

Shetland Islands Council

Assurance and Improvement Plan Update

2012–15

Introduction

1. The first Assurance and Improvement Plan (AIP) for Shetland Islands Council (the council) was published in July 2010. That document set out the planned scrutiny activity for the Council for the period April 2010 to March 2013 based on a shared risk assessment (SRA) undertaken by a local area network (LAN) made up of representatives of all of the main local government audit and inspection agencies.
2. The aim of the SRA process was to focus scrutiny activity where it is most needed and to determine the most proportionate scrutiny response over a three year period. The AIP gave an overview of the information that informed the risk assessment and showed how this links to the proposed scrutiny response.
3. The LAN met again in November 2010 to update the AIP for the period 2011-14. The AIP Update was published in May 2011.
4. This report is the result of the SRA which began in November 2011. The update process drew on evidence from a number of sources, including:
 - The annual report to the Controller of Audit and elected members for 2010/11 from the council's appointed external auditors.
 - The council's own performance data and self-evaluation evidence.
 - Evidence gathered from Education Scotland, Care Inspectorate and the Scottish Housing Regulator (SHR) (including published inspection reports and other supporting evidence).
5. The outcomes of that exercise are contained in this short report which summarises changes to risk assessments and proposed scrutiny responses. Appendix 1 to this report sets out a timetable for proposed audit and inspection activity between April 2012 and March 2015 which reflects the revised and updated scrutiny risk assessment.

Summary

6. During 2011, the council underwent a significant period of change. The council developed an improvement plan to address areas of weakness previously identified by the Accounts Commission. In

December 2011, the Commission issued a follow up report indicating that the council had taken prompt action to address the issues highlighted in audit reports and in the Accounts Commission's findings and had made good progress to date on implementing many important elements of its improvement plan. There are, however, areas where further improvements could be made.

7. The council has been working well with its partners to develop a long term vision for the Shetland Islands. Other areas of progress include establishing new political management arrangements and a new management structure. In addition, good progress has been made in developing new governance arrangements. Improvements have also been made in the financial planning and budgeting arrangements, although further progress can be made in these areas.
8. Concerns remain over areas such as aspects of financial management, including finalising the financial statements, the ongoing qualification of the accounts and resourcing of the finance function. An executive manager – finance was appointed in January 2012 to replace the interim head of finance. The new executive manager will require a period of time to settle in to the roles and responsibilities of the post. Other current workforce concerns are that a number of senior posts have interim appointees in place.
9. Also, while some progress has been made in developing performance management and planning framework (PPMF) arrangements, further work is needed. For example, in July 2011, the council agreed a Policy Direction for the PPMF but as this has yet to be fully implemented, further evidence on the effectiveness of it will be required. We will continue to keep this area under review during the annual audit process.
10. The LAN is committed to maintaining its engagement with the council between now and the next SRA/AIP refresh so that we can retain an overview of how the council is managing its response to the significant financial challenges that it and all other Scottish public sector bodies face.

National risk priorities

11. A number of core national risk priorities will be applied to all 32 councils. These are:

The protection and welfare of vulnerable people (children and adults) including access to opportunities:

- No significant scrutiny risks were identified and the LAN considered that the risk assessment remains unchanged from last year and no additional scrutiny work is planned.
- The latest Initial Scrutiny Level Assessment completed by the Care Inspectorate in April 2010 indicated moderate risk with adequate performance and moderate activity on improvement work. The Care Inspectorate conducted scrutiny work in August 2010 and the council is currently working on the three recommendations made in the inspectorate's report of June 2011.

- The council's Fostering and Adoption Services were inspected in August 2010 and received good grades for all quality themes inspected.
- There have been no upheld complaints or enforcement action against any of the council's services registered with the Care Commission in the past four years.
- No services provided by the council have been assessed as high RSA (Regulatory Support Assessment) and no services have been graded as weak or unsatisfactory.
- In January 2012, a joint inspection report on the protection of children and young people in Shetland included examples of good practice and reported that there were particular strengths in Shetland that made a difference to children and families. Three areas were identified that needed improvement and the council has agreed an action plan for improvement.

