

# The Highland Council

Agenda Item	<b>4</b>
Report No	<b>HC/19/25</b>

**Committee:** The Highland Council

**Date:** 26 June 2025

**Report Title:** Highland Council Best Value Report

**Report By:** The Chief Executive

## 1. Purpose/Executive Summary

- 1.1 This paper presents the Council's latest Best Value Report which was issued in April 2025 by the Accounts Commission. A copy of this report is provided at **Appendix 1**.
- 1.2 The 2020 report detailed concerns that the Council was not demonstrating financial sustainability or best value, and urged collaboration and increased pace of change. The 2025 report welcomes good progress since then and commends the embedded culture of transformation. There are no recommendations, and the report concludes that appropriate and effective financial management arrangements are in place.
- 1.3 The large geographical expanse and dispersed population of the Highlands put unique pressures on service delivery and the requirement for and maintenance of assets. The Council's response to the report provides assurance that the organisation's borrowing, savings and investment of council tax revenues remains an affordable, prudent and sustainable way to fund the necessary transformation, without requiring the use of reserves to fund revenue gaps.

## 2. Recommendations

- 2.1 Members are asked to:
  - i. **Note** the change in approach to the audit of Best Value as set out in section 5.
  - ii. **Consider** and **agree** the Council's Best Value report attached as Appendix 1 with a summary of the key findings provided at section 6.3.
  - iii. **Agree** the Council response at section 7.
  - iv. **Note** the statutory requirements set out at section 8.

## 3. Implications

- 3.1 Resource – there are no direct resource implications arising from this report.
- 3.2 Legal – as detailed at 5.1, the Council has a statutory duty to provide Best Value.

- 3.3 Risk – there are reputational risks for the Council if the Accounts Commission concludes that it is not meeting its Best Value duties. This could also include additional follow-up audits being required which would have resource implications for the Council.
- 3.4 Health and Safety (risks arising from changes to plant, equipment, process, or people) – there are no implications from this report.
- 3.5 Gaelic – no implications.

#### **4. Impacts**

- 4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.
- 4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.
- 4.3 This is an update report and therefore an impact assessment is not required.

#### **5. Background information**

- 5.1 The Local Government in Scotland Act 2003 introduced the statutory duty on Councils to provide Best Value. This is subject to regular audit by Audit Scotland who undertake this work on behalf of the Accounts Commission.

##### **5.2 Audit approach and Best Value reports**

Over the years, the approach to the audit of Best Value has changed and evolved. The most recent changes were made in 2023, and the current approach is as follows:

- Consideration whether the Council is fulfilling its statutory duty of Best Value is fully integrated within the annual audit. Audit Scotland's annual audit reports are considered by the Council's Audit Committee. It should be noted that no concerns have been identified in the 2022/23 and 2023/24 annual audit reports. Furthermore, the 2023/24 annual report included the conclusion that *"the Council has an appropriate and effective Best Value framework in place"*.
- Annual thematic Best Value reviews are undertaken across all Councils. There have been three such reviews:
  - (1) The first review was undertaken in 2022/23 which looked at [leadership in the development of new local strategic priorities](#). The report was issued in January 2024 and concluded that "the Council has a clear and well-articulated strategic vision. This is embedded across the organisation and through the service planning process." Some areas for improvement were identified and were detailed in an improvement action plan. Progress in implementing the management agreed actions were later followed up in the 2023/24 annual audit which showed that three had been completed and two were still in progress.
  - (2) The 2023/24 thematic review examined [workforce innovation](#). The report was scrutinised by the Audit Committee on 26/09/24 and contained nine key

messages. It also included an improvement action plan with ten recommendations which will be followed up by Audit Scotland as part of the following year's annual audit.

Since the first thematic review, it was also stated that the information from Councils will also be collated into a national report. The national report on workforce innovation is expected later this year.

(3) The third thematic review of Transformation is current in progress, and it is expected that this report will be presented to the Audit Committee on 20/08/25.

- A Controller of Audit's report is normally issued once during the current five-year audit period (2022-2027). Where there are significant concerns reported, there may be subsequent follow up reviews undertaken during this period. This is not the case for Highland.

### 5.3 Best Value Assurance Report (BVAR) 2020

The Council's last Best Value (BVAR) report was issued in January 2020 and was considered by [Council](#) on 12/03/20. A different approach to the review was in place at this time and this is detailed within the report. The report contained ten key messages and seven recommendations. In particular, the Commission reported that they were:

- Disappointed with the progress made by the council since the previous 2010 BV audit.
- Concerned that the Council is not demonstrating that it is financially sustainable.
- Concerned with the Auditor's conclusion that the Council is not demonstrating all aspects of Best Value.

