The Highland Council

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

AUDIT SCOTLAND

October 2008

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Contents

Key Messages

Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by the council. 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 the Highland Council.

The council's draft financial statements showed a surplus of £1.876 for the year to 31 March 2008. However, after the end of the financial year the council agreed to take over Caithness Heat and Power and increase its provisions for the company by £2.4 million. The effect of this post balance sheet event was to change the original surplus to a deficit of £0.524 million.

At 31 March 2008 the council had a general fund balance of £29.609 million with £13.326 million earmarked for specific purposes (up from £12.264 million in 2006/07) leaving an unallocated balance of £16.283 million. The council is maintaining its aim of retaining an unallocated balance of approximately £17 million.

A provision for equal pay of £4.526 million was created in 2007/08 to make a further settlement covering the 18 month period from 1 October 2006 to 31 March 2008 funded in part from the budget set aside for pressures and growth. The Chief Executive anticipates that a single status agreement will be implemented from December 2008 with payments backdated to 1 April 2008 negating the need for further substantial instalments of equal pay.

The council underspent its net general fund capital budget of £50.767 million in 2007/08 by £14.896 million (29%). A report to the Resources Committee on 20 August 2008 set out the factors which contributed to the slippage and actions required to address this in 2008/09.

The council's significant trading operations (STOs) require to break-even over a three year rolling period. Whilst all seven STOs achieved this objective, three received additional income to equalise the additional costs arising from payments under equal pay legislation. Without the additional income two of the three STOs would not have achieved their prescribed financial objective.

The council has a commitment to the efficiency agenda and, as stated in its 2007/08 annual efficiency statement, it exceeded its savings target of £6.059 million in 2007/08 with claimed cash efficiency gains of £7.62 million.

The council completed a single outcome agreement with the Scottish Government and its regional partners including NHS Highland, Highlands and Islands Enterprise, Highland and Islands Fire and Rescue Service, Northern Constabulary, Scottish Natural Heritage and the University of the Highlands and Islands. The agreement includes a performance framework to demonstrate achievement of outcomes.

New and continuing members received a comprehensive induction programme. This and other measures, such as experienced members taking ‘lead roles’, reduced the potential risk that the transition between the outgoing and incoming administrations in May 2007 could have disrupted council business.

Outlook for future audits

Emerging pressures on the council’s 2008/09 budget include delivery of its savings target, rising energy costs and the related impact on school transport, additional support needs and devolved school budgets. As a result the council is operating in a difficult financial environment and will need to find sustainable efficiencies if it is to continue to deliver its existing range of services.

The council is making progress in planning its overall financial position over the medium term and is working towards longer term integrated capital investment and asset management planning.

The council requires to closely monitor its general fund capital programme in 2008/09 to minimise slippage and maximise capital investment in its asset base.

Although a significant amount of work has been done on implementing single status including estimating the initial and ongoing costs, this still represents a continuing risk to the council.

The new council agreed its Programme for Administration (PfA) in June 2007. This strategic document had ten key themes which formed the basis for the draft corporate plan 2008-2011 presented to and agreed by the council in October 2007. The council developed a range of performance measures related to the PfA and corporate plan and these included targets for improvement.

The SNP group resigned from the Independent/SNP administration with effect from 26 June 2008. At the council’s meeting on 1 August a new administration was formed consisting of Independents, Liberal Democrats and Labour. The council considered and agreed a revised programme entitled “Strengthening the Highlands – the Programme of the Highland Council 2009 -2011” at its meeting on 4 September 2008. The original performance measures are currently being revised to reflect the change in administration and its programme for the period 2008 – 2011.

Acknowledgements

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

Audit Scotland
31 October 2008

Introduction

1. This report summarises the findings from our 2007/08 audit of Highland Council, 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 highlighted key issues and concerns facing the council going forward.

2. The scope of the audit is set out in our Annual Audit Plan (AAP), which was submitted to the council in February 2008. The AAP summarises specific governance and other risks that could affect the council's financial statements and describes the work planned in response to these risks.

3. As part of the planned work we submitted a Strategic Audit Risk Analysis (SARA) to the council in March 2008. Under the following strategic themes, the SARA set out our views on the key business risks facing the council and the work planned as part of the annual audit:

   - Supporting political governance
   - Adopting a strategic framework to deliver change
   - Sustainability and efficient use of resources
   - Using performance management to drive service improvement
   - Working with communities and partners
   - A modern and streamlined workforce

4. Overall conclusions about the council's management of key risks are discussed throughout this report. Appendix A sets out the key risks which we wish to draw to the attention of members and the action planned by management to address those risks.