Assuring public money is being used properly:

- As part of its improvement plan the council has made significant changes to its political management arrangements. The Accounts Commission's report of December 2011 stated that *'the council approved new political management arrangements and made appointments to various posts and committees. Though the arrangements have not been in place that long, the initial indications are that they are helping the council to conduct business in a more focussed and organised way.'* The report also stated that *'The council has made significant progress in reviewing, updating and improving its governance arrangements. Though the new arrangements are still relatively new and are bedding in, the early indications are that improvement is being achieved'*. While the council has made progress developing the new arrangements, the LAN considers that these arrangements need to be assessed over a longer period of time to obtain sufficient evidence of improvement. When more evidence is received, the LAN expects that in future years the risk assessment for governance and accountability will be improved from its current position as having significant concerns and risks.
- In the area of financial management, the council has made a number of improvements although further work is required. The Accounts Commission's report of December 2011 stated that *'Some aspects of financial management have improved; the council has introduced more effective financial planning and budget setting arrangements and agreed a strategic budget plan and agreed principles to underpin its reserves policy. Budget monitoring reports to elected members have improved, but need to improve further. Some aspects of financial management remain an area of significant concern however. The latest budget monitoring report indicated that the council has significant challenges in delivering its 2011/12 budget. The process of finalising the annual accounts was problematic, the financial statements were again qualified due to the exclusion of the results of the Shetland Charitable Trust and the annual audit report to the Controller of Audit and elected members raised concerns about the resourcing of the finance function.'*

- The council addressed some of these issues in January 2012 with the appointment of the executive manager – finance and the appointment of a financial accountant. These are positive developments by the council although the benefits of the new appointees may not be achieved immediately.
- The LAN considers that, until further improvements can be evidenced, the risk assessment for financial management remains unchanged from last year with significant concerns and risks. There is no planned additional scrutiny work for governance and accountability or financial management as these areas will be covered by Audit Scotland's annual audit which will include a follow-up of the council's progress on its improvement plan.

How councils are responding to the challenging financial environment:

- In December 2011, the Scottish Government issued the proposed financial settlement for 2012/15. This indicates that the council will receive £92.401 million in 2012/13 which is a reduction of £0.969 million (0.1 per cent) from 2011/12. The proposed financial settlements providing planning figures for 2013/14 and 2014/15 indicate that there will be similar levels of reductions in these years. Other external factors such as the risk of further recession or the downgrading of economic growth could have an impact on the local government settlement.
- In November 2011, the council agreed a strategic budget plan for 2012/13 and beyond. The plan requires recurring revenue savings of £26 million to be found by 2013/14 so that a balanced budget is achieved. The level of savings required presents a significant challenge to the council. However, at a meeting in February 2012 to discuss the 2012/13 budget, councillors approved spending cuts totalling £16 million and a total revenue budget of £120 million. The council will require to identify further cuts of up to £14 million to achieve its 2013/14 budget.
- The council's management accounts overview for the first six months of 2011/12 indicated that, while significant progress had been made in identifying savings, budget revisions and additional and unexpected costs mean that there would be an overall deficit of £4 million from a total budget of £127 million. If no corrective action is taken, this would result in a larger draw on reserves in 2011/12 than planned. The report also highlighted an expected 2011/12 capital expenditure underspend of £7.2 million from a budget of £36.8 million.
- In December 2011, the council reported an expected year-end reserve balance of £219 million. The council's reserves policy sets out its intention to re-instate the reserves to a minimum level of £250 million over a ten year period. The council's plan to maintain a minimum level of reserves is subject to the actual rate of return of investments which is dependent on stock market conditions.
- The risk assessment on the council's financial position has changed from last year from 'no significant scrutiny risks identified' to an 'area of uncertainty'. This is mainly due to the significant challenges faced by the council in meeting its budget for the current year and beyond, against the

background of financial restraints imposed by the government. There is no planned additional scrutiny work for this area as it will be covered by Audit Scotland's annual audit.