The Commission also:

- Urged elected members to continue to work constructively together with officers and communities.
- Encouraged the collaborative leadership required with members to maintain an increasing pace of change.
- Urged better progress by the council to work with partners in delivering community empowerment and locality planning obligations.
- Stated that the nature of the Controller's recommendations are significant, and it is vital that the Council takes these forward to deliver Best Value.

Regular progress updates on addressing the BV recommendations were provided to Council and this was monitored by Grant Thornton, who were the Council's External Auditors at the time.

## 6. **Accounts Commission Findings**

- 6.1 The findings are based upon the information provided by Audit Scotland from their 2022/23 and 2023/24 annual audits as well as the first two BV thematic reviews referred to at section 5.2 above. It also followed up the 2020 BVAR.
- 6.2 The report, attached at Appendix 1, covers a number of headings consisting of BVAR follow-up, leadership review, community planning and empowerment, performance reporting, workforce planning, financial management and sustainability, and delivery of the capital programme. Unlike the BVAR, it does not contain any recommendations.

- 6.3 The Controller of Audit's report was considered by the Audit Commission at their meeting of 10/04/25 and this can be found at page 6 onwards. Following this meeting, the Accounts Commission made six findings which are set out in pages 4 and 5 of the report. These are summarised as follows:
1. Welcomed good progress since the 2020 BVAR and commended the embedded culture of transformation. The Council needs to maintain momentum and continue identifying transformation opportunities. The Council's performance management have been redesigned so align with the new delivery plan and these will be examined as part of upcoming audit work.
  2. Auditors recommendations about the better alignment of workforce strategies with new corporate plans and financial plans should be actioned as a priority as well as the collection and regular reporting of the Council's workforce data. It should be noted that the recommendations referred to are from the workforce innovation thematic review and were already in progress.
  3. Savings challenges and financial risks still lie ahead including transformation of adult care to meet demand pressures. Note with interest the intent to review the lead agency model.
  4. Looking forward to seeing how the IT and Digital strategies are developed, embedded and monitored. Ensuring the necessary workforce skills and capacity to deliver these are also critical.
  5. Note with concern the Council's higher than average borrowing costs when compared to other Councils. Interested in future assessments of the affordability and prudence of the capital plan at key stages. Also understanding the full impact of the plans given ongoing budget challenges.
  6. Will monitor how the Council's area place plans develop including engaging with and empowering communities.

## **7. Council response**

- 7.1 Overall, the majority of the report findings are positive. Whilst there are no audit recommendations, there are clearly areas where the Accounts Commission expect Audit Scotland to monitor progress or examine further. Therefore, this is likely to form part of their audit work and be reported within their annual report.

The only concern raised is in respect of the Council's borrowing costs. It should be noted that this is a historic issue going back a number of years and there is no quick fix to address this. The report also refers to reported performance data including use of the Local Government Benchmarking Framework (LGBF) data.

Review of the LGBF data shows that in 2013/14 the General Fund Ratio of Financing Costs to Net Revenue Scheme for Highland was 12.2% compared to the Scottish Average of 8.4%. Highland peaked in 2017/18 at 13.6% compared to the Scottish Average of 8.0%. This is also the case for the Housing Revenue Account (HRA) but there is even more of a difference between the Council and the Scottish Average, and the gap is increasing as the latter is reducing but Highland is increasing. For example, in 2013/14 Highland was 31.9% compared to the Scottish Average of 25.9%, for 2023/24 the respective figures were 38.4% compared to 20.0%.

The report to Council on 09/05/24, sets out the mechanisms to fund the [Highland Investment Plan](#) (HIP) to ensure that capital investment remains affordable, prudent and sustainable. This also included the introduction of a new local prudential indicator to ensure that general fund capital finance costs do not exceed 10% of the general fund revenue budget. This 10% cap is based on the Council's capital borrowing costs, and excludes costs associated with PPP contracts which are

captured within the LGBF dataset. This approach ensures a direct relationship between HIP decisions and the operation of the 10% cap. The HIP is considered necessary in order to transform the Council's assets, for example one-third of schools have been assessed as being in poor condition, and to enable the improvement of services delivered across the Highlands.

It is also intended to develop a long-term rent strategy as detailed in a [report](#) to the Housing and Property on 29/01/25. The report acknowledges that the strategy will need to take a number of factors into account, including the costs of borrowing to sustain capital investment in existing properties and new builds.

- 7.2 Whilst the Accounts Commission's report covers financial management and sustainability, it does not reference that the Council's 2025/26 budget does not use any reserves to meet the revenue gap. This was only possible through elected members being willing to make tough decisions when it came to setting the budget. It should be noted that use of reserves to meet budget gaps is an area of concern regularly reported by Audit Scotland as it is recognised as being unsustainable for the long-term.