Financial statements

Introduction

5. In this section we summarise key outcomes from our audit of the council's financial statements for 2007/08. We also comment on significant accounting issues and provide an outlook on future financial reporting issues.

6. We audited the financial statements and gave an opinion on:

   - whether they present fairly the financial position of the council 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.

7. We also considered the adequacy of the processes put in place by the council to obtain assurances on systems of internal control and assessed whether disclosures in the corporate governance assurance statement and the group's statement on the system of internal financial control are consistent with our knowledge of the council.

8. The financial statements are an essential means by which the council accounts for its stewardship of resources available to it and its financial performance in the use of those resources.

Statutory objection

9. Citizens have the right to make a statutory objection under section 101(2) of the Local Government (Scotland) Act 1973. No objections were received in relation to Highland Council's 2007/08 financial statements.

Overall conclusion

10. We issued an **unqualified** opinion on the financial statements of Highland Council for 2007/08.

11. The Local Government in Scotland Act 2003 requires councils to maintain and disclose trading accounts for significant trading operations, which require to break-even over a three year rolling period. Whilst all seven STOs achieved this objective, three received additional income equal to the additional costs arising from payments under equal pay legislation. The Director of Finance acknowledged in the letter of representation that without the additional income two of the three significant trading operations would not have achieved their prescribed financial objective. This matter is referred to in more detail in paragraphs 51 to 55 in this report.

12. The council's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Audited accounts were finalised prior to the target date of 30 September 2008 and are now available for presentation to the council and publication.

Accounting practice

13. 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 included:

    - accounting for financial instruments based on financial reporting standards FRS 25, FRS 26 and FRS 29
    - replacing the fixed asset restatement account and capital financing account by a revaluation reserve and a capital adjustment account
    - provision for penalties under the Landfill Allowance Schemes.

14. The council has prepared the financial statements in accordance with the revised SORP.

15. The council adjusted the financial statements to reflect our audit findings. There were no significant unadjusted errors in the financial statements. Details of significant accounting issues arising during the course of our audit, and not identified elsewhere in this report, are summarised below.

Significant adjustments to the financial statements

16. The accounts were adjusted to correct financial misstatements identified by our audit. The most significant of these were:

    - capital expenditure of £4.118 million which was treated as not adding value is now reclassified as additions to fixed assets. The adjustment does not impact on the resources available to the Council
    - non-enhancing expenditure of £27.792 million originally included in note on the movement in fixed assets was subsequently removed. This amendment did not impact on the balance sheet
    - the note to the financial statements on operating leases was adjusted by approximately £5.8 million to reflect lease commitments for homeless accommodation. The adjustment does not impact on the income and expenditure account as the leases are properly included.

Post balance sheet

17. In August 2008, the council agreed to take over Caithness Heat and Power (CHaP), appoint members of the council to the Board and consider options for the future operation of the company. To reflect the financial liabilities of CHaP, the financial statements now include a provision for financial guarantees increased from £4.4 million to £6.8 million and also include a contingent liability of £2.9 million in respect of possible repayment of funding from the Energy Savings Trust if funding conditions are not met. The effect of the additional provision of £2.4 million was to change the council's surplus of £1.876 million to a deficit of £0.524 million for the year to 31 March 2008.

18. We sought and obtained assurances from officers that the action taken by the council was taken to protect its interests, was within its statutory powers and the sums included in the financial statements are sufficient to meet any actual or potential claims arising from the decision to take over the company.

19. In the longer term the council will decide whether to continue to operate CHaP in-house, work in partnership or sell it as a going concern on the basis of a lump sum payment or reduced lump sum with an agreement for royalties. We will continue to monitor the position.

Developers' deposits

20. The council holds developers' deposits of £4.9 million for capital projects and some agreements have clauses which may require repayment of deposits if projects do not proceed. To reflect the possibility of projects not proceeding, the amounts received should be held as creditors in the financial statements. This has not occurred though we acknowledge that the current treatment is consistent with prior years. A full review is required during the current financial year to ensure these deposits are correctly reflected in the financial statements for the year to 31 March 2009.

Key risk area 1

Identification and valuation of common good assets

21. There were a number of Scottish parliamentary petitions concerning the proper recording, auditing and safeguarding of common good assets and this area continues to produce a significant amount of correspondence and complaints. In December 2007, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The paper recognises the legislative distinction of the common good as a managed fund, which requires disclosure within the local authority financial statements, with common good asset registers in place by March 2009.