12. The LAN is committed to maintaining its engagement with the council between now and the next SRA/AIP refresh so that we can retain an overview of how the council is managing its response to the significant financial challenges that it and all other Scottish public bodies face.

Areas continuing with an assessment of 'No significant risks'

13. This update focuses predominantly on those areas assessed as being uncertain or having significant risk. However, in the interest of providing a broader view of the council's overall risk assessment, it is important to highlight those areas that were previously assessed as having no significant risks which, based on additional evidence in the current year, including the Accounts Commission's review and the work of the annual audit, continue to be so. These assessment areas are:

Service Areas	Corporate Assessment	Outcomes
Education	Partnership working and community leadership	Smarter
Social Care	Community engagement	Healthier
Infrastructure Services	Equalities	Fairer
Economic Development Unit	Sustainability	Safer
Ports & Harbour Operations		Stronger
		Greener
		Wealthier

Areas of unchanged scrutiny risk assessments

14. The following comments relate to issues where perceived risks in the council's processes and activities remain unchanged since the 2011/12 AIP Update.

Area	Assessment	2011/12 Update
Governance & Accountability	Significant scrutiny risks	<p>The council has recently reviewed and updated its governance arrangements. While progress is being made, more time is required before an assessment can be made on whether the new arrangements have been successfully implemented.</p> <p>In 2010/11, for the 6th successive year, the council's financial statements were qualified as the results of Shetland Charitable Trust were omitted.</p> <p>The 2010/11 financial statements submitted for audit were not Code compliant and arrangements require to be in place to ensure this is not repeated for 2011/12. This includes ensuring</p>

Area	Assessment	2011/12 Update
		<p>sufficient finance service resources</p> <p>A new S95 officer was appointed in January 2012 but will need time to settle in.</p> <p>The council's revised governance arrangements were approved in May 2011 and include</p> <ul style="list-style-type: none"> ○ a new committee structure ○ a new executive management structure ○ updated codes of conduct for members and officers <p>A training programme has been developed for Members, including financial management and governance</p> <p>The YourBusiness@Risk survey in May 2011 found good and improving awareness of ICT issues and policies although some areas for improvement were identified. The Council is working on developing best practice guidelines.</p> <p>The National Fraud Initiative review completed by Audit Scotland showed that the council had given the exercise more priority than in previous years. There are no issues regarding arrangements to detect and prevent fraud.</p> <p>This area will be monitored by Audit Scotland as part of the annual audit process. Audit Scotland will also perform a follow-up of the council's progress on its improvement plan. This area will also continue to be monitored by the LAN.</p>
Performance Management & Improvement	Area of uncertainty	<p>In December 2011 the Accounts Commission reported that <i>'There has been some improvement in performance management and planning arrangements, but further improvement is needed in this area.</i></p> <p><i>In its improvement plan, the council committed to developing a planning and performance management framework (PPMF). The intention was that the framework would support the production of service plans and inform the budget process for 2012/13. The council also aims to implement the PPMF to support the community planning arrangements.</i></p> <p><i>In July 2011, the council agreed a Policy Direction for the PPMF and while the report contains references to the core elements of a framework (objectives, strategic drivers, accountability arrangements and a planning and budgeting timetable) the framework is rudimentary at present. For the parts of the council where planning and budgeting arrangements are already well developed, the PPMF provides a checklist to help ensure the basics are covered. Where planning and budgeting arrangements are less well developed, the PPMF alone would not be sufficient to support the improvement the council wants to make. The council has recently developed additional guidance to supplement the PPMF policy framework to improve its delivery of the objectives of this work-stream.'</i></p> <p><i>The Commission also found that 'the council has made improvements to a number of supporting systems and processes which help it to do business more effectively. Some of the commitments in the improvement plan are behind schedule and need further development, but they do not compromise the</i></p>

