

Comhairle Nan Eilean Siar

**Report to Members and the Controller of Audit
on the 2007/08 Audit**



October 2008

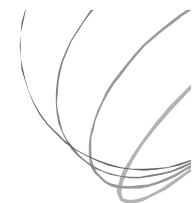


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Key Messages

Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by the Comhairle. We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our main findings, summarising key outcomes from the 2007/08 audit and the outlook for the period ahead.

Key outcomes from 2007/08 audit

We have given an **unqualified** opinion on the financial statements of Comhairle nan Eilean Siar for 2007/08. We have, however, drawn attention to a failure to comply with the statutory requirement that all significant trading organisations break even on a rolling three year basis. For the three year period to 31 March 2008, two trading organisations failed to achieve the statutory requirement. The Comhairle intend to review each of these services and contracts soon to ensure that they both meet best value requirements.

The Comhairle incurred a deficit of £1.019 million in 2007/08 against a budgeted deficit of £0.813 million. Budget overspends were incurred by Social Work, Environmental and Protective Services and Technical Services. These overspends were offset by an under spend in Education and other savings, including external interest payments, joint board requisitions and a further BCCI dividend. The unallocated general fund balance at 31 March 2008 is £3.9 million, compared to a minimum balance target of £3 million. A range of financial issues which could impact on the reserve position are highlighted in the section below.

The Comhairle continues to make progress against the improvement actions agreed as a result of its 2006 best value audit, however, areas such as asset management, performance management, and the strategic approach to human resources require to be strengthened. Each improvement plan action is progressing or has been redeveloped to suit changes in circumstances since the improvement plan was agreed. However, a few improvement items are not progressing within the timescale that was originally planned and are now scheduled for further action later in 2008 or 2009.

The Chief Executive completed his "root and branch" review in 2008 and most of the revised departmental structures are now in place. Concurrent to this, the Comhairle has approved its new corporate plan 2007 – 2011 and recently submitted its Single Outcome Agreement. It is essential that the ongoing development of performance management arrangements ensure that the Comhairle can demonstrate whether they are achieving their corporate objectives and improving services to customers.

The Comhairle had corporate governance systems in place during 2007/08 that operated well within a sound control environment. Risk management arrangements are in the process of being updated to reflect



the restructuring of departments and the emergence of new risks. However, the Comhairle needs to ensure that this is embedded throughout the organisation and used as key management information.

Outlook for future audits

The 2008/09 budget was set at a deficit of £0.355 million. A net overspend of £0.592 million is forecast at the end of the first quarter in 2008/09. The overspend to date, together with other planned contributions from reserves result in the Comhairle's forecast general fund balance at 31 March 2009 being marginally above the £3 million desired minimum uncommitted balance.

The Comhairle are entering a very challenging financial climate. It requires to budget for no increase in council tax in 2009/10 and 2010/11 at a time when the Comhairle will be building or modernising five schools through PPP funding. This project currently shows an annual affordability gap which has risen to £2.7 million. This will require to be financed by savings throughout the Comhairle or from existing reserves. It is therefore essential that the project is effectively managed and costs controlled otherwise medium term revenue budgets could be significantly impacted.

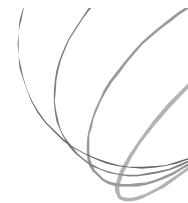
There are other financial pressures, including energy/fuel costs, waste management costs and potential additional mainland placement costs which could also erode the uncommitted general fund balance.

The Comhairle has come through a period of significant change involving service restructuring and the re-grading of terms and conditions for staff following the implementation of single status. The Comhairle will have to manage a number of risks in relation to the morale and motivation of some staff groups and in particular, will require to ensure that its succession planning arrangements are in place.

There are a number of new councillors and a revised political governance and community planning structure has been introduced. As the new arrangements bed in, the Comhairle will need to keep their effectiveness under review and ensure that elected members are appropriately supported, including the provision of appropriate learning and development.

Going forward, we will continue to review the effectiveness of the Comhairle's arrangements for each of the above items raised. We will also review progress of developments in the Comhairle's asset management planning, sharing services with NHS Western Isles, and the implementation of improved performance management and reporting arrangements.

The co-operation and assistance given to us by Comhairle members and staff is gratefully acknowledged.



Introduction

1. This report summarises the findings from our 2007/08 audit of Comhairle nan Eilean Siar, the second year of a five year appointment. Findings are set out in four sections: financial statements; financial position; governance and performance. Within each of these sections we have also provided an outlook setting out key issues and concerns facing the Comhairle going forward.
2. The scope of the audit is set out in our Annual Audit Plan (AAP), which was submitted to the Comhairle in April 2008. The AAP summarises the specific governance and other risks that could affect the Comhairle's financial statements. It describes the work we planned to carry out in response to these risks.
3. As part of the planned work we submitted a Strategic Audit Risk Analysis (SARA) to the Comhairle in April 2008. Under the following strategic themes, the SARA set out our views on the key business risks facing the Comhairle and described the work we planned to carry out as part of the annual audit:
 - Demonstrating good governance and real accountability
 - Funding and supporting local services
 - Enabling service improvement
 - A sustainable workforce
 - Effective partnership working
 - Procuring and managing assets.
4. Overall conclusions about the Comhairle's management of key risks are discussed throughout this report. Appendix A sets out the key risks highlighted in this report which we wish to draw to the attention of members and the action planned by management to address them.
5. We also undertook a number of detailed exercises which resulted in separate audit reports, for example, our composite report on the Comhairle's main internal control systems and the data sharing review. Within this report, we highlight key messages from those separate reports for the consideration of members.



Financial statements

Introduction

6. In this section we summarise key outcomes from our audit of the Comhairle's financial statements for 2007/08. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.
7. We audit the financial statements and give an opinion on:
 - whether they present fairly the financial position of the Comhairle and its expenditure and income for the year
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
8. We also review the statement on the system of internal financial control by considering the adequacy of the process put in place by the Comhairle to obtain assurances on systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the Comhairle.

Overall conclusion

9. We have given an **unqualified** opinion on the financial statements of Comhairle nan Eilean Siar for 2007/08. We have, however, drawn attention to a failure to comply with a statutory requirement. This does not impact on the fairness of the financial statements and, therefore, does not affect the opinion on the accounts.
10. The Local Government in Scotland Act 2003 requires councils to maintain and disclose trading accounts for significant trading operations, which are required to break-even over a three year rolling period. As highlighted earlier in this report, two of the four statutory trading organisations made aggregate losses in the three years to 31 March 2008, with the result that the Comhairle failed to meet this statutory requirement for building maintenance and bus operations. Steps being taken by the Comhairle to address this are explained later in this report.
11. The Comhairle's unaudited 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 very good and this enabled the audit to progress smoothly. This was enhanced by regular meetings with officers to ensure early identification and agreement of issues. Audited accounts were finalised prior to the target date of 30 September 2008 and are now available for presentation to the Comhairle and publication. The financial statements are an essential means by which the Comhairle accounts for its



stewardship of the resources made available to it and its financial performance in the use of those resources.

Accounting practice

12. 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 2007 SORP required a number of significant changes to be made to the 2007/08 financial statements to make them more consistent with the accounts of other public and private sector entities. The major changes include:
 - accounting for financial instruments based on FRS25, FRS 26 and FRS 29
 - replacement of the fixed asset restatement account and capital financing account by a revaluation reserve and capital adjustment account
 - provision for penalties under the Landfill Allowance Schemes.
13. We were satisfied that the Comhairle prepared the accounts in accordance with the revised SORP.
14. The Comhairle made a number of adjustments to the accounts to reflect our findings. As is normal practice, some small errors remain unadjusted and these have been reported to the Director of Finance and Corporate Resources and the Audit Panel via our letter issued in line with International Standard on Auditing 260 (ISA 260) *communication of audit matters with those charged with governance*. Details of significant accounting issues arising in the course of our audit are summarised below.

Deferred Charges

15. Grants to third parties cannot be capitalised as they do not result in an asset in the ownership of the local authority. As such, these grants can only be funded through revenue resources. However, under paragraph 1(2) of Schedule 3 of the Local Government (Scotland) Act 1975 the Scottish Ministers can give consent to local authorities to borrow to meet other expenses.
16. Finance circular No 5/2007 highlights the circumstances under which consent will be considered. Under the new arrangements the Scottish Ministers will consider applications from local authorities to extend the purposes for which they can borrow to include grants to community groups for capital projects. The Comhairle submitted a list of schemes to the Scottish Government for which consent was requested. This was approved and, accordingly, expenditure of £2.145 million on these schemes was accounted for as a deferred charge in 2007/08. Our audit work established that £0.077 million of this should not have been treated as a deferred charge and charged to revenue.



