constructive and positive working relationship with NHS Orkney. It has started discussions with NHS Orkney about revisiting opportunities for shared service arrangements. The IJB is currently the only example of a shared service. Our audit work in the coming years will monitor how these discussions progress and any actions to share services.

The Integration Joint Board has been established effectively and is functioning well

127. The NHS Scotland 2020 vision emphasises enabling people to stay in their homes, or another homely setting, where possible. Bringing together NHS and local council care services in a partnership arrangement for each area is intended to contribute to this aim. Legislation to implement health and social care integration, passed by the Scottish Parliament in February 2014, came into force on 1 April, 2016. On the same date the Orkney Integration Joint Board (IJB) became operational.

128. The IJB has adopted a wider scope of services than required by the legislation. Its remit includes all social work and social care services for adults (including older people), for children and families, and for the criminal justice system. It is responsible for planning, commissioning and overseeing service delivery performance for the services delegated to it.

129. Since 2011, the council and the NHS board have worked effectively in a cooperative arrangement, through Orkney Health and Care Partnership. This meant that the IJB had a solid base from which to develop with well-established arrangements in place before the requirements to set up the IJBs. Nevertheless, changing the governance arrangements took a significant amount of time and effort to address and get in place. It is now clear that the IJB is functioning well.

130. Regular discussion forums are held between the chair and vice chair of the IJB, the leader of Orkney Islands Council, the chair of NHS Orkney, the two chief executives and senior officials, including the chief officer of the IJB.

131. The IJB demonstrates its commitment to delivering best value through a number of initiatives and agreed plans. An example is the plans and agreed budget in place for the Relocation of the West Mainland Day Centre from Stenness to the Smiddybrae Care Home in Dounby. Once complete the relocation of the centre will enable maintenance of existing levels of quality day centre provision, but relocated within a residential care home in order to benefit from economies of scale and sharing of resources and knowledge.

132. Overall the process of integration has gone smoothly, with no significant issues identified in the governance of the IJB.

IJB financial management arrangements are in place but are proving challenging

133. Spending was in line with the budget in 2016/17. This was achieved by reaching mutual agreement with the partner bodies to provide additional resources during the year.

134. The IJB's financial plans detail reductions of 2.5 per cent in the budgets for 2017/18 and 2018/19. The IJB is already finding it challenging to manage spending in line with the budget for 2017/18 and there are no arrangements in place for developing medium to longer-term financial plans.

135. It is important that the IJB develops robust plans to assist in addressing upcoming and future budget challenges. This is particularly important as it seems unlikely that further non-recurrent funds will be made available by partners to fund any further pressures.

Revised arrangements for the OCPP are yet to demonstrate the partnership is delivering its shared priorities

136. The OCPP arrangements and the engagement of partners have improved but it has been slow to make progress since it restructured in 2015.

137. In 2014, the Accounts Commission published a report on the OCPP. In its findings, the Accounts Commission expressed concern about tensions between the council and NHS Orkney impacting on progress. Relationships have improved. Since the report the council and NHS have worked effectively together to establish the IJB and on a range of other activities.

138. Our 2014 report also identified a number of areas for improvement. These included the need for the partnership to review and amend its structure, and to provide an effective framework for all partners to contribute to delivering the OCPP priorities. It also highlighted the need for all partners to take collective ownership of developing the OCPP's priorities. The Community Empowerment (Scotland) Act 2015 shifted the lead responsibility for community planning from the council to include other lead organisations, such as the NHS. It also put a duty on other public sector bodies to participate in community planning.

139. The partnership responded to the findings of the Account Commission's report. In our September 2015 Annual Audit Report, we reported that good progress was made in addressing the OCPP improvement agenda and highlighted that it was important that this continues. In 2015, the partnership streamlined its delivery groups from 18 to three to focus on three priorities it had identified in 2013/14. The thematic priorities are:

- Vibrant economic environment, led by Highlands and Islands Enterprise.
- Healthy and sustainable communities, led by NHS Orkney.
- Positive ageing, led by Voluntary Action Orkney.

140. The partnership has a firm evidence base for the current priorities and recognises the immediate challenges facing Orkney. It selected these as the issues most needing preventative action to limit future demand on services and that no partner could resolve on its own. The priorities are set out in the

partnership's community plan, its Local Outcome Improvement Plan and supporting plans. However, the community plan is general in its aspirations and it is unclear how achieving the priorities will directly benefit island communities.