The report does conclude that appropriate and effective financial management arrangements are in place within the Council.

In considering the points above, there is significant improvement compared to the last report where concerns were raised about the financial sustainability of the Council.

- 7.3 Another positive was the fact that this report recognised the strong relationship between officers and members, a much-improved position compared to the 2020 BVAR report.
- 7.4 The report refers to the new Operational Delivery Plan, which provides a planned approach to delivering budget savings, bringing investment to the area and new ways of delivering services in order to transform communities. The report states "*that effective delivery and monitoring of the plan will be key to driving future improvement.*" This has been addressed for 2024/25 with a progress report for the year being presented to Council on 15/05/25 and followed up by a Members Workshop on 23/05/25. Highlights from the Council report include the forecast that excluding adult social care, 95% of the planned savings of £27.6m will have been delivered, the significant staff engagement undertaken, and examples of innovative approaches to income generation.

## **8. Statutory requirements**

- 8.1 The Council is required by statute to do the following:
- consider the findings of the Commission within three months of receiving them. This has been addressed by way of this report to Council.
  - publish in a newspaper circulating in the local area a notice stating the time and place of the meeting, indicating that it is to be held to consider the findings of the Commission and describing the nature of those findings (at least seven clear days before the meeting). At the time of writing, arrangements are being made to meet this requirement.

After the Council meeting officers must also:

- notify the Commission of any decisions made.

- publish in a newspaper circulating in the local area a notice containing a summary, approved by the Commission, of the Council's decision.

Designation: Chief Executive

Date: 5<sup>th</sup> June 2025

Author: Donna Sutherland, Strategic Lead (Corporate Audit)

Background Papers:

Appendices: Appendix 1 – Highland Council Best Value Report

Best Value

# The Highland Council



ACCOUNTS COMMISSION 

Prepared by the Controller of Audit  
April 2025

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## Accessibility

You can find out more and read this report using assistive technology on our website [www.audit.scot/accessibility](http://www.audit.scot/accessibility).



# Key facts



**9,906**

Square miles



**236,330**

Population



**8,200**

Workforce (FTE)



**74**

## Elected members

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



**£13m**

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



**£730m**

Net revenue budget/expenditure 2023/24



**£192m**

Capital budget 2023/24

# Commission findings

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

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

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

## Introduction

**1.** This report is made by the Controller of Audit to the Commission under Section 102(1) of the amended Local Government (Scotland) Act 1973. It is based on evidence collected in the 2022/23 and 2023/24 annual audits of the council, with the latter reported in November 2024. [Appendix 1](#) includes links to the 2022/23 and 2023/24 Annual Audit Reports (AAR) and [Appendix 2](#) includes a link to the Best Value Statutory Guidance.

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

## Pace of continuous improvement

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

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

## Best Value Assurance Report (BVAR) follow-up

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

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

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

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

## Leadership review

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

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

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

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

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

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

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

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

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

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

## Community planning and empowerment

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

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

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

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

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

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

## Effectiveness of performance reporting

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

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

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

## Reported performance

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

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

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

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

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

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

## Workforce planning

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

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

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

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

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

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

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



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

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

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

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

## Financial management and sustainability

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

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

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

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

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

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

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

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

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

## Exhibit 1.

### The Highland Council – key financial information

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

<sup>1.</sup> After revised budget assumptions

<sup>2.</sup> Not available

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

Source: Council accounts and committee papers

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

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

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

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

## Delivery of the capital programme

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

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

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

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

# Appendix 1

## 2022/23 and 2023/24 Annual Audit Reports

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

Each Annual Audit Report comprises:

- significant matters arising from the audit of the council's Annual Accounts.
- conclusions on the council's performance in meeting its Best Value duties.
- conclusions on the following wider scope areas that frame public audit as set out in the Code of Audit Practice 2021:
  - Financial management
  - Financial sustainability
  - Vision, leadership and governance
  - Use of resources to improve outcomes.



### 2022/23 Annual Audit Report

#### The Highland Council

January 2024



### 2023/24 Annual Audit Report

#### The Highland Council

November 2024



# Appendix 2

## Best Value Statutory Guidance

The Local Government in Scotland Act 2003 introduced a statutory framework for Best Value for local authorities. The Best Value duties set out in the Act are:

- to make arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost); and, in making those arrangements and securing that balance, to have regard to economy, efficiency, effectiveness, the equal opportunities requirement and to contribute to the achievement of sustainable development.
- to achieve break-even trading accounts, subject to mandatory disclosure
- to observe proper accounting practices
- to make arrangements for the reporting to the public of the outcome of the performance of functions.

Best Value

# The Highland Council



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ISBN 978 1 915839 68 8