Title deeds

17. An exercise is currently underway to establish the title and ownership of properties. However, to date only a very small proportion of titles to properties have been verified. Management have provided assurances that when acquiring land and property, care is taken to ensure that a valid unencumbered title is obtained.

Legality

18. Each year we request written confirmation that the Comhairle's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Director of Finance and Corporate Resources has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the Chief Executive and the Comhairle's Management Team, the financial transactions of the Comhairle were in accordance with the relevant legislation and regulations governing its activities.
19. We reported last year that local authorities with registered charitable bodies (ie 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, although the date of full implementation has been deferred by the Scottish Charity Regulator. The Office of the Scottish Charities Regulator (OSCR) has indicated that the interim measures introduced in 2006/07, can again be used in 2007/08 and reliance placed on the existing disclosures for trust funds in councils' financial statements, supplemented by appropriate working papers.
20. The Comhairle has identified the charitable trusts which it administers, however, some have been inactive for a while and their purpose is outdated.
21. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

IFRS adoption

22. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2009/10. The government also announced its intention to publish Whole of Government Accounts on an IFRS basis from 2009/10. The intention is that local government will adopt IFRS for 2010/11, although there is a possibility that early adoption may be required in some areas and this might include PFI.



Financial position

Introduction

23. In this section we summarise key aspects of the Comhairle's reported financial position and performance to 31 March 2008, providing an outlook on future financial prospects, including our views on potential financial risks. Our findings and key messages are set out in this section, highlighting the significant challenges being faced by the Comhairle in managing ongoing financial pressures in funding existing service delivery and future improvement.

Council tax and the general fund

Operating performance 2007/08

24. The Comhairle's net operating expenditure in 2007/08 was £105.324 million. This was met by government grants and local taxation of £104.999 million, resulting in an income and expenditure account deficit of £0.325 million. This is 0.3% of the net expenditure for the year. After taking into account statutory and non-statutory adjustments a deficit of £1.019 million was deducted from the general fund during the year. The budget set for 2007/08 was based on a Band D council tax level of £1,024 with a budgeted deficit of £0.813 million.
25. Overspends totalling £1.489 million were incurred in Social Work (£0.749 million), Environmental and Protective Services (£0.471 million) and Technical Services (£0.269 million). The main areas of overspend within Social Work were children's mainland residential placements, domiciliary care and Comhairle care homes for the elderly. Within Environmental Services there was an overspend of £0.633 million relating to waste management services associated with the new waste disposal facility. These overspends were offset by a £0.469 million under spend in Education and other savings, including external interest payments, joint board requisitions and a further BCCI dividend.

Reserves and balances

26. Table 1 shows the balance in the Comhairle's funds at 31 March 2008 compared to the previous year. At 31 March 2008, the Comhairle had total cash backed funds of £11.998 million, a decrease of £0.879 million on the previous year.



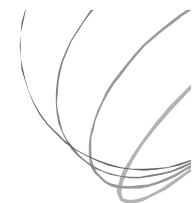
Table 1: Reserves and Funds

Description	31 March 2008 £ Million	31 March 2007 £ Million
General Fund	9,236	10,255
Capital Fund	2,296	2,294
Capital Receipts Reserve	466	328
	11.998	12.877

27. The general fund deficit of £1.019 million for the year produced a general fund balance of £9.236 million at 31 March 2008. This equates to 8.8% of the Comhairle's net annual expenditure. However, £5.339 million of the year end general fund balance was earmarked for specific purposes leaving an uncommitted balance of £3.897 million. The Comhairle has a policy to maintain an uncommitted general fund balance of £3 million.
28. Earmarked amounts include £1.944 million for the Western Isles Schools Project. In 2008/09 the Comhairle plans to earmark further amounts to this project. This, and other financial issues which could further impact the reserves position are discussed in our Financial Outlook sub-section below.
29. The capital fund will be used to meet indemnities following the housing stock transfer in 2006/07, or to help finance property investment schemes.

Group balances and going concern

30. The widening diversity of service delivery vehicles used by local authorities means that group accounts are required to present fairly all the activities of councils. The overall effect of inclusion of all of the Comhairle's subsidiaries, associates and joint ventures on the group balance sheet is to reduce net assets by £58.8 million, substantially as a result of pension liabilities. The results of the Highlands and Western Islands Valuation Joint Board are not included as they are not material to the group. All group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.
31. The Comhairle has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. Both of these boards (Northern Joint Police Board and Highland and Islands Fire Board) had an excess of liabilities over assets at 31 March 2008 due to the accrual of pension



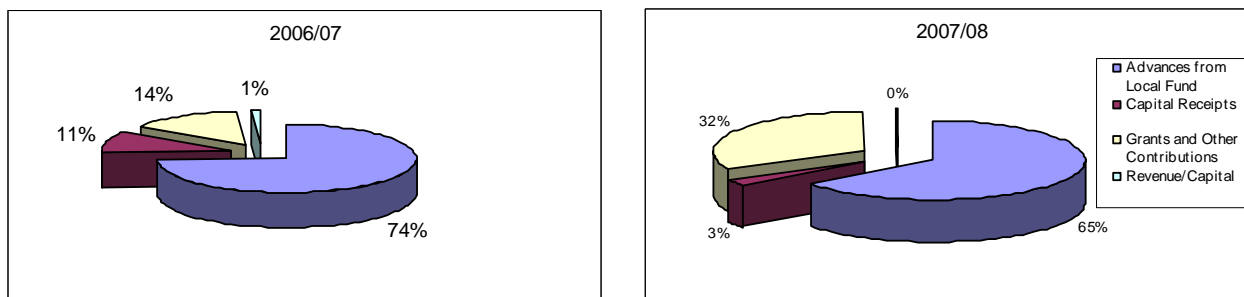
liabilities. In total these pension deficits amounted to £397 million, with the Comhairle's group share being £66.2 million.

Spending on assets and long-term borrowing

Capital performance 2007/08

32. Since the introduction of the prudential code in April 2004, the Comhairle can decide locally on a capital investment strategy which meets best value requirements as well as being affordable. The Comhairle financed £3.458m of the capital expenditure incurred in 2007/08 through prudential borrowing.
33. Capital expenditure in 2007/08 totalled £21.766 million, rising from £21.499 million in 2006/07. Capital investment in the last two years was funded as shown in *Chart 1*. Actual capital expenditure was £6.226 million less than the £27.992 million which was planned. This is a significant amount of slippage (22% of budget) which follows a similar pattern to previous years. Most services experienced slippage. The main items were in relation to transportation department projects resulting from changes to project specification, weather delays that forced work to be postponed until the new financial year, and geological problems associated with capital work at Kallin Harbour.
34. Total slippage from the 2004-08 programme was £15.064 million. This will be funded by resources of £11.511 million not utilized in the 2004-08 programme and also carried forward, plus capital receipts of £1.478 million and prudential borrowing of £2.075 million. Available funding in excess of that required to meet projects that have slipped might be added to the core funding for statutory projects in the 2008-12 programme.

Chart 1: Sources of finance for capital expenditure 2006/07 and 2007/08





Borrowing and temporary investments

35. At the time of writing this report all councils across the United Kingdom face a financial risk in relation to the current pressures facing the global banking industry. The Comhairle should continue to monitor its exposure and where necessary should consult treasury management advisors with a view to minimising risk to these pressures. This issue will be considered in more detail during the 2008/09 audit.
36. As at 31 March 2008, the Comhairle held cash and temporary investments totalling £6.755 million. This mainly relates to temporary balances that are invested overnight with approved institutions to meet immediate requirements.
37. Long term borrowing decreased marginally during the year from £147.986 million at 31 March 2007 to £144.906 million at 31 March 2008. 97% of long-term borrowing at the year-end matures after more than 10 years. The Comhairle has actively managed its exposure to variable interest rate movements with only minor debt exposed to variable rate risk.

Debt restructuring

38. In 2007/08 the Comhairle restructured some of its existing loans valued at £34.475 million. The average interest rate on the PWLB debt has reduced from 6.7% to 6.6% and the Comhairle calculate the annual saving as £0.160 million. However, changes to the PWLB's terms in November 2007 limit the Comhairle's ability to make future interest rate savings through restructuring.

