The Highland Council

Report to Members and the Controller of Audit on the 2006/07 Audit

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Introduction

In 2006/07 we looked at the key strategic and financial risks being faced by the Council. We audited the financial statements and looked at aspects of performance management and governance. This report sets out our main findings, summarising key outcomes in 2006/07 and the outlook for the period ahead.

Key outcomes from 2006/07 audit

We have given an **unqualified** opinion on the financial statements of Highland Council for 2006/07.

The Council had corporate governance systems in place during 2006/07 that operated satisfactorily within a sound control environment.

At 31 March 2007 the Council had total cash backed reserves and funds of £61.62 million of which £12.264 million is earmarked and £22.594 million is in specific funds. The Council is, therefore, in a position to meet future plans, financial pressures and contingencies.

A single status agreement has yet to be implemented by the Council. This could have a significant impact on the Council's finances. It also could impact on staff morale and staff resources required to take this forward.

The Council has made significant progress in implementing its best value improvement plan with eight of the nine immediate improvement actions and all of its medium term priorities either implemented or on target.

The Chief Executive, in setting out the closing position on the corporate plan 2004-07, outlined that 125 measures were achieved or improved, 12 showed performance sustained or no change and 32 showed performance declining. The findings from this report have informed the development of the new Council's draft corporate plan for 2007-2011 which has recently been issued.

The Council completed a comprehensive review of managerial and operational structures in 2006 and implemented the changes prior to the May 2007 elections. In addition to this review the Council has a new administration and the Depute Chief Executive was appointed as Chief Executive in April 2007 and took up the post in July 2007. The current period in adapting to these changes is a challenging time for the Council.

The Council cannot yet demonstrate it has a corporate approach to the management of its assets.

As many of the activities provided by significant trading organisations are still managed in accordance with contracts which were subject to competitive tender at least ten years ago the Council needs to undertake a best value review to demonstrate it is receiving value for money from these services.

Outlook for future audits

Following the May 2007 elections, the former independent nature of Highland Council was replaced by an Independent/Scottish National Party administration. The new Council agreed its Programme for Administration (PfA) in June 2007. This strategic document has ten key themes which formed the basis for the draft corporate plan 2007-2011 presented to the Council on 25 October 2007.

The Council needs to reflect the priorities in its draft corporate plan 2007-2011 in service plans and future budgets if a policy led budgeting approach is to be adopted.

The planned implementation of the single status agreement in the Council has been delayed until 2008. Until single status is implemented the initial and continuing costs cannot be reliably estimated which represents a financial risk to the Council. In addition outstanding actual and potential claims in relation to equal pay settlements have been reviewed by the Council and £0.125 million recognised as a provision in the 2006/07 financial statements.

The co-operation and assistance given to us by Highland Council's councillors and staff is gratefully acknowledged.

Audit Scotland
30 October 2007

Introduction

1. This report summarises the findings from our 2006/07 audit of Highland Council, the first year of a continuing five year appointment. Findings are drawn together within four sections, namely, performance, financial position, governance and financial statements. Within each of these sections we have also provided an outlook setting out key issues and concerns facing the Council going forward.

2. The scope of the audit was set out in our Audit Risk Analysis and Plan (ARAP), which was submitted to the Council's Audit and Standards Committee in April 2007. Under the following strategic themes, the ARAP set out our views on the key business risks facing the Council and described the work we planned to carry out:

   - supporting political governance
   - adopting a strategic framework to deliver change
   - sustainability and efficient use of resources
   - using performance management to drive service improvement
   - working with communities and partners
   - a modern and streamlined workforce.

3. Overall conclusions about the Council's management of key risks identified through our ARAP work and other audit work conducted throughout the year are discussed throughout this report. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of members. In response, officers have set out their response and planned actions to manage the identified risks.

4. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members during the course of our audit work.

Performance

Introduction

5. In this section we summarise key aspects of the Council's reported performance during 2006/07 and provide an outlook on future performance, including our views on the current status of identified risks. We also comment on the progress against agreed improvement actions arising out of the best value audit.

Corporate objectives and priorities

6. The corporate plan for 2004 – 2007 sets out the key goals and priorities for the Council until 2007 and explains how it planned to achieve these. The plan sets out six themes, which cut across a variety of services:

   - representing the Highlands
   - working with communities and partners
   - improving quality of life
   - being open, fair and accountable
   - delivering services effectively
   - valuing and involving our staff.

7. The corporate plan also sets out the Council's expected outcomes, to ensure that:

   - government policy increasingly reflects the distinct needs of the Highlands
   - council services are responsive to the needs of individuals and communities
   - partnerships add value to the Council's investment and activities
   - more people live and work in all parts of the Highlands
   - quality of life in Highland communities is improving overall and inequalities reducing
   - the public are treated fairly by the Council
   - staff and members display high standards of decision making and conduct
   - the Council's performance continuously improves
   - staff are safe, supported and satisfied at work
   - the Council has the right people with the right skills to deliver its services effectively.

8. The Depute Chief Executive was appointed as Chief Executive in April 2007 and took up the post on 12 July 2007.

9. Following the May 2007 elections, the former independent nature of Highland Council was replaced by an Independent/Scottish National Party administration. The new Council agreed its Programme for Administration (PfA) in June 2007. This strategic document has ten key themes which formed the basis for the draft corporate plan 2008-2011 presented to the Council on 25 October 2007. Some significant decisions have been taken by the new Council based on its new priorities including the building of new care homes rather than purchasing them from the independent sector.

Overview of performance in 2006/07

Corporate plan: closing position for 2004-07

10. The Council at its meeting on 6 September 2007 received a report from the Chief Executive setting out the closing position on the corporate plan 2004-07. The report outlined that 125 measures were achieved or improved, 12 showed performance sustained or no change and 32 showed performance declining.

11. The report describes aspects of performance and achievements across each of the corporate plan themes, including:

- ***Representing the Highlands*** – council tax on second homes increased from 50% to 90%. Improving transport networks across the Highlands with a new fund worth over £20 million announced by Ministers in 2006.
- ***Working with communities and partners*** – increased numbers of staff trained in the standards of community engagement.
- ***Improving quality of life*** – an increase in affordable housing approvals from 173 in 2004 to 552 in 2006-07 and an increase from 3% to 26% in recycled waste. There was a fall in the number of care at home support hours provided/purchased for all ages from 16,524 in 2003/04 to 13,631 in 2006/07.
- ***Being open, fair and accountable*** – a significant increase from 3% to 61% of public caller buildings compliant with Disability Discrimination Act requirements. The percentage of respondents to the Council's Annual Performance Survey rating it as honest and open fell from 21% in 2003 to 19% in 2006.
- ***Delivering services effectively*** – increased satisfaction with council services from the public performance survey (80%) and an increased use of electronic transactions.