Area	Assessment	2011/12 Update
		<p><i>improvement plan overall'</i></p> <p>The Care Inspectorate found that there was room for improvement in the council's self-evaluation regarding child protection arrangements.</p> <p>Since 2008/09 the council has been reviewing and updating its risk registers. Due to the significant restructuring of the council this process is not yet complete.</p> <p>In July 2011 the council approved a new Planning & Performance Management Framework. This includes</p> <ul style="list-style-type: none"> • Use of Covalent • staff performance appraisal arrangements • benchmarking <p>This area will be monitored by Audit Scotland as part of the annual audit process. Audit Scotland will also perform a follow-up of the council's progress on its improvement plan. This area will also continue to be monitored by the LAN.</p>
<p>Use of resources – asset management and procurement and information management.</p>	<p>Significant scrutiny risks</p>	<p>The council's 2009 Procurement Capability Assessment (PCA) score of 16% was significantly lower than the Scottish average. Actions were identified for the council to improve the score however the council's PCA score for 2010 had not improved from the 2009 level.</p> <p>In 2010 the council established a new procurement section and established a procurement network to help progress procurement practices across the organisation.</p> <p>In 2011 an Audit Scotland follow-up on "Improving Public Sector Purchasing" found the council's procurement strategy had not been updated. A revised strategy was due to be approved by the end of October 2011 but this has been delayed and a draft was submitted to the Executive Committee in February 2012 for approval. The council intends to use this revised strategy as the basis of an action plan for focussing on the high priority areas identified by the PCA.</p> <p>There has been significant slippage of the 2011/12 capital programme with an expected underspend of £7.2m from a budget of £36.8m</p> <p>In April 2011 the post of Asset Strategy Manager was filled.</p> <p>In December 2011 the Executive Committee recommended that the council approve a new Asset Strategy.</p> <p>The council has maintained good progress in providing a stable information management environment</p> <p>The council makes good use of ICT to support and deliver services</p> <p>This area will be monitored by Audit Scotland as part of the annual audit process. Audit Scotland will also perform a follow-up of the council's progress on its improvement plan. This area will also continue to be monitored by the LAN.</p>
<p>Use of resources – people management.</p>	<p>Area of uncertainty</p>	<p>There has been a significant restructuring of senior management posts over the summer and most of the new positions have been filled. The post of director of corporate services has not yet been filled on a permanent basis.</p>

Area	Assessment	2011/12 Update
		<p>The levels of sickness days lost in 2010/11 has not improved (teachers: 6.2, others: 12.2) and nationally SIC remains in the bottom quartile.</p> <p>Key posts are vacant, under review or post-holders are due to leave. There is significant uncertainty and low staff morale in some areas. There may be risks to service delivery and to taking forward improvements if vacancies continue.</p> <p>A Workforce Efficiency Strategy has been developed which reports to the Executive Committee</p> <p>An Efficiency Partnership Group is being developed which will oversee the impact on efficiency programmes on staff.</p> <p>A Vacancy Management Panel was introduced to review the council's approach to recruitment.</p> <p>While there has been a lot of activity in this area it is too early to assess how effective this activity has been.</p> <p>This area will be monitored by Audit Scotland as part of the annual audit process. Audit Scotland will also perform a follow-up of the council's progress on its improvement plan. This area will also continue to be monitored by the LAN.</p>
Use of resources – financial management.	Significant scrutiny risks	<p>Although the council has introduced an improved budget setting process, reports issued by the council in October 2011 indicated that the council is expecting to breach its former minimum reserves floor of £250m in the current financial year. The council must ensure that budget information is comprehensive and accurate enough to support the decisions required to be made by members.</p> <p>The council has reviewed and updated its budget process. A Financial Planning & Budgeting Framework was agreed in July 2011.</p> <p>A new reserves policy has been developed that sets out the minimum balance to be held for each reserve and the amounts that should be drawn to support the Strategic Budget Plan</p> <p>The Budget Plan aims to achieve a balanced expenditure budget by 2013/14 (ie no deficit requiring to be funded from reserves)</p> <p>The Budget Plan sets out a total savings target of £26m to be achieved over the next 2 years.</p> <p>The council has established a 'Future Finances' team to oversee the budget process. The Team will provide progress reports to the CMT and will report regularly to the council through the Executive Committee.</p> <p>The council's Financial Regulations have been reviewed and will be updated during 2011/12</p> <p>There is still room for improvement in the format and content of financial reporting. Financial management remains an area of significant concern.</p> <p>This area will be monitored by Audit Scotland as part of the annual audit process. Audit Scotland will also perform a follow-up of the council's progress on its improvement plan. This area will also continue to be monitored by the LAN.</p>