Significant trading operations

39. 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.
40. The Comhairle has 4 STOs, refuse collection, building maintenance, highways and bus operation. In the three years to 31 March 2008 building maintenance and the bus operation reported cumulative deficits of £0.086 million and £0.102 million respectively. 2007/08 is the third year that the bus operation STO has failed to achieve the statutory break even target.
41. The Policy and Resources Committee approved a recommendation that from 1 April 2008 only building maintenance would continue to be recognised as a STO. This decision was taken on the basis that the level of trading in the other STOs was not significant (i.e. less than 1% of Comhairle expenditure) and that the potential exposure of the Comhairle to financial loss was insignificant since these operations generate very little external income.



42. In June 2008 the Policy and Resources Committee approved a recommendation to transfer the Commercial Operations Unit (COU), which was temporarily located in the Finance and Corporate Resources Department to the Technical Services Department. This is designed to let the COU establish a clear identity as a service within a larger department. This is intended to encourage the Comhairle to move towards a best value arrangement with various works and look at new ways of working between the in house COU and external contractors.
43. A best value review is currently underway on the client side of the Technical Services Department regarding the future of the bus activity and building maintenance. A report was issued to the Policy and Resources Committee in September 2008 to advise members of the failure of the bus operation to meet its statutory target in 2007/08 and to recommend how this is to be managed. All Comhairle bus routes will be re-tendered in January 2009, with contracts scheduled to commence from April 2009. In deciding to bid for the new contracts the Comhairle will assess both the direct financial impact (such as staff redundancies, bus leases costs and lost contributions to COU overheads if the bus operation no longer operates) and the indirect impact that the Comhairle's operation has on regulating the market.
44. The COU secured a three year building maintenance contract with Hebridean Housing Partnership following the transfer of the housing stock in 2006. A five year service level agreement (SLA) took effect from April 2008 between the building maintenance side of the COU and the Technical Service Department for the maintenance of non-housing properties. The position on the SLA will be subject to a detailed review at the end of the 2nd quarter in 2008/09 to establish whether this contract represents best value.

Financial outlook

Council tax freeze and 2008/09 budget

45. The Comhairle is party to the concordat between the Scottish Government and COSLA. The financial features of this include an agreement to freeze council tax levels for three years in return for some additional funding and the removal of some ringfencing. This, together with cost pressures relating to energy and fuel costs, waste management costs, and financing the building of new schools means that savings needed to balance the budget equate to 2.1% and 2.6% in 2008/09 and 2009/10 respectively. Some of these financial pressures are likely to continue beyond the next financial year, and there are also potential residual single status costs and the costs of currently unknown mainland placements that could further impact financial out-turn.
46. As part of 2008/09 budget setting the Comhairle reviewed the significant financial risks facing the Comhairle and in the light of these increased the minimum required level of uncommitted balances to £3 million. The general fund balance at 31 March 2008 was £3.897 million. The 2008/09 budget was



set at a deficit of £0.355 million which, if achieved, would retain the general fund balance above this minimum level.

47. The forecast out-turn at the end of the first quarter in 2008/09 shows a net overspend of £0.592 million. This has mainly occurred in the Education Department, which is forecasting an overspend of £0.450 million due to higher than expected energy costs, school transport costs, and statutory functions in relation to healthy eating. The overspend to date, together with an additional contribution from budget of £0.200 million for oil price increases, a further contribution of £0.252 million towards the school building programme and other minor transfers result in the Comhairle's forecast general fund balance at 31 March 2009 being just £0.169 million in excess of its desired minimum uncommitted balance.
48. The relaxation of some ring fencing gives the Comhairle greater flexibility in the allocation of resources. The Comhairle has deferred looking at the majority of former ring fenced funding, though it has committed to doing so as soon as possible. It has estimated that a release of 10% to mainstream funding could reduce the deficit by £0.434 million.

Western Isles schools project

49. As the Comhairle's biggest project the Western Isles Schools Project (WISP) will continue to form a significant component of future budget strategy. The annual affordability gap of the five schools being built or modernised through PPP funding now stands at £2.7m compared to the original business case which showed a gap of £0.9m. Additional capital costs associated with slippage are estimated at £80k per week plus the increased costs of staff and advisors as the project specification takes longer to complete. There is also the possibility of abortive capital work should the Comhairle undertake any design work that it does not subsequently progress to build. This could result in further charges to revenue. This project, therefore, presents the biggest financial risk to the Comhairle's medium term budgeting.
50. These issues, together with issues regarding project management have been highlighted by the Chief Executive and Director of Finance and Corporate Resources in reports to members. It is therefore essential that the project is effectively managed and costs controlled otherwise future revenue budgets could be significantly impacted. The ongoing appraisal and consequent delays on where to locate the Nicholson Institute together with determining suitable sites for Balivanish School and Sir E Scott Primary Department simply heighten this importance.
51. Preliminary expenditure totalling approximately £1.8 million has been incurred on the WISP since 2005. This consists mainly of professional and consultancy work, with £0.361 million capitalised and the remainder being charged to revenue. As time moves on there is a risk that the value of this work becomes more tenuous as the specification is changed. There is also a need to ensure that the



running costs of the project demonstrate value for money. The Comhairle recognises though, that a balance needs to be struck between the costs associated with delays encountered thus far in the project and the financial risks associated with making the wrong investment decision.

52. The recent decision not to approve the closure of seven S1/S2 schools until 2011/12 at the earliest, which would have partly financed the affordability gap, adds to the complexity of the budget challenges. This means that savings will require to be financed from across Comhairle services or through further utilisation of uncommitted balances in the general fund to finance this gap. This is against a backdrop of other financial pressures. The Director of Finance & Corporate Resources has presented various options to members to help achieve this.

Key Risk Area No 1

Equal pay

53. 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
54. As detailed in our 2005/06 report, estimated costs of £3.7 million were recognised in the financial statements for the total one-off cost of dealing with the equal pay legislation. Over 99% of cleaning, catering and homecare workers have accepted the homecare package offered by the Comhairle. Since the Comhairle consider that any remaining claims still to be agreed are immaterial, the Comhairle have not made any further provision in the financial statements.

Single status

55. In 1999 a single status agreement was reached between Scottish local authorities and trade 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.
56. 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.



57. The Comhairle's carried out a review of pay and benefits and its single status agreement was implemented from 1 July 2008. Backdated payments in relation to the 2007/08 financial year, amounting to £1.9m were accrued into the 2007/08 accounts. A payment protection scheme which preserves salaries for three years is in place and an appeals process is underway. At this stage it is not clear what the outcome of the appeals process will be. Any adjustments would impact the base payroll charge for future year budgets.

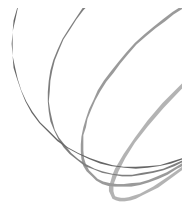
Future capital programme

58. The Comhairle's 2008-12 capital plan was approved by members in February 2008. The capital investment programmes for 2008/9 anticipate capital expenditure of £30.208 million. This will be funded by a number of sources including further increases in borrowing, capital receipts, and grants and other contributions. Planned capital expenditure for 2009/10 and beyond, together with the means by which this will be financed, has been put on hold until the financing of the Western Isles Schools Programme (WISP) has been decided.
59. The recent condition surveys that were carried out on Comhairle properties identified that many required investment or repair. This, together with the ongoing review and development of the asset management plan are likely to identify further capital requirements which will be either unaffordable or will compete with funding required to finance the WISP. This requires to be carefully managed. Steps being taken to improve asset management planning are covered in the performance section of this report.

Key Risk Area 2

EC landfill directive

60. The EC Landfill Directive sets limits on the disposal of biodegradable waste to landfill and requires the pre-treatment of waste prior to landfill. There are technical and financial challenges facing the Comhairle in delivering solutions and the implications of landfill penalties could be significant. The Scottish Minister for the Environment has the power to waive penalties in certain circumstances. He has advised COSLA that he may be prepared to do this for local authorities who have made genuine efforts to maximise landfill diversion and had not met targets due to circumstances outwith their control. From 2008/09 onwards, Scottish councils will be allowed to trade landfill allowances. If one council performs better than its targets, it can sell its excess allowances to other councils.
61. In recent years the Comhairle has secured funding from the Strategic Waste Fund. This enabled the creation of 20 new posts in the islands to support the implementation of the Western Isles Area Waste Plan and helped finance new facilities to divert waste from landfill and increase recycling rates. Had the Comhairle not embarked on the Area Waste Plan the landfill tax in future years would be



significantly greater and the Comhairle would be facing the prospect of having to buy in allowances and face unavoidable fines.