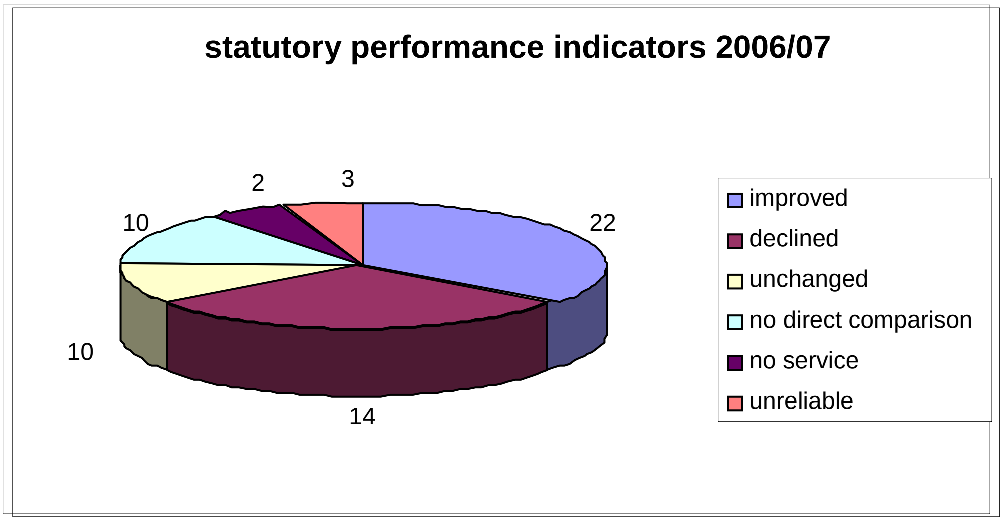
- ***Valuing and involving our staff*** – the Scottish Health at Work award at bronze level and production of a workforce management plan.

The findings from this report also informed the development of the draft corporate plan 2007-11.

12. Information on the progress made in the corporate plan 2004-07 will be included in the Council's newspaper supplement when it is published later this year. The supplement will also include the Council's statutory performance indicators, feedback from the annual performance review and the priorities for the new Council.

Statutory performance indicators

13. One of the ways of measuring the Council's comparative performance is using Statutory Performance Indicators (SPIs). A summary of performance in those indicators that can be related to the Council's priority areas is provided in the table below. Overall, improvements were achieved in more than one third of the areas covered by SPIs, with performance falling in about 23% of cases.



14. Notable improvements have been made in:
    - the percentage of council buildings that are suitable or accessible for disabled people increased from 24.9% in 2005/06 to 61.3% in 2006/07
    - the number of probationers seen within one week increased from 57% to 81%
    - the number of trading inspections for premises where there is medium risk completed within time increased from 63% to 84.4%
    - the percentage of waste recycled and composted increased from 19.9% to 26.1%.

15. However, performance has declined in the following areas:

- the percentage of invoices sampled and paid within 30 days fell from 88.8% to 83.8%
- the number and proportion of street light failures completed within 7 days fell from 98.2% to 91.9%.

The Council has being doing some work comparing SPI performance with other councils to identify areas for review or improvement.

16. Each year we review the reliability of the Council's arrangements for preparing the SPIs. Our work concluded that the Council failed to report one indicator and three indicators were considered to be unreliable. This is a deterioration from the 2005/06 position where the Council failed to report one indicator but only one was considered unreliable. In 2006/07 the Council, as in 2005/06, failed to report the SPI in respect of community care assessments. The indicators classified as unreliable are:

- learning centre and learning access point users
- abandoned vehicles
- refuse collection complaints.

The Council is to take action to address the deficiencies in collecting information for the above indicators.

Best Value audit

17. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response, the Accounts Commission introduced new arrangements for the audit of best value based on a full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out by the local auditor.

18. The best value audit of Highland Council was carried out in 2005 and the findings published in April 2006. In response, the Council approved a best value improvement plan in May 2006 setting out the thirteen improvement agenda items from the report together with the planned actions and timescales for implementation.

19. We reviewed the Council's progress in implementing the best value improvement plan and concluded that the Council has made significant progress in implementing the agreed best value improvement plan with eight of the nine immediate improvement actions and all of its medium term priorities either implemented or on target.

20. Achievements which are discussed further throughout this report include:

- a review of managerial and operational structures
- better integration of service and financial planning frameworks
- approval of a corporate strategy on workforce planning
- a number of large high value projects such as the Pathfinder Broadband contract, the proposed re-procurement of IS services and Public Private Partnership for the provision of schools (PPP2).

21. The Council still has work to do to complete one of its immediate improvement actions and one aspect of its medium term improvement actions, i.e.:

- the Council cannot yet demonstrate that it has a corporate approach to the management of its assets (this is discussed further at paragraph 32)
- best value reviews are yet to be carried out on all statutory trading operations (this is discussed further from paragraph 72)

Performance outlook – opportunities and risks

Introduction

22. As stated in paragraph 2, our ARAP identifies some of the strategic risks to Highland Council delivering on its stated objectives and priorities in the years ahead. In the following paragraphs, we comment on the progress made by the Council during the year and the key risks yet to be fully addressed. Risk exists in all organisations which are committed to continuous improvement and, inevitably, is higher in those undergoing significant change. The objective is to be risk aware, and have sound processes of risk management, rather than risk averse. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.

Supporting political governance

23. Elected members play a critical role in representing the views of the community and in ensuring that the Council responds to those views. The recent elections, bringing the introduction of proportional representation and multi-member wards, require new ways of working to support efficient representation and sharing of workload within each ward.

24. The Best Value report acknowledged the Council had recognised the need for improvements to its political and managerial structures to ensure that decisions are strategically rather than locally driven. The previous structure included both central strategic committees and local (Area) committees responsible for delivering services. A comprehensive review of alternative arrangements was undertaken in 2006 to ensure that new managerial and operational structures were agreed and implemented prior to the May 2007 elections.

25. Ward issues, with the exception of planning and licensing applications and determinations, will be dealt with through regular business meetings with officers and members in each of the wards or groups of wards. Strategic and policy issues are taken through the new strategic committee structure of the Council. Planning applications and determinations are dealt with through the Council's three Planning and Review Committees. Licensing applications and determinations are dealt with through the Council's three Licensing Committees. As this structure has only been in place for a short period of time it is too early to comment on its effectiveness.

Adopting a strategic framework to deliver change

26. As noted above, the draft corporate plan for 2008-2011 was recently prepared and issued. To facilitate this process the Council agreed its Programme for Administration in June 2007. This strategic document has ten key themes which formed the basis for the corporate plan presented to the Council on 25 October 2007. The previous corporate plan had six corporate themes and as a result the Programme for Administration represents a change of direction on some issues with an increased focus of involving Highland residents in shaping the future of their communities.