141. Progress with establishing the arrangements in the three thematic groups has been slow. Key indicators have now been agreed but the pace of developing the indicators has been slow and the supporting performance measurement arrangements are confused. The partners reported to the audit team that the shift to distributed leadership, shifts in roles and developing ownership has taken time. The pace of progress has also been impacted by the time and effort required to progress the establishment of the IJB. In 2016, a community planning business manager was appointed as a shared resource for the partners to support improved progress.

The council has not developed shared services but works effectively with the other island councils

142. The council does not have any shared service arrangements with other councils. It is open to learning and engagement with other councils and in particular meets regularly with councils in the north of Scotland through a range of forums to focus on common issues. For example, discussions with the Northern Alliance, which has a focus on education and community learning and development, have contributed to options included in the change programme on 'Orkney's Learning Landscape'.

143. Over the past five years, the council has worked closely and effectively with the other island councils on the Our Islands - Our Future campaign. This is an innovative and strong example of community leadership and partnership working. [Case study 2 \(page 41\)](#) outlines Our Islands - Our Future.

Case study 2

Our Islands - Our Future



Since June 2013, Orkney Islands Council, Shetland Islands Council and the Comhairle nan Eilean Siar have worked closely to raise the profile of the islands through the 'Our Islands - Our Future' (OIOF) campaign. The main objectives of the campaign are to get the UK and Scottish governments to recognise the specific issues and opportunities for the islands and to secure changes that will help the councils to do more for the economic and social sustainability of their respective communities. The core themes evident throughout the OIOF work are:

- Connectivity – transport, digital and energy transmission
- Local democracy and self-determination
- Fairness and social justice.

There has been a positive response to the campaign from both the UK and Scottish governments:

- In 2014, the UK Government set out 'A Framework for the Islands' in a statement. This sets out commitments to working with the island councils. A dedicated Islands Desk was set up in the UK Government Scotland Office
- In 2014, the Scottish Government included 'islands' as part of the ministerial portfolio of the Minister for Transport and Islands
- The Islands Bill was presented to the Scottish Parliament in June 2017. The Bill recognises the distinct context and challenges of the island communities and the need for specific provision for the islands to be considered in legislation. Measures in the Bill include:
 - a requirement to 'island-proof' future legislation and policies
 - the creation of a National Islands Plan
 - greater flexibility around councillor representation within island communities
 - extended powers to island councils for marine licensing
- In August 2017, the Scottish Government announced changes to the funding arrangements for ferries to Orkney and Shetland Islands from the Scottish mainland to mirror arrangements on the west coast.

In 2016/17, the three councils agreed a set of principles to develop into proposals to take to the UK and Scottish governments for an 'Islands Deal'. The main themes of the proposal are:

- 'Enhancing our local democracy – our ambition is empowerment to create modern and confident island councils, with the flexibility to generate solutions that fit our islands' specific needs'
- 'Achieving our economic potential – our ambition is to secure business and investment growth through political commitment to implement strategically significant programmes of development projects in each island area, with a 10-year horizon to achieve our population and employment targets and a 20-year horizon to embed sustainability'.

There are examples of good community engagement and progress with community empowerment, but more now needs to be done to offer good practice consistently

144. The council has maintained a steady pace in developing its engagement and more recently its empowerment arrangements. It recognises the value of community engagement and empowerment and continues to work well with community groups, particularly the community councils. The Community Empowerment (Scotland) Act 2015 places new responsibilities on public bodies in how they interact with communities. This act aims to give communities greater influence or control over things that matter to them.

145. The council has a recognised history of working closely and effectively with the network of very active community councils across Orkney. Councillors meet regularly with the community councils, and council officers in the democratic services team provide a consistent contact point. The council consults and involves the community councils on a wide range of issues, from local service needs and priorities to funding for local initiatives. The success of the arrangement means that there is a risk of overburdening the community councillors with multiple and detailed consultations and, as a result, diminish the quality of response. The council should consider how it can ensure that it minimises the burden but maximises the value of consultation with the community councils.

146. The council continues to use and develop a wide range of other methods at a service and corporate level to consult and involve the community. This includes, for example, online requests for comment about strategies and plans, local presentation and discussion sessions, surveys and workshops. Although the council has a broad communications strategy and consultation guidance, its coordination and organisation-wide planning for consultation has been limited. The council needs to ensure consultation and engagement is well planned and managed to ensure the most value is gained with minimum resources and demands on the public. Over the past year, the council has made improvements to its arrangements including the launch of a new community panel, Orkney Opinions. The improved arrangements have the potential to assist better coordination of consultation and reduce the risk of members of the public feeling they are consulted too often.