62. As a consequence of the new diversion facility, it is expected that the Comhairle will not exceed the prescribed landfill allowance nor incur punitive fines. However, although the biodegradable waste tonnage sent to landfill will reduce, the associated savings in landfill tax are not expected to be of such a scale as to offset the ongoing increases in landfill tax rates. This will make it difficult to recoup the additional costs that have been incurred in recent years.

Pension liabilities

63. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. In accounting for pensions, 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 annual accounts.
64. The Comhairle's estimated pension liabilities at 31 March 2008 exceeded its share of the assets in the Highland Council Pension Fund by £15.161 million, increasing from £14.446 million in the previous year. Budgeted contributions are expected to rise from 280% of employee contributions in 2007/08 to 290% by 2008/09, reflecting the reduction in the funding level as at 31 March 2005.
65. The next full actuarial valuation will assess the position at 31 March 2008. This will determine contribution rates for 2009-10 and the next two financial years. Recent changes to the Local Government Pension Scheme regulations are expected to release some future financial benefits, while providing additional flexibility to future pensioners.



Governance

Introduction

66. In this section we comment on key aspects of the Comhairle's governance arrangements during 2007/08. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2007/08

67. 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 Comhairle had systems in place that operated well within a sound control environment.

Political Governance

68. The political context for councils changed significantly in 2007, with a new Scottish government and a shift to more coalition and minority administrations in local government. Nearly half of the councillors elected to the Comhairle in May 2007 were new to local government, however, the stability in convenor and vice convenor posts has helped this transition run smoothly.

69. Following the 2007 election, the Comhairle approved a new Scheme of Administration which resulted in the number of service committees reduced from seven to four. The Policy and Resources committee is now supported by three sub committees and more emphasis has been placed on the Audit and Scrutiny committee. Officers consider that the new structure is working well in practice and that committee remits ensure that there is more focus in ensuring that all policies are addressed and reported. It is vital that there is a formal process in place for reviewing the effectiveness of the new committee structure to ensure that key strategies are progressed as intended, and that members do not get bogged down with operational issues.

70. The creation of multi-member wards has required new ways of working to support efficient representation and sharing of the workload. There are nine wards in the Western Isles with either three or four members in each ward. The Comhairle are satisfied that members are working in a collaborative and constructive manner, however, logistical issues mean that issues are dealt with geographically in some wards. Multi-member wards are still fairly new in Scotland and the practical issues will become clearer as the new arrangements mature.



Audit Panel and the Audit & Scrutiny Committee

71. 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. Overall, the Comhairle's Audit Panel is effective and complies with most of CIPFA's good practice principles for audit committees. The panel also fulfils a scrutiny function by requesting follow up work in relation to areas of concern.
72. The audit panel consists of five members plus three substitutes. There have been changes to membership following the 2007 election, however, there has been continuity of the Convenor. All of the panel members, including the Convenor, attended seminars and training provided by internal audit and the external auditor. The training included corporate governance; roles and responsibilities; committee operation; risk and performance management; and working with internal and external audit. All internal audit and external audit reports, including plans and annual reports are presented to the audit panel. Internal audit progress reports are also presented.
73. All members of the audit panel are also members of the Audit & Scrutiny Committee. The minutes of panel meetings are presented to the Audit and Scrutiny Committee. This committee has a wider role than the panel and considers performance reports, business plans, risk management and follow up of the best value improvement plan. From 2008/09 this remit will be extended to scrutinising progress towards Comhairle targets contained in the single outcome agreement.

Internal Audit

74. Internal audit provides an independent appraisal service to management by reviewing and evaluating the effectiveness of internal control systems. We carry out an annual review of the Comhairle's internal audit arrangements against CIPFA's revised Code of Practice for Internal Audit in Local Government 2006.
75. Our review concluded that internal audit provides a sound basis to assist management to discharge their duties. Although the internal audit section is small it performs its activities in a satisfactory way. Good quality reports, supported by structures and well laid out audit files are produced in accordance with the annual plan. In his annual report for 2007/08 the Chief Internal Auditor provided his opinion that, based on the internal audit work undertaken during the year, the Comhairle's systems of internal control appear to be adequate.
76. The small internal audit section in relation to other councils means that, inevitably, internal audit spend a large proportion of their time on a wide range of projects (e.g. probity and regularity work, risk management and performance audits). This means there is only limited time available to spend on



system audits of the key financial systems. As a result, in terms of our final accounts work, there were only a few areas where we could place reliance on the work carried out by internal audit.

Risk Management

77. Our “Strategic Audit Risk Analysis 2007/2008” of the Comhairle, which was issued to members in April 2008, recognised that a risk management framework was in place, but identified a wide range of strategic risks not in the strategic risk register. We also highlighted the need to focus on business continuity planning, updating the strategic and departmental risk registers and establishing a system of risk monitoring.
78. Since then, the Corporate Management Team (CMT) have discussed arrangements for revitalising risk management, which was considered to be necessary following the restructuring of departments and the movement of staff. It was agreed to update the strategic risk register to include emerging risks and appoint a chair to the Strategic Risk Management Group (SRMG). The SRMG will be the “driving force” behind the ongoing implementation and development of the corporate risk management strategy.
79. Risk management is an important part of the service planning process. New processes are being put in place to enhance linkages between individual service managers, departmental management teams and the SRMG. This will enable strategic, operational and cross cutting risks, as well as the accumulation of risks from a number of areas to be properly considered. However, a process on its own will not guarantee this and, over time, the Comhairle will need to be able to demonstrate that this is a fully embedded process and not simply an additional “tick box” exercise.
80. Embedding risk management within the Comhairle will present a significant challenge. To succeed, the Comhairle requires to address potential obstacles and ensure that there is clear commitment from Members and the CMT. To fully progress there will need to be clear roles and responsibilities, accountability and /or ownership, and training needs will require to be assessed.

Key Risk Area 3

Systems of internal control

81. A Statement on the System of Internal Financial Control for the Comhairle and its group was included within the financial statements, in accordance with the Code of Practice on Local Authority Accounting. Following receipt of a range of assurances from managers across the Comhairle (including the Chief Internal Auditor), the Director of Finance and Corporate Resources concluded that he was satisfied that the Comhairle has in place an appropriate system of internal financial control. The statement notes the ongoing improvements that require to be made to the Comhairle’s performance



management and risk management procedures, together with ensuring the need to ensure that the WISP and other financial pressures do not adversely affect service provision.

82. 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 Comhairle's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes

- Payroll
- Cash income and bank reconciliations
- Main accounting system
- Debtors accounts
- Loans fund and treasury management
- Creditors payments
- Council tax income
- Non-domestic rates
- Fixed assets
- Budgetary control

83. Following our review we issued a report to officers summarising our findings in these areas. The report included some areas for improvement on which the Comhairle has agreed to take action. One issue of particular concern related to the quality of the creditors control account reconciliation carried out each month. We consider that this is not a complete reconciliation since it does not reconcile to a list of balances or subsequent payments.

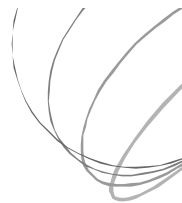
Prevention and detection of fraud and irregularities

84. At the corporate level, the Comhairle has appropriate arrangements in place to help 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

85. In 2007/08, the Comhairle again took part in the National Fraud Initiative (NFI) in Scotland. NFI brings together data from public bodies, 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. The NFI has generated significant savings for Scottish public bodies (£9.7 million from the 2006/07 exercise and £37 million including previous exercises) but, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

86. Comhairle Nan Eilean Siar's contribution to the total national figure of £9.7 million was £2,749. This reflects the relatively low number of matches which were received through the process. This was made up entirely of Housing/Council tax Benefit overpayments. During the process the Comhairle demonstrated a clear, and ongoing, commitment to the NFI process and an established protocol



setting out the approach and allocation of responsibility for each match. It will be important for the Comhairle to maintain this level of commitment when the next NFI exercise commences in 2008/2009, particularly given that the key contact officer has changed since the previous exercise.