27. Work is ongoing to develop the council's existing performance management framework and model to support the new plan and assist members in their scrutiny of performance. As part of this process the Council intends to refine the performance measures and targets used to measure progress against this plan. This is discussed further at paragraph 36.

28. The previous Council had recognised a need to integrate and improve service and financial planning frameworks. As a result the Council needs to reflect the priorities in its draft corporate plan in service plans and future budgets if a policy led budgeting approach is to be adopted.

Key risk area 1

Sustainability and efficient use of resources

29. The Council currently has cash backed reserves of £61.62 million (see paragraph 59 of this report for an analysis of the reserves). The Council is in a position to meet the financial pressures on the Council in relation to delivering service improvements and ongoing issues such as implementation of a single status agreement. This issue is discussed further in the financial position section of this report. Other particular pressures on the Council's resources are discussed below.

30. The Council's plans to transfer its housing stock to the Highland Housing Association failed to gain the approval of tenants in a ballot held in October 2006. The Council is therefore required to fund the investment to bring its housing stock up to the standard required by the Scottish Housing Quality Standard. As agreed between the Council and Communities Scotland, the Housing and Social Work Committee considered a standard delivery plan in September 2007. The plan maps out the work required to meet the quality standard by 2015, the cost of the work and how it will be resourced. A further report will go to the committee on setting out agreed investment options to deliver the plan. We will monitor progress in this area as part of our on-going audit appointment.

31. A key element in the efficient use of resources is effective asset management planning, which should include:

- strategies to reduce maintenance costs
- proactive asset disposal policies
- long-term capital planning and budgeting
- robust asset management monitoring information.

32. The Council has a number of plans in place relating to schools estate, the housing stock, office rationalisation and plant and vehicles. The best value audit recommended that a more strategic approach was required via a corporate asset management planning strategy. A draft strategy has been prepared and is due to be discussed at a committee by March 2008.

Key risk area 2

33. As part of asset management processes, the Council conducts option appraisals in deciding the best way to acquire assets such as buildings. During the year we considered the Council's approach used in an unsuccessful purchase of offices in Alness. In response to our findings, the Director of Finance has revised how the repayment of loan charges is presented in option appraisals to ensure that clear decisions can be made between buying and leasing assets.

34. The Council has recognised a need to develop improved procurement practices to generate savings and/or efficiencies for release to front line services. The Council will be asked to participate in a new Scottish consortium (Scottish Excel) for the procurement of goods and services.

35. The best value report issued in April 2006 identified a medium-term priority to improve the Council's focus on delivering services that can demonstrate value for money within the Highlands' context by addressing competitiveness of services and trading operations. This is discussed further from paragraph 72.

Using performance management to drive service improvement

36. The best value report highlighted that although Council services were generally well managed, driving further improvement required elected members and officers to improve the focus on key policy objectives and the needs of service users and communities, and be driven by a desire to achieve the highest possible standards in service delivery. This requires a culture where areas in need of improvement are identified and openly discussed and in which service performance is constructively challenged. In response to the report the Council has continued to develop its performance management arrangements in a number of areas discussed below.

37. The Chief Executive and Director of Finance meet quarterly with Directors and their senior management teams to review service performance. The quarterly meetings also focus on the service plan progress, risk management and performance against targets. A performance network group has also been set up. The group's remit is to ensure management and staff have sufficient awareness and competencies to rigorously manage performance.

38. A comprehensive mapping review was undertaken to identify the current performance measures produced throughout the Council. This identified over 1,100 performance measures for which data is gathered. Workshops were held in August 2007 with each service management team to: identify the measurement framework required for the Programme for Administration; identify other key performance indicators required or to be retained; delete those measures which are redundant; and better focus the measures identified. This should assist the Council in identifying meaningful performance information and focusing resources on gathering, measuring and monitoring the relevant areas.

39. The Council conducts an annual public performance survey and the results are discussed at the senior management team before they are submitted to committee. Improvement actions to address poorer performance are included in service plans.

40. The Council has pan-Highland and service reporting arrangements in place and it is turning its attention to providing performance information at a local level. Pan-Highland reporting is done through a newspaper supplement and information in the council tax leaflet as well as from the Council's website. Service specific reporting is directed at specific service users for example in terms of schools performance and performance in council care establishments.

41. To ensure continuity of service delivery caused by system failures or disasters business continuity plan should be in place. In his annual report for 2006/07 the Head of Internal Audit identified a need to complete the framework for business continuity.

Key risk area 3

Working with communities and partners

42. Increasingly the Council is dependent on partnership working to deliver service improvements. However is has been acknowledged that whilst high level strategic themes for community partnership working were identified, these did not filter down consistently to a local level. In recognition of this, the Council has agreed new arrangements with the community planning partnership which are being implemented in 2007. A revised community plan will be issued for 2008 onwards.

43. After the election the Council established ward forums to both involve and inform the public on local issues. It is anticipated that regular meetings of ward forums will improve the focus on local service delivery and facilitate improved community engagement, which will improve community planning. The effectiveness of this approach will be monitored when the process is fully established.

A modernised and streamlined workforce

44. The successful delivery of council services, whether directly by council staff or by others and monitored by council staff, depends on the capacity, capability and competency of the workforce. Workforce related issues are at the forefront of local government priorities at this time and the Council has committed significant resources to resolve equal pay and single status issues.

45. The best value report identified a need to develop a corporate management strategy to meet current and future demands and plan its way through the staffing pressures it was experiencing. The Council has now approved and is implementing a corporate strategy on workforce planning.

46. The Council set a target of reducing management costs by 20% and staffing levels by 500 in order to meet budget pressures. The Council plans to achieve this through its review of services arising from the review of structures discussed at paragraph 24. The Council has also reduced the number of services from nine to seven by merging the Chief Executive's Office and Corporate Services and merging the Housing Service and Property and Architectural Services. The changes in managerial and organisational structures and the merging of service departments have resulted in the rationalisation of staff resources, particularly at management level. The Council has almost completed its process of redeployment and redundancies to service the new structures and will probably achieve the targets on reducing costs by April 2009.

National studies

47. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the recently include reviews on sustainable waste management and dealing with offending by young people. Further information on these studies and reports can be obtained from Audit Scotland's web page at www.audit-scotland.gov.uk

Sustainable waste management

48. There is an increasing awareness of the need to protect the environment and to promote the sustainable use of resources. As a result of UN conventions and EU Directives, the UK government introduced a landfill tax to discourage the disposal of waste in landfill sites and set a (non-statutory) target that Local Authorities should recycle 25% of household waste by 2000. This target was not achieved.