Changes to 2011/12 risk assessments

15. The following table relates to risk assessments that have been changed from the 2011/12 AIP Update.

Area	2011/12 Risk Assessment	2012/13 Risk Assessment	Reason for Change
Housing	Area of uncertainty	No significant scrutiny risks identified	<p>In June 2011, the Scottish Housing Regulator carried out self assessment and on-site scrutiny activity around areas of significant risk: allocation of housing, income maximisation, asset management strategy and planning, investment, response repairs, assessment of homeless people and securing accommodation. They found progress in a number of areas and highlighted where further improvements are required. The council is currently working to address areas requiring improvement.</p> <p>We will require further assurances on the council's progress towards meeting the SHQS and ministerial targets in 2015.</p> <p>The council compares very well to others in terms of housing condition indicators.</p>
Vision & Strategic Direction	Significant scrutiny risks	Area of uncertainty	<p>In April 2011 the council approved new political management arrangements and made appointments to various posts and committees. These arrangements need time to settle in.</p> <p>Management restructuring has led to changes in key senior social work management posts. As a result there is uncertainty about future direction among front line staff.</p> <p>Progress on the council's Improvement Plan is regularly reported to committee</p> <p>A new Planning & Performance Management Framework has been developed.</p> <p>A new Financial Planning & Budgeting Framework has been agreed</p> <p>A new reserves policy has been developed</p> <p>The council has been working effectively with partners to develop a long term vision for the Shetland Islands.</p> <p>There has been significant turnover in the chief officers' group and other priorities have impinged on the time available to focus on priorities in some key areas. Chief officers have yet to establish a joint approach which provides effective leadership to staff working across services to protect children.</p> <p>While there has been much activity in this area it is too early to assess how effective this activity has been.</p> <p>This area will be monitored by Audit Scotland as part of the annual audit process. Audit Scotland will also perform a follow-up of the council's progress on its</p>

Area	2011/12 Risk Assessment	2012/13 Risk Assessment	Reason for Change
			improvement plan. This area will also continue to be monitored by the LAN.
Use of resources – financial position	No significant scrutiny risks identified	Area of uncertainty	<p>The council's strategic budget plan requires recurring savings of £26m to be found by 2013/14 to achieve a balanced budget. This significant level of required savings presents a challenge to the council. However, in February 2012 the council approved spending cuts totalling £16 million and a total revenue budget of £120 million. A further £14 million of cuts are expected in £14 million.</p> <p>The latest financial monitoring report (Dec 2011) indicates an overall deficit of £4m from a total budget of £127m if no corrective management action is taken. This would result in a larger draw on reserves in 2011/12 than planned.</p> <p>The report also highlighted an expected 2011/12 capital expenditure underspend of £7.2m from a budget of £36.8m.</p> <p>The council's reserves have fallen below £250 million for the first time in several years and, in December 2011, the council reported an expected year-end reserve balance of £219m. The council's policy to re-instate the reserves to a minimum level of £250m over a 10 year period is subject to investment returns from the stock market and in the current economic climate the required returns may be difficult to achieve.</p> <p>This area will be monitored by Audit Scotland as part of the annual audit process. Audit Scotland will also perform a follow-up of the council's progress on its improvement plan. This area will also continue to be monitored by the LAN.</p>