Housing Benefit

87. From April 2008, Audit Scotland took over responsibility for inspecting the housing and council tax benefit functions from the Department for Work and Pensions. We are carrying out risk based inspections on a cyclical basis and all councils will be inspected during an 18 month period. The timing of any planned involvement of Comhairle Nan Eilean Siar will be notified as the timetable becomes apparent.

Data handling and security

88. Data handling and security has received increased public and media attention recently as a result of a number of national incidents relating to lost data. The Comhairle shares data with a number of organisations such as the Department for Work and Pensions and other government departments.

89. The Comhairle recognise the importance of this matter and carried out work to identify their risks, and have developed a number of policies and procedures, such as an information security policy to provide the control environment needed to ensure an appropriate level of information awareness and security. The Scottish Government has set up a group of privacy and security experts to scrutinise how local government services handle personal data. This group will develop a draft set of guiding principles which should influence future information management and security actions, such as the need for a scheme of data classification.

Payment card standards

90. The Payment Card Industry Data Security Standard (PCI/DSS) was developed by major credit card companies as a guideline to assist organisations that process card payments to prevent credit card fraud, hacking and various other security threats. Any organisation processing, storing or transmitting payment card data must be PCI/DSS compliant or risk losing their ability to process credit card payments. The Comhairle do not retain credit card details of payers. Cash office payments are chip and pin operated. There is direct on-line verification with the bank's clearing house so no details of the payers card are retained. The Comhairle do not consider that they need to take any further steps to comply with this standard since they outsource the service and risk to a competent provider.



Governance outlook

Single outcome agreements

91. The concordat between the Scottish Government and COSLA sets out the terms of a new relationship between the Scottish Government and local government. It underpins the funding to be provided to local government over the period 2008/09 to 2010/11. Central to the concordat is the single outcome agreement (SOA) between each council and the government. The SOA sets out the Comhairle's contribution to the government's 15 key national outcomes as set out in the concordat. It also reflects established corporate and community planning commitments. In this way progress at a national level is supported by outcomes at a local level.

92. Every council had agreed its first SOA by 30 June 2008. The key factors contributing to the Comhairle's SOA are discussed in more detail in the "Performance" section of this report. In future SOA's will be used to engage partners and to monitor performance. It is important therefore that the Comhairle develops robust governance arrangements for the development and monitoring of this key document as a means of demonstrating that local and community outcomes are being achieved.



Performance

Introduction

93. In this section we summarise how the Comhairle manages its performance. We discuss the overall arrangements before focussing on specific strategic risks to the Comhairle in delivering its stated objectives and priorities in the years ahead. Finally, we comment on the findings of Audit Scotland's national performance studies, relating them to the Comhairle's situation.

Corporate objectives and priorities

94. Prior to its approval in October 2007, the Comhairle's corporate strategy for 2007 – 2011 was issued to various parties for consultation. One of the underlying issues raised was the expected population decline and the impact that this could have on services provided by the Comhairle throughout the islands. This forms the basis for one of the corporate strategy objectives.

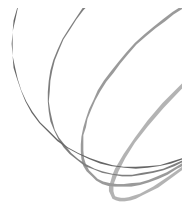
95. The corporate strategy 2007 – 2011 provides an ambitious and optimistic framework for the Comhairle and incorporates two distinct strategy targets for achievement over the four year period. The first objective is to provide a framework for services to plan for the future; the second is to set strategic objectives and targets to help demonstrate how success will be measured. These are:

- By the end of the Comhairle term we (the Comhairle) will be able to demonstrate that our service performance is above the Scottish average.
- By the end of this Comhairle term we (the Comhairle) will be able to demonstrate that population retention and immigration has clearly started with a sustained rise in population evident.

96. The second objective is supported by the following five policy themes that were agreed as priorities for action:

- Growing prosperity in a growing economy
- Strong communities, strong roots, strong culture
- Quality education in quality buildings
- Green Council, green islands
- Strengthening connections, strengthening communities.

97. The new corporate strategy is more outcome focussed than the former strategy. This should assist the Comhairle when determining and reporting whether or not it has met its objectives. The challenge which the Comhairle currently faces is to ensure that the priorities in the strategy are broken down into



objectives which can be measured and reported on by departments. Department work plans have been prepared which will form the basis for doing this.

Single outcome agreement

98. The Concordat between the Scottish Government and local authorities outlined the development of a Single Outcome Agreement (SOA) by every council in Scotland, based on an agreed set of national outcomes and indicators. The Comhairle submitted their SOA in June 2008. Some of the national outcomes may apply less to the Comhairle than they might to mainland councils, however, the Comhairle adopted each of the 15 national outcomes and developed local priorities to each of them.
99. The outcomes reflect community priorities as identified through the Community Appraisal and consultation with community planning partners and other stakeholders. Measures and targets range from very specific national targets to more vague measures/ targets for some indicators where there is no national target. Indicators that lend themselves to national measures and targets were used where possible to help make comparison with other councils more meaningful. However, some targets have been included where there is currently no baseline.

Key risk area 4

100. Progress towards targets will be scrutinised by the audit & scrutiny committee. It is intended that this will be carried out quarterly where possible. This will be an important new role for the audit & scrutiny committee which may require them to enhance their profile to ensure this is effective.
101. There are consistencies between the Comhairle's SOA and their corporate plan 2007-2011. Going forward, the Comhairle anticipates that the SOA will become their principal corporate performance document for planning and reporting on the delivery of the Corporate Strategy and will also gradually supersede/subsume the Outer Hebrides Community Plan.
102. The SOA currently makes very little comment regarding elderly issues and youth work. This is particularly important given the ageing population in the Western Isles. The Comhairle will need to consider how it wishes to deal with current or emerging issues that are not covered by the SOA.

Overview of performance in 2007/08

Annual Report

103. In January 2007 the Comhairle published its annual report for 2005/06. No performance report was published for 2006/07 nor are there plans to publish an annual report or ad-hoc reports on performance for 2007/08. It is planned that once an electronic performance management system has been implemented, a re-launch of corporate and service level public performance reporting will take



place using balanced scorecard information. This will help to provide a closer relationship between service objectives and the performance measures reported to members and the public. This is discussed in more detail below. In the meantime, the reporting of performance to the public is restricted, mainly, to the Statutory Performance Indicators.

Key Risk Area 5

Measuring Performance

104. Appropriate, reliable, and timely performance information is an essential component of any performance management culture. The balanced scorecard method of performance management is in the process of being introduced throughout the Comhairle. This is a management framework that translates an organisation's strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system. This should help provide better quality information to demonstrate whether there are improvements in service performance.

105. Progress with the implementation of the balanced scorecard approach across services has been "patchy". The 2008/09 business plans containing balanced scorecards were completed and approved for some services, however other services have not yet reached this point due to them not agreeing indicators by which they will be measured.

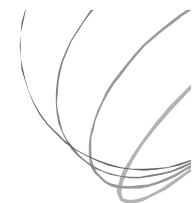
106. There have been delays in the implementation of the electronic performance management information system which was planned to be embedded in all services by April 2008. Procurement is underway and it is expected that this will be implemented during Autumn 2008. This system is considered vital to ensuring that performance information is gathered, reported and monitored effectively across the organisation. It is planned that once the electronic performance management system has been implemented, a re-launch of corporate and service level public performance reporting can take place using balanced scorecard information.

107. Once the new software is in place there will also be a need to change management attitudes and practices with regard to gathering and reporting performance measures. Our audit of the SPIs, which is referred to below, identified cases where performance information is not maintained throughout the year and used for management purposes but, instead, is only gathered and recorded at the year end when required by the auditors. Directors and staff need to be made fully aware on the importance of recording this information and using it as a management tool.