22. Accounting guidance suggests that local authorities take reasonable steps to ensure that common good fixed asset registers support the assets shown in the common good balance sheet. When any asset is identified for disposal by the council the title deeds are checked to see if they indicate whether or not it is an asset owned by the common good fund. The council's view is that reviewing the title deeds at point of sale represents reasonable steps for maintaining the fixed asset register. A title deeds search of all council assets would be time consuming, expensive and possibly inconclusive.

23. Internal audit undertook a review of common good and concluded:

- there is no overarching policy that provides guidance on the governance, stewardship and administration of common good funds
- there is no single comprehensive record of assets for each common good fund. Responsibilities for maintaining records for common good assets are not formally defined but currently rest operationally between Housing and Property Services for management of properties and the Finance Service for insurance purposes. There are also some records held locally in the Areas relating to specific common good funds
- the scheme of delegation does not clearly define who can authorise expenditure from common good funds and to what monetary limit except for individual applications for common good funding
- the Inverness common good fund generates most income through investments managed by an external investment manager and income from leases and rents managed by Housing and Property Services. There is no overall schedule detailing all common good income to be collected
- for the common good funds outwith the Inverness City area reliance is placed upon local records and administrative arrangements to ensure that income is collected in line with agreed leases. Some of the local administrative arrangements to collect common good income are still in the process of being defined following the recent reorganisation of the operational Areas.

24. Internal audit's action plan contains nine recommendations with most scheduled for completion by December 2008. Internal audit will follow up progress of implementing the action plan.

Legality

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

26. We reported last year that local authorities with registered charitable bodies (i.e. registered trust funds) are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund, although the date of full implementation has been deferred by the Scottish Charity Regulator. The Office of the Scottish Charities Regulator (OSCR) indicated that the interim measures introduced in 2006/07, be used again in 2007/08 and reliance placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.

27. The council has identified that there are a number of charitable trusts which have been inactive for a considerable period, or for which their purpose is now outdated or unknown due to the lack of a trust deed. The Director of Finance is considering proposals for reorganising charities and these will be submitted to a future council meeting.

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

Financial reporting outlook

IFRS adoption

29. 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

30. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2008 and highlight 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 council in managing ongoing financial pressures in funding existing service delivery and future improvement.

Council tax and the general fund

Operating performance 2007/08

31. The council's net operating expenditure in 2007/08 was £492.568 million. This was met by government grants and local taxation of £481.48 million, resulting in an income and expenditure account deficit of £11.088 million. After making adjustments through the statement on the general fund balance, as required by statute and non-statutory proper practices, the deficit for the year was £0.524 million. The 2007/08 budget was based on a Band D council tax level of £1,163 with no planned contribution from the general fund. One factor contributing to the final financial position was the post balance sheet event related to Caithness Heat and Power which is referred to in more detail at paragraphs 17 to 19 of this report.

32. The other main factors contributing to the final financial position included:

- loans interest and repayments costs under budget by £1.931 million as a result of favourable long term borrowing rates, good returns on investments, and improved cash flow throughout the year
- interest on revenue balances £0.933 million greater than the budgeted amount due to improved cash flow
- income from council tax £2.611 million more than budgeted for as a result of improved collection rates and an increase in the number of taxable properties
- an overspend of £1.665 million in the budget for Education, Culture and Sport.

Housing Revenue Account

33. The housing revenue account shows an adjusted deficit of £0.089 million for 2007/08 which is less than the planned utilisation of housing revenue account reserves of £0.136 million.

34. The breakdown of actual outturns against budgets show:

- savings in staff costs of £0.493 million compared to the budget of £5.664 million (8.7%)
- additional spending on other costs of £0.996 million compared to the budget of £21.239 million (4.7%)
- savings in loan charges and interest of £0.345 million compared to the budget of £15.678 million (2.2%)
- additional income of £0.205 million compared to the budget of £42.442 million (0.5%).

35. Rent arrears increased from £3.008 million in 2006/07 (8% of gross rents) to £3.412 million in 2007/08 (8.8% of gross rents) and the provision for bad debts increased from £2.35 million in 2006/07 to £2.656 million in 2007/08. Action is required to address the increase in rent arrears.

Key risk area 2

Reserves and balances

36. The table below shows the balance in the council's funds at 31 March 2008 compared to the previous year. At 31 March 2008, the council had total cash backed funds of £67.005 million, an increase of £5.385 million on the previous year.