49. Further EU Directives required Member States to "take appropriate steps to encourage the prevention, recycling and processing of waste" and to set out details of measuring processes within waste management plans. Subsequently a series of targets was set over the period to 2020 to reduce the amount of biodegradable waste going to landfill. The EC can impose a fine on the UK of up to £350,000 per day if it fails to meet its targets.

50. The purpose of Audit Scotland's study was to examine the performance of Local Authorities, the Scottish Environmental Protection Agency (SEPA) and the Scottish Executive in reducing the amount of municipal waste being disposed of as landfill, including the impact and value for money achieved by the investment in this area.

51. The key findings from Audit Scotland's national report published in September 2007 highlighted that:

- Scottish councils need to achieve rapid reductions in the amount of biodegradable municipal waste disposed of in landfill to meet the requirements of the Landfill Directive
- significant progress has been made in meeting interim recycling targets but increasing the recycling rate will provide greater challenges
- in contrast to the progress on recycling, the slow progress in developing residual waste treatment facilities means there is a significant risk that the Landfill Directive targets may not be met
- councils, the Scottish Government and other agencies need to work more effectively together to make rapid progress in waste minimisation, recycling and waste treatment to achieve the Landfill Directive targets.

The report includes a number of recommendations that include undertaking a technical evaluation of kerbside recycling systems and ensuring councils' current waste management systems offer best value. The Council should consider the findings in the report to identify any potential areas for local improvement.

Key risk area 4

Dealing with offending by young people

52. Audit Scotland published reports on *Dealing with offending by young people* in December 2002 and November 2003. Audit Scotland undertook a follow-up study review to ascertain improvements in performance since 2002 of agencies who deal with young people who offend in the context of a changing policy landscape.

53. The key findings from the study are that the Scottish Government has shown a consistent commitment to improving youth justice services and has increased funding for youth justice services from £235 million in 2000/01 to £336 million in 2005/06, together with practical support and guidance to help youth justice services to improve performance. However, the impact of this on services and outcomes is not yet demonstrated. Nationally limited outcome measures are available and there are weaknesses in performance management arrangements. Therefore, it is not possible to assess the effectiveness of the additional expenditure in reducing offending and improving the quality of life of local communities.

54. The report includes a number of recommendations on performance management and improvement, service delivery and use of resources, and joint working. The Council should consider the findings in the report to identify any potential areas for local improvement.

Key risk area 5

Scotland’s School Estate

55. A national review is being carried out of how effective recent investments in the Scottish school estate have been in terms of improving the quality of the learning and teaching environment. The performance of the Scottish Government and local authorities in improving the schools estate within the context of the 2003 strategy ‘Building our Future’ – Scotland’s school estate will be considered. This work is currently in progress and due to be reported by February 2008.

Financial Position

Introduction

56. In this section we summarise key aspects of the Council's reported financial position and performance to 31 March 2007, providing an outlook on future financial prospects, including our views on potential financial risks. Under the strategic theme of 'sustainable and affordable use of resources', our ARAP recognised the significant challenges being faced by the Council both in relation to delivery of its improvement agenda but also with regard to managing ongoing financial pressures such as implementing single status. Our findings and key messages are set out in this section.

Council tax and the general fund

Operating performance 2006/07

57. The presentation of the 2006/07 financial statements has changed significantly from the previous year, as a result of changes to the *Code of Practice on Local Authority Accounting in the United Kingdom 2006 (the SORP)*. In place of the previous consolidated revenue account, the financial statements now include an income and expenditure account and a statement on the movement of the general fund balance which reflects items that need to be included/excluded when determining a local authority's budget requirement and the level of council tax.

58. The Council's net operating expenditure in 2006/07 was £435.815 million. This was met by government grants and local taxation of £458.437 million, resulting in an income and expenditure account surplus of £22.622 million. As explained above, this position is required to be shown for accounting purposes, and this surplus is then offset by a net deficit on the statement of movement on the general fund balance of £13.491 million, resulting in a general fund surplus of £9.131 million. When this surplus is added to the general fund balance brought forward from 2005/06, the Council has a general fund balance of £30.133 million at 31 March 2007. Variances were reported against budget in the following areas:

- an underspend of £1.369m in the budget for Education, Culture & Sport (ECS);
- an overspend in the year of £0.369 million in the social work service budget;
- loans charge interest and repayments cost coming under budget by £1.789 million;
- improved collection rates and an increase in the number of taxable properties resulted in the Council collecting £5.267 million more council tax than budgeted.

Reserves and balances

59. At 31 March 2007 the Council had total cash backed reserves and funds of £61.620 million, including an insurance fund that underpins the Council's self-insurance arrangements, a renewal and repair fund to finance expenditure incurred in renewing and repairing fixed assets and a capital fund.

Reserves and Funds

Description	2005/06 £ Million	2006/07 £ Million
General Fund	21.002	30.133
General Fund – Housing revenue account balance	9.410	8.893
Capital Fund	17.363	20.769
Renewal and Repair Funds	1.278	1.285
Insurance Fund	-	0.540
	49.053	**61.620**

60. The Council aims to maintain a minimum working balance of £14 million. At 31 March 2007, the Council had £30.133 million. Of this total, £12.264 million was earmarked for specific purposes leaving £17.869 million as a working balance. The Council is, therefore, achieving its reserve strategy and is in a position to meet future financial plans and contingencies.

61. Significant earmarked amounts at 31 March 2007 include £2.869 million for devolved school management balances held by individual schools, £2.049 million held in an 'spend to save' fund and £1.504 million in an energy investment fund.

Group balances and going concern

62. The widening diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to present fairly the activities of an authority. In 2006/07 the Council has included two subsidiaries and four associates in its group accounts disclosures, which comply with the SORP. The Council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. The overall effect of the inclusion of these associates on the group balance sheet is to reduce reserves and net assets by £251 million, mainly as a result of pension liabilities.

Spending on assets and long-term borrowing

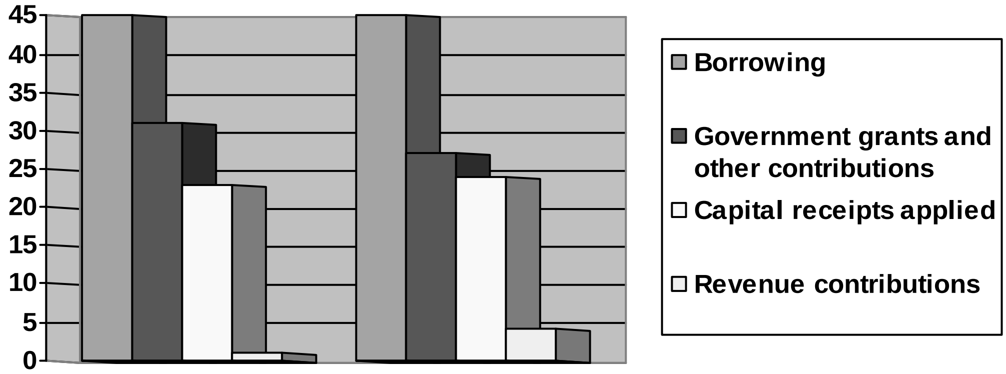
Capital performance 2006/07

63. Following the introduction of the prudential code in April 2004 the Council can decide locally on a capital investment strategy which must meet best value requirements as well as being affordable. The Council's prudential indicators for 2006/07 were set in February 2006 and a net capital budget of £38.735 million was set.