Key Risk Area 6

Statutory performance indicators

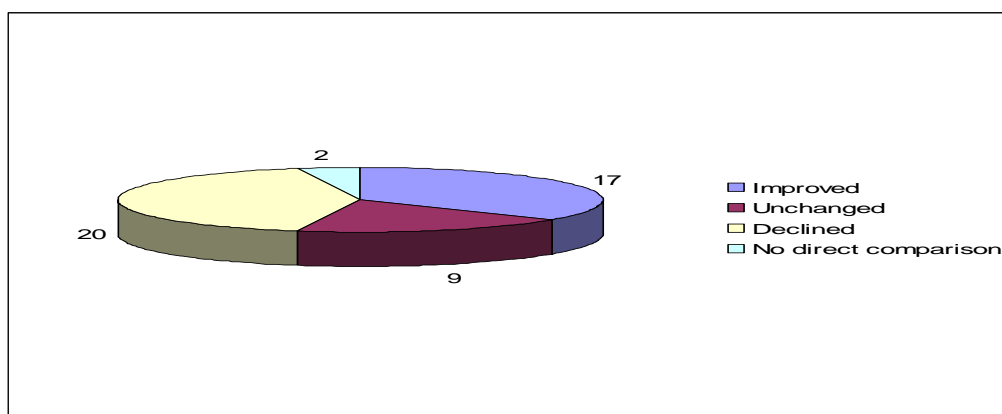
108. SPIs form the principal means by which the Comhairle reports its performance to the public. Each year we review the reliability of the Comhairle's arrangements to prepare SPIs. Overall, the quality of



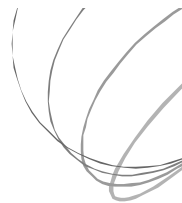
working papers provided to support the SPIs was an improvement on the previous year, however, we still required to make a few corrective adjustments to ensure that the reported SPI agreed to the direction or to working papers.

109. Three indicators were classified as unreliable compared to six in 2006/07. Data needs to be improved with regard to recording the number of visits to museums, the number of borrowers at libraries, and the amount of daytime respite care provided by third parties.
110. SPIs are an important means for the Comhairle to measure improvements in performance, either year on year, or with other councils. Information should therefore be available on a regular basis and provided to management soon after the period to which it relates. Being an island council means that, historically, some indicators reported by the Comhairle have been at the extreme end of the scale in national comparisons. As part of the balanced scorecard method of performance management the Comhairle should continue to identify and develop appropriate benchmarks or comparable councils with which to compare performance.
111. In the meantime, we have summarised year on year SPIs to determine whether or not performance is improving and where this is arising. The following chart demonstrates that, in 2007/08, the Comhairle made improvement in a number of areas, but a decline in other areas.

Chart 2: Improvements and declines in performance demonstrated by SPIs (Total 48 indicators)



112. Substantial Improvement have been made and sustained in:
- Processing time for **new benefits claims**.
 - **Council tax collection** – the cost of collecting Council Tax per dwelling.
 - **Teaching staff equal opportunities** – the number and percentage of head and deputy head teachers who are women compared with the percentage of all teachers that are women.



- **Refuse collection complaints** – the number of refuse collection complaints per 1,000 households regarding the household waste collection service.
- **Refuse recycling** – the amount and percentage of municipal waste collected by the Comhairle that was recycled.

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

- **Planning applications processing time** – The percentage of planning applications dealt with within 2 months.
- Average time taken to process a **homeless case**.
- **Street lighting** - the proportion of street light failures completed within 7 days.
- **Food safety: hygiene inspections** – the number and percentage of food hygiene inspections undertaken within the prescribed period.
- Refuse collection and disposal costs – the **net cost of refuse disposal** per premise.
- **Abandoned vehicles** – proportion removed by the Comhairle within 14 days.

Best Value audit

114. 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.

115. The Best Value audit of Comhairle nan Eilean Siar was carried out in 2006 and the findings published in August 2006. In response, the Comhairle approved a Best Value Improvement Plan (BVIP) in October 2006 setting out the sixteen improvement agenda items from the report together with the planned actions and timescales for implementation. Since this time, the improvement plan has been incorporated into the Comhairle's ongoing performance management arrangements and regular progress reports are considered by the Audit and Scrutiny Committee.

116. The Comhairle are moving in the right direction but the pace of change has been slow. Each improvement plan action is progressing or has been redeveloped to suit changes in circumstances since the improvement plan was agreed. However, some items in the BVIP are not progressing within the timescale that was originally planned and are now scheduled for further progress later in 2008 or 2009. In particular, it is essential that the ongoing development of performance management arrangements ensure that the Comhairle can demonstrate whether they are achieving their objectives and improving services to customers.



117. Areas where progress is not within the timescale that was originally planned include the implementation of an electronic performance management system, the development of departmental community engagement action plans, elements of workforce planning, the staff development and appraisal system, the introduction of a corporate asset management planning strategy, and the improvement in public performance reporting. These are discussed in more detail elsewhere in this report.

118. Other areas that have fallen behind schedule are:

- The implementation of the customer relationship management project has been delayed due to a lack of funding to roll out service access points. The Stornoway access point is scheduled to open by November 2008.
- The service programme of best value reviews has been hampered by a lack of corporate resource to support this work. A review of the Education Service was, however, carried out during 2008. Further reviews will only commence once a more robust structure is in place to monitor such work.

Key Risk Area 7

- The audit of premises in respect of improved access to buildings for those with disabilities is only 60% complete.

Performance outlook – opportunities and risks

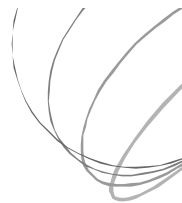
Introduction

119. In the course of our audit work we identified some of the strategic risks to the Comhairle delivering its stated objectives and priorities in the years ahead. These risks were set out in our SARA and grouped into six risk themes. In the following paragraphs we comment on progress made by the Comhairle during the year and the key risks yet to be fully addressed. Risk exists in all organisations which are committed to continuous improvements 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.

Demonstrating good governance and real accountability

120. Good governance arrangements are essential in facilitating the Comhairle in demonstrating their success in achieving corporate policies and monitoring the effect of these on service delivery.

121. The 2007 election had little impact on the strategic direction or running of the Comhairle's business since the large majority of members continue to be independent and there has been a considerable



degree of continuity in the chairs and vice chairs of committees. The new corporate strategy contains clearer outcome focused targets than the previous one. This should help the Comhairle in its requirement to monitor, report and be held accountable for its performance at a strategic level. Induction training was provided to all members post election and was well attended.

122. Following Audit Scotland's best value review, the Chief Executive carried out a review of the Comhairle, including the political and managerial structures and processes. *Corporate discipline, raised management standards and better management information were identified as priority development areas*, recognising that there is a risk that senior management focus on departmental agendas rather than take a more corporate approach.
123. The review of the organisational structures is almost complete with the remit and structure of all departments except education/children's services in place from 1 July 2008.
124. Existing scrutiny arrangements have been in place for some time and have not changed as a result of the recent departmental structure changes. These changes and, in particular, the transfer of services into and out of the Sustainable Communities Department and the retirement of key senior personnel could present a risk to ensuring that the scrutiny function remains effective. The Comhairle intend to review the scrutiny arrangements within the next 18 months once the departmental structure changes have settled and embed themselves. It is also intended to review all of the constitutional documents over the remainder of the existing council term to ensure they continue to meet existing requirements.

Funding and supporting local services

125. The sustainability of the area and of local services is a key challenge for the Comhairle in the context of tightening financial settlements. The delay in notification by the Scottish Government of the settlement for 2008-11 together with delays in producing committee work plans and service work plans resulted in a more incremental approach to the 2008/09 budget. Following the introduction of the Concordat, including revised arrangements for the 2008-11 financial settlement, and having agreed its Corporate Strategy and work plans the Comhairle now needs to address the integration of its policy objectives into future budgets.
126. Although the Comhairle's financial position was sound at the end of March 2008, the range of financial pressures on the Comhairle are significant. Revenue budgets have been constrained to meet the demands of single status developments and the efficiency agenda. Other financial pressures include increasing pension costs, the implications of the national waste strategy, increasing energy costs, the increasing costs of free personal care, free school meals for 5 – 7 year olds and the year-on-year additional costs of mainland placements. Comhairle management are of the opinion that all known and anticipated financial pressures have been accounted for in the Comhairle's revenue budgets.



127. The most significant financial pressure facing the Comhairle is how to finance the Western Isles Schools Project (WISP) affordability gap, which now stands at £2.7m compared to the original business case which showed a gap of £0.9m. There is a risk that this could rise further. This has been covered earlier in this report.

Enabling service improvement

128. Although the Comhairle has been successful in progressing the standard of, and accessibility to, local services over a number of years they have not yet got the necessary systems in place to address best value to secure continuous improvement on a structured basis. The need to strengthen its corporate approach to areas such as strategic human resources and asset management, performance management, policy led budgeting and systematic community consultation increases the risk of being unable to improve and/or to demonstrate improvements to the citizens of the Western Isles. The ongoing implementation of the best value improvement plan provides an opportunity to address and demonstrate the fundamentals of performance improvement.