147. The council uses its relationships with third sector and community groups to understand local issues and priorities for more vulnerable groups. However, there is little evidence that the council actively considers how it consults and involves 'hard to reach' groups such as workless households, lone parent households, homeless people, and people experiencing other forms of disadvantage or inequality. Living remotely adds a further layer onto any existing inequality. Individuals in need are often dispersed and not readily identified, meaning engagement is more complex and costly. This needs to be considered in the design of engagement approaches.

148. In response to the Community Empowerment (Scotland) Act 2015, the council has put in place policy arrangements relating to community asset transfer processes, and participation requests. These, respectively, are arrangements to assist community groups to take ownership of public buildings or other assets and, to request direct involvement in decision-making on local issues.

149. With good working relationships in place with community councils, the council is well placed to develop community empowerment arrangements; for many years, the community councils have been responsible for managing caretaking of local burial grounds and for administering local grants. Such well-established arrangements will enable communities to take more direct ownership of services at a local level.

150. In 2015, the council launched a pilot exercise at two test sites for an enhanced council officer role based in outer island communities. [Case study 3 \(page 44\)](#) outlines the project. The approach has been very well received by the two island communities and has a clear day-to-day benefit. The council has plans to roll out this successful initiative to other islands. If the council implements this project across its remote communities, it will improve the council's ability to respond to and empower these communities more efficiently and effectively.

151. In 2016, the OCPP carried out a pilot participatory budgeting exercise in conjunction with a project to develop its locality plans. The approach was led by VAO. The exercise included a survey and workshop sessions with island communities to decide how they wanted to spend £36k of funds from the Scottish Government's Community Choices Fund and from community planning partners. The partners and the council view this exercise as a success and it received positive feedback from communities. The council and its partners now need to consider how they can collectively and individually build on the success of this pilot exercise.

152. The council demonstrates a good level of commitment and effective approaches to consultation, engagement, and delivery of services with the community, and with partners, in terms of community participation. It now needs to do more to ensure effective coordination of consultation and consistency in the standard of support offered to communities.

Case study 3

Island Link Officer



Under its Empowering Communities project, the council funds two pilot 'Island Link Officers' on the islands of Papa Westray and Stronsay and has established a 'community office' on each island. The offices provide a base for the link officers, who offer some of the services provided by the council's main customer services team in Kirkwall. The community offices also provide working facilities for council officers visiting the islands.

The project's objective is to provide a closer link to the council within remote communities. This allows communities to have more influence on policies, decisions and services that affect their community and also enables services to be more efficient and responsive to local issues and needs. Community representatives from both islands indicated to our audit team that the scheme benefits the communities, and helps communication with the council and better joint working.

The pilot arrangements have developed differently. Both show early signs of positive results in empowering and supporting communities to deliver services locally:

- In Stronsay, the project secured funding to refurbish the Fish Mart into a hostel, café and community office which includes delivery of customer services. The community council manages maintenance of the public toilets within the Fish Mart, local core paths and a bird watching hide. The community council has worked with the islands development trust board to jointly fund a marketing approach for the island as a tourist destination.
- In Papa Westray, the link officer has introduced a monthly newsletter and helped the community council to progress a number of projects with the council. These include refurbishment of a redundant storage facility to create a heritage centre, resurfacing of a car park, using a council van to provide community transport as well as council services. The community council manage maintenance of the core paths and stiles. The community council are working with the island Community Development Trust board to progress a community asset transfer from the council as a community facility.

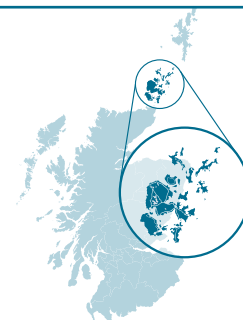
The council aims to progress this approach by engaging with communities to explore what, and how, operational services can be delivered in a different way within communities. The aim is to:

- increase employment opportunities in island communities
- help develop new skills in the island-based workforce
- increase sustainability and improve access to services by building capacity in the community to manage and deliver local services
- enable locally based community groups to work together to maximise the potential benefits to island residents
- create efficiencies in terms of public resource and/or cost.

In February 2017, the council allocated additional funding of £110k to continue its Empowering Communities project in Papa Westray and Stronsay, and to roll out the project to two further islands, Hoy and Sanday.