64. Net capital expenditure in 2006/07 totalled £32.48 million, falling from £47.025 million in 2005/06. Capital investment in the last two years was funded as shown below. The proportion of capital expenditure funded by debt has remained unchanged over the past two years.

Sources of finance for capital expenditure 2006/07

Exhibit 1: Sources of Finance for capital expenditure (%).



65. There was slippage of £6.255 million in the non-housing revenue account capital programme representing 16% of the planned programme. However, the housing revenue account programme was broadly delivered as planned. The principal underspends on the non-housing revenue account capital programme included:

- Scottish Executive grant for School Buildings Improvement Fund being greater than anticipated and consequently £1.34 million was unused in the year and is carried forward to 2007/08
- underspend on social work of £1.223 million against a target of £1.952 million due to delays in starting a number of projects
- underspend of £1.001 million in the strategic property management programme due to delays caused by a lack of internal and external resources in both the professions and contractors
- underspend of £0.608 million in the accommodation rationalisation budget as a result of structural problems on the Drummuie project.

Forward capital programme

66. General services capital plans for 2007/08 and 2008/09 anticipate net annual capital expenditure of £44.098 million and £42.535 million respectively.

67. The Council is actively managing its capital programme in 2007/08 and reports are regularly submitted to Committee on progress against plans. The main area of underspend, to date, is in the social work programme of approximately £2 million due to slippage in elements of the refurbishment of care homes programme. Going forward, officers need to continue to closely monitor the achievement of the capital programme to ensure corporate priorities are met.

Key risk area 6

68. At its meeting on 28 June 2007, the Council decided not to progress the procurement of five care homes from the independent sector and instead agreed to build new care homes using prudential borrowing. We were advised that a report will go to the Council in December 2007 on proposals to build care homes over a period from 2008/09 to 2011/12. We will monitor the progress of this project as part of our ongoing audit appointment.

Borrowing and temporary investments

69. In recent years, a number of councils have disclosed significant amounts under investments largely as a result of decisions to take advantage of favourable interest rates when considering borrowing requirements to fund planned capital programmes. In these instances, councils are still required to demonstrate their consideration and compliance with the conditions set out in Audit Scotland's long standing Note for Guidance (NFG) 96/5. This guidance sets out the key factors to be considered by a council when determining whether the decision to borrow in advance of need and lend on temporarily is reasonable.

70. Highland Council has short term investments of £59.401 million at 31 March 2007, compared to £9.950 million at the same point last year. The Director of Finance, in his letter of representation, has informed us that the movement is largely due to an increase in council balances of £12.567 million, a holding of £12 million pending repayment of PWLB debt in early April 2007 and increased borrowing for the capital programme of £19.399 million.

71. We undertook a review of borrowing against the guidance contained in NFG 96/5 and consider that the Council has complied with the requirements of the guidance.

Significant trading operations

72. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period. The first three year period ended in 2005/06. The Council has seven STOs: roads and community works; fishery piers and harbours; building maintenance; catering; building cleaning; vehicle maintenance and project design. All of the STOs achieved the three year break even target in 2006/07.

73. In 2005/06 the Council made additional payments to STOs to meet the costs incurred for equal pay settlements. These additional payments impact on the achievement of the financial target to breakeven over a rolling period of three years until 2007/08. We received a specific representation from the Director of Finance that if the activities undertaken by the STOs were transferred instead to a private contractor, TUPE legislation would apply and the employees would retain the same terms and conditions. The Council, therefore, would require to make similar payments to a contractor for these costs. We accepted this on the basis that the Council has agreed carry out best value reviews on the STOs, which include reviews of service level agreements and charging structures, by 31 March 2008.

74. Despite the Council's assurances, to date the only one review has been completed. The building maintenance STO, as part of the preparation for the housing stock transfer, had carried out a best value review with the assistance of external consultants, to determine the most efficient service delivery options for building maintenance. The outcome of the review was to produce an action plan for modernising the building maintenance service including updating the service level agreement, harmonising labour conditions from April 2007, introducing a contractor IT system and reviewing contract processes and documentation. We will review progress in this area as part of our on-going audit appointment.

75. As we reported in 2005/06, officers had agreed that service level agreements required updating. Many of the STO activities are still managed in accordance with service level agreements which were subject to competitive tender at least ten years ago. In this situation the Council cannot demonstrate that the STOs are delivering best value for the council. The Council should compile a timetable for completion of best value reviews of the STO activities.

Key risk area 7

Pension funds

76. The Highland Council is the administering authority for the Highland Pension Fund (HPF). The net assets of the fund at 31 March 2007 totalled just under £825.425 million. The funds are administered on behalf of a number of councils and other bodies, whose employees are members of the fund.

77. Accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescales are long and the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. *Financial Reporting Standard 17 (Retirement benefits*) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised in the financial statements.

78. A recent Audit Scotland report on public sector pension schemes highlighted that the combined funding shortfall and unfunded liabilities of the six main public sector pension schemes in Scotland may be as high as £53 billion. A significant amount of this deficit relates to unfunded schemes. There are proposals to reduce the ongoing cost by amending the local government pension scheme, although these proposals have not yet been implemented.

79. Highland Council, as the administering authority for the HPF, employs external fund managers to manage investment assets. Over the year, net assets of the fund increased on a market value basis by approximately £79 million.

80. The Council’s own estimated pension liabilities at 31 March 2007 exceeded its share of assets in the pension fund by £80 million, reducing from £127 million in the previous year. A full actuarial valuation of the Highland Pension Fund was reported in March 2005. Factors such as the volatile stock markets and increasing life expectancy have resulted in the funding level, calculated as the ratio of fund assets to past service liabilities, falling from 105% at 31 March 2002 to 92% at 31 March 2005. The actuary is required to make a three-year assessment of the contributions that should be paid by the employing authorities to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions, normally 5% to 6% of salary. This shows that budgeted contributions are expected to rise from 270% of employee contributions in 2006/07 to 280% in 2007/08 to 290% in the 2008/09 financial year.