129. The Comhairle is committed to improvement and is in the process of implementing the basic mechanisms to adequately assess and demonstrate whether corporate priorities are being met, resources are being used effectively and whether they are achieving continuous improvement in services.

130. Two officers who were the principal drivers behind the implementation of the performance management system have either retired or moved to another Comhairle post. There is a vacancy for a corporate policy manager to take responsibility for performance management. Until the electronic performance management system is implemented there are limited alternative means by which the corporate strategy and committee work plans are monitored. It is important that the means by which departmental performance and corporate strategy improvements are monitored do not lose focus at this advanced stage in the performance management development process.

Effective partnership working

131. Councils are increasingly dependant on partnership working to plan and deliver service improvements. As funding that was previously ring fenced for community planning partnership (CPP) projects becomes increasingly subsumed within overall Comhairle funding, it is of increasing importance that the CPP prioritise its objectives and concentrate on the key themes.

132. From April 2008 the Outer Hebrides Community Planning Partnership (OHCPP) is a single tier CPP with ad-hoc thematic groups and standing cross-partner topic groups. The streamlined structure addresses the previously perceived over elaborate structure and is intended to improve governance



arrangements since specific targets and timescales will be set for each group. The three themes considered to have a major impact on the Western Isles are migration, shared services, and climate change. These will be addressed by the cross partner project teams, together with regeneration, community engagement, equality/diversity, and Gaelic.

133. The Comhairle's single outcome agreement (SOA) demonstrates a strong commitment towards community planning arrangements. The Community Safety Partnership, for example, is expected to be the principal means of discharging SOA responsibilities regarding national and local outcomes relating to safety in the community. In the meantime, however, it will be necessary to ensure that an accountability framework is in place for the delivery of expected outcomes.
134. Relations with NHS Western Isles continue to improve. The Comhairle and NHS Western Isles have made a formal commitment to the integrated service delivery project and funding has been secured to facilitate this. The project group has identified opportunities for integration in five service areas. These include the sharing of estates management services and printing facilities. It is important that partners now make a commitment to driving this process forward and ensuring that momentum gained is not lost. The OHCPP intend to demonstrate progress and we will monitor developments.
135. The Comhairle delegated community care, home care, mental health and housing services delivered by Social Work department budgets to the Joint Services Committee (with NHS Western Isles) from 1 April 2008. This committee monitors funding and areas of responsibility delegated by the Community Health and Social Care Partnership (CHaSCP). The CHaSCP is the most significant joint development that the two organisations have signed up to, allowing closer integration of the agencies involved in providing care, leading to better outcomes and services for local people.
136. Internal audit have recently issued a report following its review of joint working arrangements. Amongst its recommendations were the requirement to update the ChaSCP scheme of establishment to reflect its increased areas of responsibility; to further develop performance improvement reporting to highlight any potential funding shortfalls that arise; and to identify how the CHaSCP fits in to the new structures within the Comhairle and the redesigned CPP so that staff are operating to meet the objectives and organisational goals that will be set in the SOA and by the CPP.

A sustainable workforce

137. People play the key role in delivery of high performing services and the Comhairle needs to have the right skills, in the right place, at the right time. Due to the location of the islands, there are particular workforce challenges for the Comhairle as a significant employer in the area. The islands are facing an ageing population which will restrict the future pool of potential staff.



138. The Comhairle recognise the need to adopt a more strategic approach to human resources. Progress on corporate discipline, management standards and workforce planning was affected by the delay in implementing the Chief Executive's departmental review and by the time taken to implement Single Status. Also, whilst a wide variety of information was gathered on skills, capacity and job roles of staff, this is not being used corporately to develop workforce planning strategies and there is no review of the strategic staffing requirements on an annual basis.

139. The Comhairle faces a specific challenge regarding succession planning since several senior officers have recently retired or will retire shortly. The varying recruitment arrangements across departments and inconsistencies in the approach to staff development will make this challenge more difficult to address. The Comhairle intends to address this by making use of the comprehensive database from the Single Status agreement to move to a skills and competence based accession planning model, accompanied by more comprehensive training. A workforce training plan is being developed and progress will be reported to the Human Resources Sub Committee from Autumn 2008 onwards.

Key Risk Area 8

140. Although a number of departments have embraced the Staff Development and Appraisal (SDA) process, others have not made sufficient progress in its implementation. There is insufficient data to determine those who have had a recent appraisal and it is widely acknowledged that a large number of staff have not received a recent appraisal. A new monitoring and reporting framework has recently been introduced to help address this. From Autumn 2008 onwards the Human Resources Sub Committee will receive reports at each meeting on progress of SDA interviews. Revision of the SDA scheme will only be considered once compliance with the current arrangements can be demonstrated.

Procuring and managing assets

141. The appropriate use of assets in the right location can make the difference between good and poor service delivery. Good asset management helps to ensure that frontline services are delivered in the most effective and efficient way. It can also release resources, generate both revenue and capital, and improve value for money in service delivery.

142. The Comhairle appointed a corporate asset manager in March 2008 to review and develop asset management planning throughout the Comhairle. Issues regarding professional, technical and operational activity together with competency in project management skills require to be established or clarified before an asset management plan can be approved. Some areas require immediate attention and this has lengthened the review process.

143. The Comhairle needs to address some basic issues such as identifying exactly what they own, aligning investment planning with service development planning and making more use of option



appraisal. They also recognise that they need to take further steps to ensure that capital investment is affordable over the long term and address the effect of not having Technical Services Department officers within departments. We will continue to monitor progress.

144. The Comhairle intend to re-evaluate some projects in the approved capital plan for 2008-12 using updated criteria such as having a business case which addresses option appraisal, impact on core services and investment appraisal. The £5 million Harris House care home project is being re-evaluated on these lines. This review includes an assessment of whether to incorporate a dementia unit or mobile overnight support service using potential joint funding with NHS Western Isles.

Key Risk Area 9

145. It is encouraging to note that a project definition has been prepared between the Comhairle and NHS Western Isles to define and frame a service to provide asset management on a shared basis to meet the requirement of core services throughout the Western Isles. It is intended that this will be the first phase of support service integration that focuses on asset management and related disciplines including estates, facilities, energy, carbon and waste management. We welcome this development but note that this will require to be closely managed by both parties if it is to achieve its objectives. We will monitor its progress.
146. Implementation of the electronic procurement system by the purchasing section and all schools has been delayed. Internal Audit's review of procurement and compliance with the *McClelland report* identified weaknesses in the procurement function regarding its limited authority, position and resources to drive this forward; and in demonstrating that it has sound business processes throughout the procurement cycle. A revised procurement strategy is currently being prepared to address these issues.

National studies

147. 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 last year of direct interest to the Comhairle are described below. Further information on these studies and copies of the reports can be obtained from Audit Scotland's web page at www.audit-scotland.gov.uk

Sustainable waste management

148. Collecting household waste is a vital and universal service. In recent years significant new investment has been made to reduce the amount of waste sent to landfill. Our national report on sustainable waste management, published in September 2007, highlighted that:



- Good progress has been made in meeting recycling targets, but the rate varies considerably between councils. The percentage of municipal waste recycled and composted increased from 7% in 2001/2 to 25% in 2005/6. Co-mingled collections appear to achieve higher recycling rates.
- There has been slow progress in developing facilities to treat residual waste and there is a significant risk that EU landfill directive targets might not be met.
- Increased recycling has led to increased costs for councils.
- All parties need to work more effectively together to make progress in waste minimisation, recycling and waste treatment.

149. The Comhairle recycled 12.2% and composted 8.7% of municipal waste in 2007/08. This is an improvement from 8.5% and 8.5% respectively in 2006/07. Recycling performance has improved mainly because of the significant investment in the new recycling plant at Creed Enterprise Park. There has also been investment in a waste transfer station in Benbecula.

150. This investment places the Comhairle towards the forefront of waste management technology, using Anaerobic Digestion to process the organic fraction of source segregated household waste. The plant can process up to 20,000 tonnes of material a year. This and other recycling initiatives should pave the way to enable the Comhairle to meet its short to medium term targets for reducing the amount of biodegradable municipal waste sent to landfill. This will help to reduce the landfill tax liability in future years and contain costs. However, this investment and associated costs is having an adverse impact on the Sustainable Communities budget in the short term.