Part 5

Is the council demonstrating continuous improvement?



The council has shown gradual improvement since 2008, with a notable increase in the pace and focus in improvement activity since 2014

The council has shown gradual improvement across the characteristics of Best Value since 2008 and maintained strengths in areas such as leadership and community engagement. It now needs to ensure it maintains the increased pace by focusing on its change programme and continuing to improve essential processes such as workforce, capital and asset planning.

The council's change programme has refocused its resources on to more challenging and cross-cutting efficiency and improvement work and the pace has increased. The council actively manages the pace of improvement work to reflect its capacity, context and financial position. It needs to ensure that it still demonstrates Best Value with this approach to change.

Self-evaluation has been slow to develop but is now an integrated part of service level planning. It could be used more effectively at a corporate level.

The council has shown gradual improvement

153. Since our Best Value report in 2008, a number of activities have contributed to a gradual improvement in the way the council operates. 'Tough Times, Tough Choices', an initiative in 2010/11, resulted in a management restructure and service and efficiency reviews. There have been developments in how the council approaches: review and options appraisals; strategic and service-level planning; self-evaluation; risk management; performance management; business continuity management, and public performance reporting. This has been supported by performance and risk management software, which went live within the council in September 2013.

154. Our 2008 Best Value report noted that the council's 'small scale makes it difficult to build the capacity to make the transformational change needed to fully embed best value processes and modernise services'. Capacity remains a challenge. The senior management team articulates a need to work at a pace that suits the council's small scale and capacity; to plan thoroughly and get changes right. This measured approach to change is influenced by the relatively strong financial position of the council and therefore less immediate pressure to make significant changes to services. It is also motivated by the council's awareness of the integral role that it has in its community and the sustainability of its community. It is important that within this approach to change the council retains a clear focus on its duty to demonstrate Best Value and ensure it uses every public pound efficiently and effectively.

155. The council is investing more resources into its improvement activity. In 2014, it established a change programme team of three members of staff. The team has gradually increased to comprise a programme manager, four project officers and a programme administrator. The council also seeks external expertise to support improvement activity where it needs additional capacity and knowledge. For example, the Improvement Service assisted the council with some of the review activity to develop plans for the council's change programme.

The council's change programme has refocused on to more challenging and cross-cutting improvement work, and the pace of change has increased

156. In 2014, the council refocused its approach to improvement work. The council's change programme, outlined at [Exhibit 11](#), supersedes other review activity. The approach is more challenging and cross-cutting in scope than the former review programme and there is an increase in the pace. However, it is too early to assess how well the programme will deliver effective approaches and the required efficiencies as the council is at an early stage of developing and implementing the different projects within the programme.

Exhibit 11

Orkney Islands Council change programme

The council established its Change Programme in January 2014. The programme is intended to take a **'more radical and holistic approach to ensuring financial sustainability'**. The approach is to review and modernise key business processes and to review options for delivering both frontline services and back-office support services more efficiently.

The change programme began by reviewing past improvement programmes and consulting with all services to identify potential savings options. From the collated ideas, business cases for 21 change projects were approved. These ranged from changes to recycling and car parking charges to improving internal business processes, such as reduced out-of-Orkney travel and finance and HR systems.

In April 2016, following a series of workshops involving councillors and senior managers, six cross-service change reviews were approved for phase 1 of the service review programme. The council considered options appraisals for all proposed projects and these were scrutinised by senior management and councillors. Initial savings targets were identified for each, with an aim to deliver cost reductions and yet retain an acceptable standard of service. Phase 1 reviews focus on internal corporate processes:

Property Asset Management



The council's aim:
save £678,000
by 2019/20

In August 2016, the council completed a review of properties it could dispose of and identified an initial 53 properties to consider further. The council is now liaising with community planning partners on potential options and with community groups about whether there are opportunities to transfer any properties into community ownership.

Procurement



The council's aim:
save £256,000
by 2019/20

The council published a new procurement strategy in December 2016. Ensuring more consistent corporate-wide approaches to procurement has been an initial focus of the work. The council has also held a number of engagement events with suppliers to encourage local suppliers to bid for contracts.

Exhibit 11 (continued)

Staff and workforce planning



The council's aim:
save £310,000
by 2019/20

Initial work included collating a range of detailed information to establish a good base of data for initial workforce plans. The council has also developed proposals for changes to terms and conditions, including changes to overtime, public holidays and core working hours. At the time of our audit the council was consulting with trade unions on its proposals.