81. The Council also has an obligation to meet a proportion of the pension expenditure of the joint boards and committees of which it is a constituent member. The main commitments are to the Northern Joint Police Board, Highland and Islands Fire Board and the Highland and Western Isles Valuation Joint Board. These bodies had an excess of pension liabilities over assets at 31 March 2007, and a share of these liabilities will be paid by the Council as they fall due.

Financial outlook

Current budget

82. The Council’s revenue budget for 2007/08 was approved in February 2007. The budget is based on a band D council tax level of £1,163 which is an increase of 2.47% on the previous year. The budget policy adopted for 2007/08 was to base resource assumptions on indicative council tax levels and notified grant settlement. The final budget assumed the use of £2.036 million of balances.

83. In 2007/08 the Council estimates that it will receive total central government grant of £412.59 million. The budget strategy reflects this estimate and reflects growth in expenditure for education, culture and sport (£4.4 million), social work (£3.5 million), transport, environmental and community (£2.4 million) and homelessness and supporting people (£1.2 million).

Equal pay

84. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an Employment Tribunal. Following cases pursued against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2005/06.

85. As detailed in our 2005/06 report, estimated costs of £8.2 million were recognised in the financial statements for the total one-off cost of dealing with the equal pay legislation. The Council sought to limit its exposure to the financial risk associated with equal pay claims by offering equal pay compensation payments to specific groups of employees as part of a compensation package. Settlement has now been made for the majority of staff receiving offers. Outstanding actual and potential claims in relation to equal pay settlements have been reviewed by the Council and £0.125 million recognised as a provision in the 2006/07 financial statements.

Single status

86. In 1999 a single status agreement was reached between Scottish local authorities and trades unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). There was a presumption that single status would be cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.

87. The original national single status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, was extended by agreement between local authorities and unions to April 2004.

88. The Council has made a provision of £3.925 million in the financial statements for the cost of implementing a single status agreement. An agreement is not yet finalised and the provision is based on broad estimates of likely financial implications, initial high level modelling work and suggested outcomes in other similar authorities. It is anticipated that a report will be presented to the Council on the subject in the near future with proposals for implementation in 2008.

89. Until single status is implemented the initial and continuing costs to the Council cannot be reliably known. This represents some financial risk to the Council. Evidence from other councils is that variation in the level of potential costs can be up to 10% of the current pay-bill on a continuing basis. The Council has estimated the full cost of implementation to be in the range of 5 to 10% of the current paybill. In implementing the agreement, the Council needs to maximise the value for money from its investment in staff. In addition to the financial risks the council faces the impact on staff morale and resources needed to implement an agreement.

Key risk area 8

Efficient government

90. As part of the continuing drive to improve the efficient use of resources committed to delivering public services, the Scottish Government expect public sector organisations to apply the principles of the efficient government initiative in their day-to-day operations with an aspiration to achieve recurring efficiency gains of £1.5 billion by 2007/08. In the case of councils, efficiency savings have been incorporated into the annual financial settlement provided to councils by the Executive. The principles of the efficient government initiative encourage the delivery of services for lower unit cost without compromising the quality of the service provided.

91. During 2006, councils across Scotland recognised that as part of their partnership arrangement with the Scottish Executive, they had a responsibility to report efficiencies on the Executive's five key operational themes as set out in *Building a Better Scotland* (procurement, absence management, asset management, shared services and streamlining bureaucracy) on a consistent basis. As a result, the Improvement Service was commissioned to devise a set of standard measures which would allow councils to publish unaudited efficiency statements on a common basis. Guidance was issued to all councils in May 2007.

92. Highland Council has recognised the importance of delivering efficiency savings as an integral part of service delivery. The Council's Budget Working Group directs and promotes the efficient government agenda. The 2006/07 efficiency statement reports that the Council achieved total cash efficiency gains of £6.52 million. These are summarised in the table below.

Claimed efficiencies in 2006/07

Efficient Government Theme	Cashable efficiency £m
Staff restructuring	1.087
Procurement	0.358
Asset management and procurement	0.248
Other service reviews and process improvements	4.827
Total efficiencies	**6.520**

93. The efficiencies achieved and reported for the year include savings as a result of managing change within the teaching profession, review of visiting specialist teachers and an increase in the council tax collection rate. In common with other councils, in order to claim efficiencies under the efficient government initiative, the Council needs to demonstrate that service outcomes have been maintained or improved and to evidence the link between resources and performance measurement.

Key risk area 9

94. Despite the efficiencies achieved the Council recognises a need to develop a procurement strategy and improved procurement practices to generate savings and/or efficiencies for release to front line services. See paragraphs 34 and 104 for further details.

Governance

Introduction

95. In this section we comment on key aspects of the Council's governance arrangements during 2006/07. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2006/07

96. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Based on the work undertaken, we concluded that the Council had systems in place that operated well within a sound control environment.

97. A corporate governance assurance statement is included within the financial statements, which provides a commentary by the Convenor and the Chief Executive on progress made during the year in taking forward issues to be addressed to comply with the Local Code of Corporate Governance. The statement highlighted areas where the Council requires making improvements in 2007/08 including ensuring the budget process is suitably linked to the corporate plan and service plans; developing a system of performance review and appraisal for directors and completing the remaining actions in the best value improvement plan.

Audit and Standards Committee

98. Effective scrutiny is central to good governance, with a significant role for councillors to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda. The success of an audit committee as part of the Council's scrutiny arrangements is dependent on its members.

99. Prior to the elections, our assessment of the Audit and Standards Committee was that it adhered to CIPFA's guidance note *Audit Committee Principles in Local Authorities in Scotland* and provided a sound contribution to the overall control environment. An Audit and Scrutiny Committee was established following the May 2007 elections. The membership and role of the committee has changed considerably and a new chairman was appointed. A review of the new committee's compliance with CIPFA's guidance note will be completed during 2007/08.

100. The Council's Audit and Standards Committee met in accordance with the regular cycle of committee meetings and took reports from both internal and external audit.

101. The internal audit service outlined its planned audit work in a strategic plan for 2006/07 and this was approved by the Audit and Standards Committee. The Head of Internal Audit reports progress to the committee against this plan quarterly and in an annual report, which demonstrates the annual plan was achieved.

Internal Audit

102. In December 2006, CIPFA published a revised *Code of Practice for Internal Audit in Local Government*, which updated the previous 2003 code. We carry out an annual review of the Council's internal audit arrangements and found that during 2006/07, the internal audit service continued to operate in accordance with the Code.