Free personal and nursing care

151. Since July 2002, all councils have had systems in place to deliver free personal and nursing care (FPNC). People of all ages living in care homes are entitled to free nursing care and people over 65, living in any setting, are entitled to free personal and nursing care. Our national report about the financial implications of FPNC, published in September 2007, found that:

- Councils have interpreted the legislation and guidance relating to food preparation differently across Scotland.
- Councils should improve their information systems to enable them to collect comprehensive and accurate information on FPNC and other aspects of care and support services.
- Councils should provide clear information to older people on what is covered by FPNC.
- Councils should work with local health partners to evaluate the longer term consequences of reducing domestic homecare services.



152. The Comhairle considers that FPNC allowances are applied in all cases, including those where the service user has been assessed to pay for the full cost of their care in a care home. Information on FPNC is given in the Comhairle's brochure "moving into a care home", which also contains information on free personal care.

153. Information on home care is recorded on Carefirst using service packages. A report is produced monthly which shows a breakdown of hours for each element of service. This is used to produce management information. Service packages are kept up to date by teams and are considered by management to be reliable. The Comhairle intend to start recording care home service packages on Carefirst within the next few months.

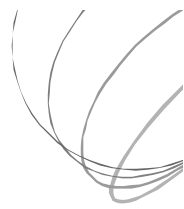
Scotland's school estate

154. A major programme of school building renewal started at the end of the 1990s and continues today. This aims to create a school estate that achieves the government's vision for 21st century schools that are well designed, well built and well managed. Our national study reviewed what has been achieved so far, how much it is costing, how effective the improvements are and how well the Scottish Government (SG) and councils are working together to manage improvements to the schools estate. Our report, published in March 2008, highlighted that the current rate of progress will take up to 20 years to remove all schools from poor or bad condition. The report recommends actions for the SG and councils to help improve arrangements and support future achievements. These include:

- Better planning by councils and the Scottish Government to set specific, measurable and meaningful targets for the school estate strategy.
- Greater use of the Scottish Government guidance by councils to make sure future school design strikes a good balance for the comfort of everyone who uses the building.
- Making environmental sustainability a key element of school design.
- Doing more to identify and share good (and bad) practice in school design and estate management.
- Estimating pupil rolls for at least ten years ahead with a minimum annual review.

155. The issues raised in the national report are factors that the Comhairle require to incorporate into the asset management plan currently being developed. In addition, the Comhairle faces unprecedented challenges in relation to future educational provision within the Western Isles. These include:

- The hybrid PPP programme to build or repair five schools in the Western Isles at an estimated cost of between £65 million and £70 million.
- The curriculum for excellence and its implications on the service which the Comhairle currently provides through S1/S2 schools.



- The need to release and redirect financial resources to fund the WISP.
- The Continuing decline in school rolls (from 6300 in 1977 to 3850 in 2007). In 2006/07 the total primary 7 roll was 50% higher than the total primary 1 roll.
- The generally tightening financial settlements, as a result of pupil numbers being a significant detriment of government funding for the Comhairle.

156. Condition surveys of schools carried out during 2007 highlighted that many of them were in poor or unsatisfactory condition. There are limited financial resources available to address remedial work identified in the surveys. A challenge facing the Comhairle will be to risk assess the findings of the condition surveys and carry out remedial work accordingly.



Final Remarks

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

158. 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 considered the issues 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.

159. Appropriate mechanisms should be considered and agreed by members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2008/09 audit.

160. The co-operation and assistance given to us by Comhairle Nan Eilean Siar members and staff is gratefully acknowledged.



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	49 - 52	<p>Western isles Schools Project (WISP)</p> <p>There is an affordability gap in the financing of the WISP, which is on top of other financial pressures faced by the Comhairle.</p> <p>Risk: Financing of the WISP may place an intolerable burden on medium term financial planning.</p>	An affordability review of the project is presently being undertaken. WISP costs will continue to form a key part of the development of the Comhairle's budget strategy.	Robert Emmott	Feb 2009
2	58 - 59	<p>2008-12 Capital plan</p> <p>Planned capital expenditure for 2009/10 and beyond has been put on hold until the financing of the WISP has been decided.</p> <p>Risk: Essential capital work may be delayed or postponed. This could impact future service delivery, maintenance budgets or result in failure to meet statutory requirements.</p>	The Comhairle has agreed to keep the Capital Programme under regular review and it is proposed to bring forward the first review to December 2008.	Robert Emmott	Dec 2008
3	77 - 80	<p>Risk management</p> <p>Risk management is inconsistently applied throughout the Comhairle and is not embedded in as key management information.</p> <p>Risk: Significant risks facing the Comhairle may not be fully identified or assessed throughout the organisation, potentially resulting in important strategic and departmental decisions being taken without fully addressing or understanding the options and risks attached.</p>	The Comhairle has revised its management arrangements for its Strategic Risk Management Group, following the Chief Executive's Review. The Group will be chaired by the Director of Finance and Corporate Resources and aims to have updated the Strategic and Departmental Risk Registers for the 2009/10 Year.	Robert Emmott	Feb 2009



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	97 & 99	<p>Corporate Objectives and SOA</p> <p>Some strategic priorities have not been broken down into objectives which can be reported upon by departments. Some targets in the SOA do not have a baseline to measure against.</p> <p>Risk: The Comhairle may not collect data to specifically determine whether the objectives in the corporate strategy or SOA are being met.</p>	<p>Reports will be going to the Comhairle's Audit and Scrutiny Committee and the Outer Hebrides Community Planning Partnership in December 2008 indicating the process for monitoring progress against the SOA targets and outcomes, both within the Comhairle itself and where appropriate with Partners. These reports will take account of topic areas where there is a need to establish baselines against which to measure progress. In addition account will also be taken of revised advice expected to be issued by the Scottish Government in relation to SOAs.</p>	Derek McKim	Dec 2008
5	103	<p>Annual Report</p> <p>No performance report has been issued to citizens since 2005/06 which highlights how the Comhairle are performing in relation to the corporate plan.</p> <p>Risk: members and the public are not aware of how effectively the Comhairle is meeting its corporate priorities.</p>	<p>The procurement of the performance management system is underway. This will have a module which will be accessible to the public. Evaluation of tenders is ongoing and the system should be in place by 1 January 2009. This will produce a "live" document rather than snapshot at point in time and public should be able to track progress on items of particular interest.</p>	Lesley McDonald	Feb 2009
6	104 – 107	<p>Measuring Performance</p> <p>The implementation of the balanced scorecard method of performance management and the electronic system necessary to support it are not progressing to the planned timetable. The culture of gathering performance information is not embedded in some services. Some services have not agreed the indicators by which they will be measured.</p> <p>Risk: The Comhairle does not have timely or robust information to demonstrate whether or not service performance</p>	<p>Work on the first phase of the Diagnostic Pathway has highlighted this issue as one of sufficient importance to be taken forward independently of DP process and to report progress to P&R Committee of 30 October to relaunch. Please see previous item for progress on performance management system.</p> <p>Promotion of SPIs as a performance tool being undertaken through Corporate Management Team stressing links to business planning process.</p>	Lesley McDonald	Mar 2009



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>is improving and why there are improvements or deteriorations in service provision.</i>			
7	118	<p>Department best value reviews</p> <p>Other than the Education Department, no service wide best value reviews have been carried out.</p> <p>Risk: Efficiency savings required by the tightening financial constraints will not be truly strategic, with an increasing reliance on reactive cuts in services.</p>	Best Value Officer post now established. Recruitment will be complete by February 2009. A Best Value toolkit is being reviewed. A Programme of Best Value reviews is to be established.	Norma Morrison	Mar 2009
8	139	<p>A sustainable workforce</p> <p>The ongoing challenge of a restricted pool of potential staff has been heightened by specific succession planning issues as several senior officers have recently retired or will retire shortly.</p> <p>Risk: an absence of essential skills could impact on the Comhairle's ability to meet service objectives and improvements.</p>	Establishment of Career Grade routes for key areas. Training Plan to be agreed for workforce which will identify skill gaps. A pro-active plan will be established to manage skill gaps.	Norma Morrison	Jun 2009
9	141 - 144	<p>Asset management</p> <p>The Comhairle's asset management plan is still at the early stages of development.</p> <p>Risk: fixed assets may not be used to their full potential, long term capital decisions may not make the best use of scarce financial and operational resources and approved projects may have unplanned long term financial consequences.</p>	A Policy and Strategy for Corporate Asset Management is being developed by the Corporate Asset Manager.	Angus Macleod	Dec 2008