Reserves and balances

Description	31 March 2007 £ Million	31 March 2008 £ Million
General fund	30.133	29.609
General fund – housing revenue account balance	8.893	8.804
Capital fund	20.769	26.485
Renewal and repair fund	1.285	1.375
Insurance fund	0.540	0.732
	61.620	**67.005**

37. The council reported a general fund deficit of £0.524 million for the year reducing the general fund balance brought forward from £30.133 million to £29.609 million. This equates to 6% of the council's net annual operating expenditure. Within the general fund balance, £13.326 million (£12.264 million in 2006/07) is earmarked for specific purposes leaving £16.283 million (£17.869 million in 2006/07) as a working balance. The council is maintaining its aim of retaining an unallocated balance of approximately £17 million as a contingency.

Group balances and going concern

38. The overall effect of inclusion of all of the council's subsidiaries, associates and joint ventures on the group balance sheet is to reduce net assets by £194.696 million, mainly as a result of pension liabilities. 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.

39. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. Overall these boards (Northern Joint Police Board, Highland and Islands Fire Board and Highland and Western Isles Valuation Joint Board) had an excess of liabilities over assets at 31 March 2008 due to the accrual of pension liabilities. In total these deficits amounted to £353.614 million, with the council's group share being £236.099 million.

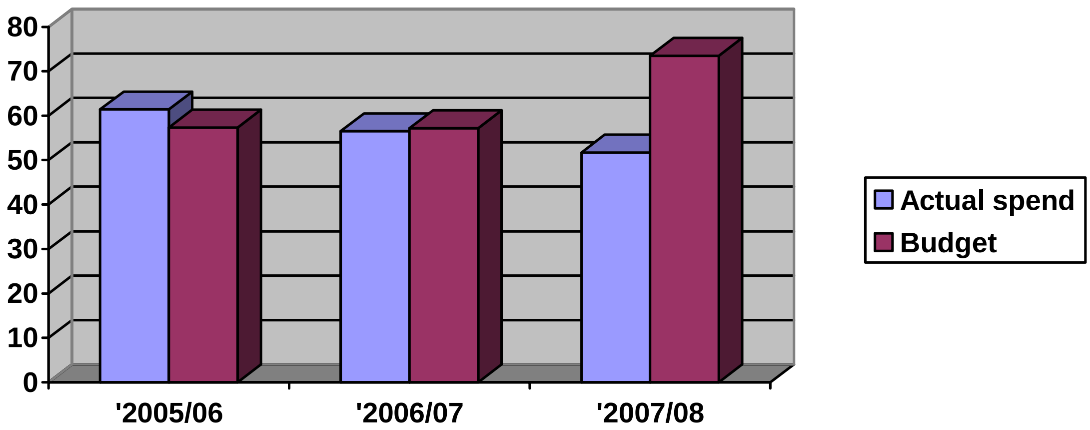
Spending on assets

Capital performance 2007/08

40. Under the prudential code the Council can decide locally on a capital investment strategy which must meet best value requirements as well as being affordable. The Council's prudential indicators for 2007/08 were set in February 2007 and a net general fund capital budget of £50.767 million was set.

41. Gross capital expenditure in 2007/08 totalled £51.73 million, falling from £56.469 million in 2006/07 and £61.377 million in 2005/06. The actual gross capital investment in the last three years compared to budget is shown below.

Comparison of gross capital investment to budget for 2005/06 to 2007/08 (£m)



42. The Director of Finance's explanatory foreword to the financial statements states net capital expenditure in the general fund capital programme in 2007/08 totalled £35.871 million with slippage of £14.896 million representing 29% of the planned programme (16% in 2006/07). It outlined the most significant underspends on the general fund capital programme including:

- underspend of £8.34 million on the education, culture and sport service programme compared to a budget of £19.898 million (42%)
- underspend of £3.34 million on the social work programme compared to a budget of £5.332 million (62.6%) due to the need for a longer timeframe to progress projects to the tender stage.

43. The above information was also included in a report to the Resources Committee on 11 June 2008.

44. A report submitted to the Resources Committee on 20 August 2008 identified seven factors which contributed to the slippage in the capital programme including:

- internal staff resource availability (client service, TECS and Housing and Property)
- funding issues e.g. uncertainty over external grants
- internal decisions e.g. site location, design, etc
- regulatory approvals
- external resource availability e.g. contractors
- on-site issues e.g. adverse weather conditions
- land acquisition.