103. All reports prepared by internal audit are reviewed and considered as part of our audit. We concluded that we were able to place reliance on the following specific pieces of work in 2006/07:

- main accounting system
- creditor payments
- council tax
- budgetary control
- housing and council tax benefits

Systems of internal control

104. In his annual report for 2006/07 the Head of Internal Audit provided his opinion that, based on the internal audit work undertaken during the year, the Council's corporate governance arrangements were adequate and operating effectively, with a number of exceptions including:

- the need to complete the framework for general business continuity
- a better level of training is required for staff on financial regulations, including within the induction process
- improving the risk register for some services to identify the links with corporate themes, service plans, and also with information relating to target and actual review dates
- the need for an overarching procurement strategy
- a lack of uniformity of control over grant income and as a result the Head of Internal Audit was unable to provide assurance about whether available grants were timeously and accurately claimed and recorded

- a lack of proactive work being undertaken to recover the £9.7 million of community charge due to the Council.

105. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on a number of the Council's main financial systems. Internal Audit's work referred to at paragraph 103 was considered as part of these assessments. We assessed the following central systems as having a satisfactory level of control for our purposes:

- payroll
- creditors payments
- housing rents
- main accounting system
- council tax
- business rates
- debtors and income

106. As part of our 2006/07 audit we also carried out a review of the Council's computer services. We concluded that the Council has a satisfactory Information and Communications Technology (ICT) governance process in place. However, we concluded the management of the ICT function experiences significant resource pressure due to the procurement for ICT services project and the implementation of the Pathfinder North project for broadband provision across the North of Scotland.

107. We found a number of examples of good practice including:

- the Digital Highland Programme Board provides the overall governance for eGovernment and other ICT related projects within the Council
- arrangements are in place to ensure that the agreed levels of ICT service are delivered by Fujitsu Services.

108. We identified a number of areas for improvement including:

- the Council's ICT strategy (*eGovernment Transformation Programme Framework*) and IT security policy are several years old and are due for review
- network accounts of users leaving the Council are not always disabled promptly, which could lead to unauthorised access to ICT services.

109. In response to our findings, the Council is implementing an improvement action plan to strengthen arrangements in this area. We will monitor progress made throughout our audit.

Prevention and detection of fraud and irregularities

110. At the corporate level, the Council has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption. These arrangements include an anti-fraud and corruption policy and response plan, a whistle blowing policy, codes of conduct for elected members and staff, and defined remits for relevant regulatory committees.

NFI in Scotland

111. In 2006/07 the Council again took part in the National Fraud Initiative (NFI) in Scotland. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. For 2006/07 the exercise was extended to include information about tenants and councils were asked to submit further specified datasets where the risks merited their inclusion. The NFI has generated significant savings for Scottish public bodies (£27 million to 2005) but, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

112. The NFI 2006/07 results (data matches) were made available to councils on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the Council's involvement in NFI 2006/07 during the course of our audit.

113. The Council has responded positively to the NFI and has adopted a structured approach to the analysis of the 2,589 matches arising from the 2006/07 exercise. The initial focus was on investigating the 'high' risk matches first. Progress is monitored through regular reviews by the Revenues Manager and it is anticipated that all NFI data will have been investigated before the final return is due to be submitted at the year end.

114. Over half the matches relate to benefit claimants and the Council's specialist Fraud Section progressed them with cases involving Income Support and Job Seekers Allowance being referred to the Department of Work and Pensions (DWP) for further investigation. The matches relating to payroll and rents were all reviewed and the Council is carrying out investigations where appropriate. As part of the work done by the Council a number of overpayments were identified amounting to £47,700 and the Council are currently taking recovery action to reclaim £46,000 from five separate cases.

Future outlook

115. CIPFA/SOLACE have recently produced *Delivering Good Governance in Local Government – Framework* which sets out principles and standards to help local authorities to develop and maintain their own codes of governance and discharge their accountability for the proper conduct of business. Highland Council are aware of this new guidance and are awaiting the publication of the Scottish guidance notes before reviewing their corporate governance structures against the framework.

Financial Statements

Introduction

116. The financial statements are an essential means by which the Council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources. In this section we summarise key outcomes from our audit of the Council's financial statements for 2006/07. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues. We audit the financial statements and give an opinion on:

- whether they present fairly the financial position of the Council and its expenditure and income for the year; and
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

117. We also review the statement of assurance on corporate governance by considering the adequacy of the process put in place by the Council to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the Council.

Overall conclusion

118. We have given an **unqualified** opinion on the financial statements of Highland Council for 2006/07.

119. The Council's un-audited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation processes and working papers were generally good and this enabled the audit to progress smoothly. Audited accounts were finalised prior to the target date of 30 September 2007 and are now available for presentation to the Council and publication.

Accounting practice

120. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice* (the 'SORP'). The 2006 SORP required a number of significant changes to be made to the 2006/07 financial statements to make them more consistent with the accounts of other public and private sector entities. These included:

- replacement of the consolidated revenue account with a traditional income and expenditure account
- a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit
- replacement of the statement of total movement in reserves with a statement of total recognised gains and losses
- similar changes to the housing revenue account
- parallel changes to the group accounts that would result in them being easier to understand and have a common format to single entity statement of accounts
- restatement of 2005/06 comparative figures.

121. Overall, we were satisfied that the Council had prepared the financial statements in accordance with the revised SORP.

122. There was one adjustment made to the figures included in the unaudited accounts provided for public inspection and this had no effect on the income and expenditure account.

Equal pay/single status

123. As discussed at paragraph 85 outstanding actual and potential claims in relation to equal pay settlements have been reviewed by the Council and £0.125 million recognised as a provision in the 2006/07 financial statements. As discussed at paragraph 88 a provision of £3.925 million is included in respect of the estimated costs to implement a single status agreement.

Council tax/NDR reconciliations

124. Our 2006/07 audit work identified that reconciliations between the council tax and non domestic rates systems and the records held by the Highland and Western Isles Valuation Joint Board were completed to July 2006. However, no further work was undertaken in the year to 31 March 2007. This issue has been raised for a number of years and we were informed that regular reconciliations would take place in 2006/07. Although we have been able to take assurance from other sources in order to be satisfied that the accounts are not materially misstated, regular reconciliations are fundamental components of good internal control. Reconciliation procedures should be reviewed and improved prior to the preparation of the 2007/08 financial statements.

Key risk area 10

Common Good assets

125. In the year to 31 March 2007, the Council undertook a revaluation of common good assets which resulted in an increase in value from £15.973 million at 31 March 2006 to £35.791 million at 31 March 2007. The vast majority of the increase relates to a single asset in Nairn. From this exercise the Council has recognised a further need to review the content and valuations held on the common good asset register. Recently some draft guidance on accounting for common good funds has been issued. In order to comply with such guidance it is important that the Council establish accurate information on common good assets where it is possible to do so. Progress made will be reviewed throughout our audit appointment.