Fees and charges



The council's aim:
raise a further
£210k by 2019/20
with scope to consider
further options beyond
that date

A corporate charging working group was formed several years ago, with a primary role to review all new charging options and/or any significant increase to existing charges. Better integration of the workings and outputs from the group is now a feature of the medium-term budget process and will continue to contribute to budget planning for 2018 with a specific focus on fees and charges. Options include introducing new charges and increasing existing fees and charges.

Outsourcing and partnerships



The council's aim:
save £555,000
by 2019/20

The review activity has been assisted by the Improvement Service, which has looked at options and barriers for different approaches to delivering services including, shared services, out-sourcing, trusts, and other third sector and community options. Detailed work on initial options is progressing.

Modernising IT



The council's aim:
save £532,000
by 2021/22

Initial work on this review has included identifying the systems and applications used across the council and, analysing their use and costs. Savings to date have been made by reducing the number of administrative staff required. Options for modernising IT are to be presented to the council's policy and resources committee in November 2017. Sub-projects within this review programme include improving, for example, the council's website, the customer relations management system, the internal IT help-desk arrangements, human resources systems, and reviewing options for using 'cloud' based services for working.

As the review, planning and implementation of these projects progress, phase 2 of the programme has begun and focuses on front-line service delivery. The work for the 'Orkney Learning Landscape' change review began in November 2016. The savings target for this review is £1.4 million. The review includes looking at potential options for managing the sustainability of schooling in small communities, the potential use of digital approaches to increase options for how to deliver schooling, partnership and commissioning options.

In April 2016, the council revised its review framework and renamed it the Change Review Framework. This sets out the governance, programme and project management requirements for the change review work. A change board oversees the work. In 2017, the board membership was increased from the SMT, two heads of service and eight councillors to include all 21 councillors. This is to ensure all councillors have a full understanding and opportunity to discuss the issues, as the programme progresses, and they need to make challenging decisions about spending and services. The change programme is directly linked to the council's medium-term resource strategy, described in [paragraph 86, page 30](#).

Self-evaluation has been slow to develop but is now an integrated part of service level planning. It could be used more effectively at a corporate level

157. The council uses self-evaluation across all services as part of the service planning cycle. This has taken a long time to develop as a systematic approach to improvement. In April 2009, the council adopted the 'How Good is Our Council?' model. In March 2010, a project team was established and an initial exercise at departmental level took place. No further progress was made until 2012. The council indicates that the hiatus was due to the management and organisational restructuring that resulted from the 'Tough Times, Tough Choices' review. In April 2012, the management team agreed to reinstate the How Good is Our Council approach and self-evaluations were undertaken at a service level. The assessments were used to inform the council's 2013-16 service plans. Services completed further self-evaluations in 2015/16 and actions are evident in service plans. Some services use additional approaches to self-evaluation against recognised national standards, including housing and education services. Orkney Health and Care has its own self-assessment arrangements in place and has not participated in the How Good is Our Council approach.

158. The council's management team and councillors demonstrate a good level of self-awareness about the strengths and areas for improvement in the council. However, self-evaluation is less systematic at a corporate level than at a service level. In 2010, the management team assessed the organisation against the Audit Scotland Best Value toolkits and included resulting actions in its corporate plans. It has not adopted a regular arrangement but undertook a similar exercise in 2016. The council should consider how corporate level self-evaluation can be integrated into its planning cycle to help it to continue to improve.

159. The council carried out a staff survey in 2013. The council identified three areas for improvement from the results and established working groups to identify actions to address these. Examples of the resulting actions are as follows:

- Employment related policies, procedures and processes:
 - A secondment policy was introduced to provide a framework for career development:
 - A new disciplinary policy was introduced to provide clarity on how complaints against staff are handled.
 - A new policy for managing sickness absence was developed to address inconsistencies in recording and managing employee sickness.
- Treating each other with dignity and respect:
 - Introduced a revised Dignity at Work policy and training sessions.
 - Awareness sessions with managers to highlight the importance of tackling unwanted behaviours in the workplace and the role of leadership.
- Communication and engagement with staff:
 - Introduced an ideas scheme (through the Change Programme) to encourage staff to share ideas for better ways of working, with a focus on delivering services more efficiently and effectively.
 - Communication and engagement are included in leadership development.

160. The council has not yet carried out a further staff survey and so is unable to quantify the effectiveness of these actions. The council plans a second survey in the coming year.