Review of 2011/12 scrutiny activity

16. In September 2011, on behalf of the Accounts Commission, Audit Scotland conducted a review of the progress the council had made on its improvement plan and the report was issued in December 2011. The findings of the Commission's report have been reflected in the LAN's risk assessments.
17. The SHR carried out self-assessment and on-site scrutiny around areas of significant risk and the results of this work have been considered by the LAN when conducting the risk assessments.
18. In October 2011, the Care Inspectorate carried out a joint inspection of the protection of children and young people in Shetland. The report was published in January 2012 and the findings are included in the LAN risk assessments.

Scrutiny plan changes

- 19.** The LAN's risk assessment did not result in any planned scrutiny activity beyond the existing national or planned scrutiny work. Audit Scotland's planned scrutiny in 2012 will focus on the annual audit but will include a follow-up on the progress of the council's improvement plan. The planned formal Best Value audit has been moved to 2013/14 to allow time for the council's current initiatives to work through more fully. SHR will consider possible further scrutiny work following their review of the council's annual SHQS return due in September 2012. The Care Inspectorate have no additional scrutiny work planned beyond their planned inspections. Similarly, Education Scotland does not have any planned additional scrutiny outwith their agreed inspection programme.

Scrutiny plans

Scrutiny activity in the shaded rows does not result from the shared risk assessment but is either at the request of the council eg supported self-evaluation work or national activity eg national follow-up work or work requested by Ministers.

SHETLAND ISLANDS COUNCIL		2012-13											
Scrutiny activity year 1	Date	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
	TBC												
BV focussed work - Follow-up of the council's progress with its improvement plan.													
Maintaining Scotland's Road's a follow-up report – Audit Scotland													
Housing Benefit Audit													
		2013-14											
Scrutiny activity year 2	Date	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
	TBC												
BV audit (specific timing to be confirmed)													
		2014-15											
Indicative scrutiny activity for rolling third year	Potential scrutiny bodies involved												
No specific scrutiny activity planned													

Footnotes

- The focus of the AIP Update is **strategic scrutiny activity**, that is scrutiny activity which is focused at corporate or whole service level, but there will also be baseline scrutiny activity at unit level on-going throughout the period of the AIP. This will include, for example, school and residential home inspections.
- At the request of Scottish Ministers the Care Inspectorate will lead a **Joint Inspection of Children's Services** in each local authority area in Scotland. These inspections will commence in 2012/13 starting with a development site in April/May 2012 and a cycle of inspection of services for children which will report publicly from Autumn 2012. The selection of local authority areas for inspection will be based on intelligence and risk and take account of the Shared Risk Assessment. LAN leads will be advised in due course.
- In addition, Audit Scotland will be working with scrutiny partners to pilot an approach to assessing the **delivery of outcomes by community planning partnerships**. Pilot sites will be confirmed with the LAN lead in due course.

- Audit Scotland undertake an annual rolling programme of **thematic performance audits**. The fieldwork sites are identified as part of the development of the scope for each individual audit. Fieldwork sites will be confirmed with LAN leads as each audit is developed.
- The **annual audit** of local government also comprises part of the baseline activity for all councils. In April 2008, the Accounts Commission agreed to a request from the Department for Work and Pensions (DWP) to take over the Benefit Fraud Inspectorate's responsibility for inspecting housing and council tax benefit (benefits) services in Scotland. As Audit Scotland has no inspection function, this '**benefits performance audit**' work has been incorporated into the annual audit of local government. The exact timing of the audits will be confirmed through the LAN lead.
- **Education Scotland**, through the District Inspector, will continue to support and challenge Education Services regularly and as appropriate the **Care Inspectorate** will regulate care services and inspect social work services based on the Public Services Reform (Scotland) Act 2010.
- Scrutiny bodies also reserve the right to make unannounced scrutiny visits.