Key risk area 11

Legality

126. Each year we request written confirmation from the Director of Finance that the Council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Director of Finance has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the Council's management team, the financial transactions of the Council were in accordance with the relevant legislation and regulations governing its activities.

127. Local authorities with registered charitable bodies (i.e. registered trust funds) are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. It has now been agreed with the Office of the Scottish Charities Regulator (OSCR) that as an interim measure in 2006/07, reliance can be placed on the existing disclosures for trust funds in the Council's financial statements, supplemented by appropriate working papers. Further discussions between OSCR and CIPFA will take place in respect of the requirements for 2007/08 onwards.

128. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

129. Overall the Council is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It has a record of responding positively to audit issues and to changing accounting rules. Challenges ahead include a number of changes that have been made to the 2007 SORP.

130. The main change is that the 2007 SORP requires authorities to comply with financial reporting standards (FRS) 25 and 26 in respect of loans, from 2007/08. This will result in large expenditure entries to the income and expenditure account as the SORP requires premiums on loans which have been rescheduled to be written off in line with the FRSs. At present, councils are able to write off premiums over the period of the replacement loan, which can be up to 40 to 50 years. Regulations restrict the write off periods for new premiums incurred on loans with lender's option, borrower's option (LOBOs) from 1 April 2007 to a maximum of 20 years. These changes do not impact on council tax levels however.

131. Other changes include:

- changes to capital accounting requirements to introduce a revaluation reserve and capital adjustment account
- a requirement for further information to be disclosed in respect of charitable funds.

132. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2008/09. The government also announced its intention to publish Whole of Government Accounts on an IFRS basis from 2008/09. It was recognised that there would need to be discussions with CIPFA/ LASAAC about the introduction of IFRS-based accounts for local government. Existing IFRS do not address PFI accounting in the public sector, although they do address how these transactions should be accounted for in the private sector. The IFRS is based on who controls the services to be provided, to whom and at what price; and who controls the residual interest at the end of the PFI. The Treasury are currently considering the appropriate form of accounting for the public sector side of PFI transactions. If IFRS principles, or similar, were applied in the public sector then many PFI assets are likely be brought onto public sector balance sheets.

Final Remarks

133. We have made a number of recommendations in the various reports we issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate.

134. Attached to this report is an action plan setting out the key risk areas identified by the audit which we are highlighting for the attention of members. In response, officers have considered the issue and have agreed to take the specific steps set out in the column headed ‘planned management action’. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management’s response to the identified risks.

135. The co-operation and assistance given to us by Highland Council’s members and staff is gratefully acknowledged.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Key Risk Area	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	28	**Corporate plan:** The Council needs to reflect the priorities in its draft corporate plan 2007-2011 in service plans and future budgets if a policy led budgeting approach is to be adopted. ***Risk: the lack of a clear linkage between the corporate plan and resources may result in plans not being met.***	The new administration and Chief Executive are committed to ensuring that the priorities in the new corporate plan are reflected in service plans and future budgets.	Chief Executive/ Director of Finance	March 2008
2	32	**Asset management plan:** The Council does not currently have a corporate asset management planning strategy. ***Risk: assets may not be used effectively and procurement decisions may not reflect the achievement of corporate priorities.***	A draft corporate asset management planning strategy will be submitted for agreement by the Council.	Director of Housing and Property Services/ Director of Finance	March 2008
3	41	**Business continuity planning:** The Head of Internal Audit In his annual report for 2006/07 identified a need to complete the framework for business continuity. ***Risk: the delivery of services may be disrupted due to an unplanned event.***	The Council will develop a framework for business continuity.	Chief Executive	June 2008
4	51	**Sustainable waste management:** Audit Scotland published a report on sustainable waste management in September 2007 which included a number of recommendations for the consideration of councils. ***Risk: the opportunity is not taken to consider the findings of the report and improve waste management in the Highlands.***	The Council will review its performance against the national report.	Director of Transport, Environmental and Community Services	March 2008

Key Risk Area	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	54	**Dealing with offending by young people:** Audit Scotland's report on dealing with offending by young people includes a number of recommendations on performance management and improvement, service delivery and use of resources, and joint working which should be considered by councils. ***Risk: the opportunity is not taken to consider the findings of the report and improve services in the Highlands.***	The Council will review its performance against the national report.	Director of Social Work	March 2008
6	67	**Capital programme:** There is slippage on the non-housing capital programmes. ***Risk: the council may not deliver its capital projects on time, which impacts on the achievement of corporate priorities***	The Council is actively managing its capital programme in 2007/08 and reports are regularly submitted to Committee on progress against plans.	Director of Finance	April 2008
7	75	**Significant trading operations (STOs):** Many of the STO activities are still managed in accordance with service level agreements which were subject to competitive tender at least ten years ago. ***Risk: the council will not be able to demonstrate best value in the delivery of some of its services.***	A timetable will be compiled to complete options appraisals on STO services. These appraisals will be used to identify how best value can be achieved in delivering these services.	Director of Education, Cultural and Sports Services/ Director of Transport, Environmental and Community Services	February 2008
8	89	**Single status:** The council has not yet implemented a single status agreement. ***Risk: the initial and continuing costs of implementing an agreement cannot be reliably estimated. There is also the risk of an impact on staff morale and resources needed to implement an agreement.***	It is anticipated that a report will be presented to the Council on the subject in the near future with proposals for implementation in 2008.	Chief Executive	December 2008

Key Risk Area	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
9	93	**Efficient government:** In common with other councils, in order to claim efficiencies under the efficient government initiative, the Council needs to demonstrate that service outcomes have been maintained or improved and to evidence the link between resources and performance measurement. ***Risk: there is a lack of evidence to support claims for efficiencies.***	The Council will maintain and develop its procedures to demonstrate it has achieved efficiencies and maintained or improved service outcomes.	Director of Finance	Ongoing
10	124	**Council tax and non-domestic rates:** Reconciliations between the council tax and non domestic rates systems and the records held by the Highland and Western Isles Valuation Joint Board were completed to July 2006 only. ***Risk: the absence of reconciliations between the Assessor's systems and the Council's systems for council tax and non-domestic rates means that there is a lack of assurance that all income is properly accounted for***.	Reconciliations will be completed by the end of the financial year.	Director of Finance	April 2008
11	125	**Common good assets:** Draft guidance on accounting for common good funds has recently been issued. In order to comply with such guidance it is important that the Council establish accurate information on common good assets where it is possible to do so. ***Risk: the Council may not be aware of the extent and value of assets owned by Common Good funds.***	The Council will complete a review to establish accurate information on common good assets.	Chief Executive/ Director of Housing and Property Services/ Director of Finance	June 2008