161. An example of improvement activity that has resulted from the ideas scheme, referenced in [paragraph 159](#) above, is a project to reduce the cost of travel outside the islands. The Outwith Orkney Travel scheme (OOT) has involved analysing spending on travel and expenses by staff to meetings and events outside Orkney. A new travel policy was approved in September 2016. A phased implementation began in November 2016 to allow the council to review and refine the arrangements. The changes involve:

- introducing criteria for external flights to be acceptable
- investing in video-conferencing facilities to reduce the need for travel
- using a common provider to book flights and other forms of travel and accommodation, and a uniform booking process across all of the council's services
- booking flights well in advance to reduce the cost where possible.

162. A total saving of £51.4k was made on flights in 2016/17 compared to a total spend of £276.4k on flights in 2015/16. The savings target for the scheme, including other travel expenses, is £230k from 2017/18 to 2019/20.

The council has maintained its strengths and made gradual improvements in other aspects of Best Value

163. It is too early to assess the impact of the council's current change programme. However, it is evident that across the characteristics of Best Value that we have reviewed in this report, the council has maintained its strengths in some areas and gradually improved in others. [Exhibit 12 \(page 50\)](#) highlights some of the Controller of Audit's judgements in our 2008 report and compares these with those in this report, nearly ten years later.

Exhibit 12

Best Value judgements, 2008 and 2017

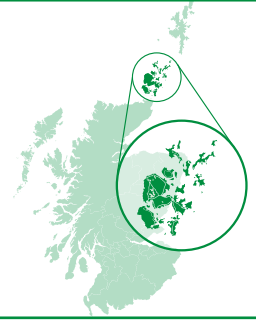
A comparison of the Controller of Audit's judgements between 2008 and 2017 shows the extent of progress made by Orkney Islands Council.

Controller of Audit judgement	Controller of Audit judgement
2008	2017
<p>Strategic direction</p> <p>Elected members and the Corporate Management Team have a clear commitment to the area but have not effectively fostered a culture focused on Best Value.</p> <p>Elected members and senior officers are prominent in the community and the council's role in providing community leadership is strong. The convener and chief executive provide effective leadership for the council and have a constructive working relationship.</p> <p>Elected members and the CMT are committed to providing good quality, responsive services for local people.</p> <p>The corporate management team work well together. The team needs to focus more on the quality and cost-effectiveness of services, and on monitoring the impact of activity to deliver strategic priorities.</p>	<p>The council understands the challenges and opportunities for Orkney and has clear priorities that reinforce its ambition for the islands. The council has significantly improved corporate planning and performance management arrangements to help achieve these.</p> <p>Strategic leadership of the council remains stable and effective. A good level of mutual respect and trust exists between officers and councillors.</p> <p>The management team works well together but the small scale means that management capacity is an ongoing challenge.</p>
<p>Governance</p> <p>Corporate performance management arrangements are weak and this limits the effectiveness of scrutiny and public performance reporting.</p> <p>The community and corporate plans need to be supported by clear action plans with specific, measurable targets and milestone dates. This will assist the council in allocating resources to priorities and will improve transparency and accountability.</p> <p>Members currently engage well in scrutinising policy decisions and in challenging alternative proposals. This process would be strengthened by better information on the costs and benefits of alternatives.</p>	<p>The council's governance arrangements provide an appropriate and effective framework for decision-making and scrutiny.</p> <p>The council has significantly improved its corporate planning and performance management systems since 2008. This helps the council manage work towards its priorities more effectively. However, the council is not measuring and monitoring how successfully its work is improving outcomes for the community.</p> <p>There is a good level of awareness and commitment to equalities.</p> <p>Induction training for councillors is good but ongoing training would benefit from more structured arrangements</p> <p>Reporting performance to the public has improved</p>
<p>Community engagement and empowerment</p> <p>The council is strongly focused on the survival of its fragile communities and engages well with local community groups.</p>	<p>The council has maintained a steady pace in developing its engagement and more recently its empowerment arrangements. There are examples of good community engagement and empowerment.</p>

Exhibit 12 (continued)

Controller of Audit judgement	Controller of Audit judgement
2008	2017
<p>Managing resources</p> <p>Strategic resource management is underdeveloped.</p> <p>It is establishing a more strategic approach to financial management but this is not linked effectively with asset management and service planning.</p> <p>Strategic communications technology (ICT) requires further development and needs to be linked to a vision for service modernisation and workforce planning to underpin the development of more flexible and user-focused services.</p>	<p>The council has been slow to develop medium and long-term financial planning, workforce planning, asset management planning and its digital and IT arrangements. It has made better progress over the past three years and it needs to continue this pace of improvement to ensure that it makes the best use of public money.</p> <p>Financial management arrangements are effective, and there is now a medium-term financial strategy in place.</p> <p>The council has a high level of financial reserves that it has relied on to meet financial pressures and avoid cuts to services.</p>
<p>Performance and outcomes</p> <p>The council can demonstrate good performance in a number of key service areas, including education and social work.</p>	<p>The council's services are working hard towards its priorities for the community and citizen satisfaction levels are high but the council still needs to drive improvement in service performance.</p> <p>Improvement in service performance has tended to be slower in Orkney Islands Council than comparable councils.</p>
<p>Partnership working</p> <p>The council provides good leadership to the CPP and works effectively with a variety of partners.</p> <p>It works well with partners in identifying strategic priorities. However, the council and its partners lack clarity about the actions and activities which will contribute to the achievement of strategic goals.</p>	<p>The council has a long standing culture for working closely with its local partners.</p> <p>The Integration Joint Board has been established effectively and is functioning well.</p> <p>Revised arrangements for the OCPP are not yet demonstrating their potential for improving outcomes for the community.</p> <p>The council works effectively with the other Islands councils on issues they have in common.</p>
<p>Improvement</p> <p>The council has a range of improvement activities in place, including Best Value reviews, responses to audit and inspection results, and reacting to trends in Statutory Performance Indicators (SPIs). However, improvement activity is not coordinated effectively.</p> <p>Its small scale makes it difficult to build the capacity to make the transformational change needed to fully embed Best Value processes and modernise services.</p>	<p>The council has shown gradual improvement across the characteristics of Best Value since 2008 and maintained strengths in areas such as leadership and community engagement. It now needs to ensure it maintains the increased pace of change (since 2014) by focusing on its change programme and continuing to improve essential processes such as workforce, capital and asset planning.</p>

Recommendations



The council must maintain the current pace of improvement and in particular ensure it makes progress with the following:

- Developing a detailed workforce plan that considers future workforce needs, current capacity, supply and recruitment, skills and financial constraints.
- Managing capital projects effectively to avoid slippage and the negative impact on delivering strategic priorities.
- Longer-term financial planning to ensure the sustainability, feasibility and practicalities of current spending plans. This should be done with reference, also, to the Strategic Reserve Fund.
- Implementation of the IT Strategy and Digital Strategy, including the associated capital programme and completion of the review of capacity.

To support a culture of improvement, the council should build on the self-evaluation work already in place in services and further develop a corporate approach.

The council should build on its good examples of community engagement and participation to improve consistency of approach across all the communities, including those that are 'hard to reach'.

The council should set out how its activities will contribute to improved outcomes for communities so that it can evidence and monitor the impact.

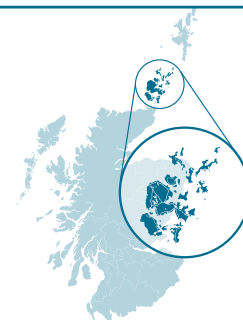
The council and its community planning partners should ensure clear performance management arrangements are in place to demonstrate that they are making progress towards delivering positive outcomes for the community.


The council should consider how it can enhance its councillor training and development programme and encourage better uptake by councillors of personal development opportunities.

Future audit work

164. The audit of Best Value is a continuous process that forms part of the annual audit of every council. Audit conclusions will be reported each year through the Annual Audit Report. As part of our work in 2017/18 we will follow up the progress the council is making to implement the recommendations we have made in this report.

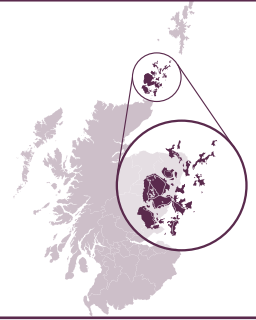
Endnotes



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- ◀ 1 Skills Development Scotland.
 - ◀ 2 Orkney Islands Housing Needs & Demand Assessment 2016.
 - ◀ 3 [*Superfast broadband for Scotland an update*](#) , Audit Scotland, August 2016.
 - ◀ 4 Fragility is a weighted combination of de-population, rural de-population and old age dependency ratio, which is the ratio of the older population (65 and over) to the working age population (16-64).
 - ◀ 5 *Community Planning Outcomes Profile*, Improvement Service.
 - ◀ 6 Level 5 in the Scottish Credit and Qualifications Framework (SCQF) relates to attainment at SQA National 5 and level 6 relates to attainment of SQA Highers.
 - ◀ 7 *Empowering Scotland's Island Communities*, Island Areas Ministerial Working Group, June 2014.

Appendix

Best Value audit timeline



Aug 2010

Chief Executive change

Alistair Buchan takes up secondment at Shetland Islands Council. Albert Tait appointed Chief Executive

May 2012

Scottish local elections

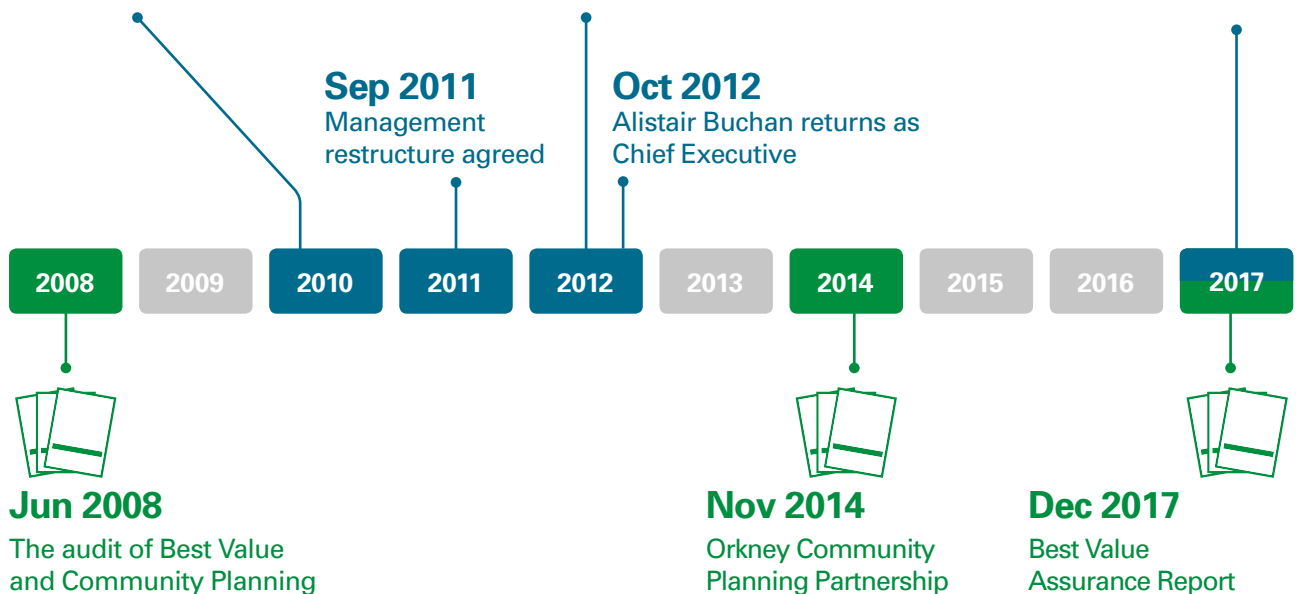
Majority independent council elected. Councillor Heddle voted in as Convener

Committees arrangements restructured

May 2017

Scottish local elections

Majority independent council elected. Councillor James Stockan voted in as Leader



June 2008 – *The audit of Best Value and Community Planning*

The Accounts Commission published its first Best Value report on the council in June 2008. The Commission's 2008 findings acknowledged good leadership and welcomed the council's level of self-awareness, culture of openness, community engagement and financial planning. It highlighted areas of improvement including the need to build capacity, and to develop performance management arrangements and measures.

November 2014 – *Community Planning, an update*

The Accounts Commission published a report on Community Planning in the Orkney Islands in 2014. The Commission's findings were critical, with more progress needed at a strategic level and expressing concern about tensions between Orkney Islands Council and NHS Orkney impacting on progress.

December 2017 – *Best Value Assurance Report*

This Best Value Assurance report is presented by the Controller of Audit to the Accounts Commission. Monitoring of progress against the Commission's findings and the recommendations, as well as further audit work on Best Value will be undertaken as part of ongoing annual audit work at the council.

Best Value Assurance Report

Orkney Islands Council

This report is available in PDF and RTF formats, along with a podcast summary at:

www.audit-scotland.gov.uk 

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