45. The report also stated that optimistic programming was a key factor in the slippage and it set out the following six actions to address the factors identified above:

- clarifying the roles and responsibilities between the client service and the Housing and Property Service to assist capital delivery arrangements
- the Director of Finance to produce a paper reviewing capital planning arrangements, and setting out a series of improvements to longer-term capital planning, with consideration given to a programme of up to ten years in length
- the council agreed to introduce framework agreements for construction and consultancy contracts to create greater flexibility and cost effectiveness in the council's delivery arrangements. To date three agreements are in place in relation to consultancy services, with more being progressed
- the Director of Housing and Property will consider and recommend the appropriate contractual delivery arrangement for each project or programme of works
- the Housing and Property Service is reviewing internal project management arrangements and it is proposing that cross service training and sharing of knowledge/best practice is considered
- future monitoring reports to committee would be joint reports between the client service director and the Director of Housing and Property, with the Director of Finance exercising corporate control.

46. In addition to the above the Chief Executive and Senior Management Team will monitor progress of the capital programme on a monthly basis.

47. The general fund capital plan anticipates net annual capital expenditure of £69.6 million in 2008/09, £64.1 million in 2009/10, £61.7 million in 2010/11 and £63.1 million in 2011/12.

48. In our Report to Members and the Controller of Audit on the 2006/07 Audit we indicated we had received an assurance that the capital programme would be actively managed in 2007/08 and regular reports would go to committee on progress against plans. Given the underspending in 2006/07 and 2007/08 it is essential members are regularly apprised of progress on plans and actions taken to ensure the plans are effectively delivered.

Key risk area 3

Borrowing and temporary investments

49. In recent years, some councils have held significant amounts of cash and temporary investments to take advantage of favourable interest rates for planned capital programmes. In these circumstances, the early borrowing must be justified in its own right as representing the best time for borrowing the amount required. This should be assessed without regard to temporary investment possibilities, otherwise the action may be judged to be unlawful or to have subjected public money to unnecessary speculative risk.

50. As at 31 March 2008, Highland Council held temporary investments totalling £47.688 million (£59.401 million in 2006/07). We sought and received a specific representation from the Director of Finance that all sums available for investing arose due to a number of factors, including favourable cash flows from improved cash collection, sizeable balances and an underspend on capital expenditure in 2007/08. We will continue to monitor the position.

Significant trading operations

51. The Local Government in Scotland Act 2003 places a duty on councils to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period.

52. As reported, the council made additional payments to three of its significant trading operations (STOs) in the year to 31 March 2008 of £1.037 million for building cleaning, £1.077 million for catering and £0.06 million for roads and community works in respect of its liability for equal pay compensation packages. Without the additional payments the significant trading operations for catering and building cleaning would not have achieved the financial objective of breaking even over the three year period to 31 March 2008.

53. We were advised that if the activities undertaken by the significant trading operations were transferred to a private contractor then TUPE legislation would apply and as a result employees would have retained the same terms and conditions as they enjoyed as council employees. As a result the council would have had to make additional payments to the contractor for these exceptional costs. The council concluded in these circumstances it was appropriate to make similar payments to its STOs as the variation clauses within the service level agreements (where they existed) made no reference to the treatment of exceptional costs and therefore they must necessarily be the subject of negotiation.

54. One of the medium-term priorities in the council's best value audit report published in April 2006 was the need to improve the council's focus on delivering services and demonstrate value for money within the Highlands by addressing competitiveness of services and trading operations. Our Report to Members and the Controller of Audit on the 2005/06 Audit included an action to review service level agreements (SLAs) by March 2008. There was slippage in the timetable for revising SLAs although three of the SLAs are now complete with the fourth SLA expected to be completed by December 2008.

55. Our Report to Members and the Controller of Audit on the 2006/07 Audit included an action to compile a timetable to complete options appraisals on STO services. These appraisals would be used to identify how best value can be achieved in delivering these services. No timetable has been produced to date. The council remains unable to fully demonstrate the competitiveness of significant trading operations.

Key risk area 4

Pension funds

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

57. The Highland Council is the administering authority for the Highland Pension Fund (HPF). The net assets of the fund at 31 March 2008 totalled £801.707 million (£825.425 million at 31 March 2007) a decrease on a market value basis of £23.718 million.

58. The council's estimated pension liabilities at 31 March 2008 exceeded its share of the assets in the Highland Pension Fund by £85.669 million, increasing from £80.331 million in the previous year. The contribution levels are based on percentages of employee contributions, normally 6% of salary. The contribution levels are based on percentages of employee contributions, normally 5% to 6% of salary. The budgeted contributions rose from 270% of employee contributions in 2006/07 to 280% in 2007/08 and 290% in the 2008/09 financial year.

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

60. The next full actuarial valuation will assess the position at 31 March 2008 and is expected to be reported by December 2008. This will determine contribution rates for 2009-10 and the next two financial years. Factors such as volatile stock markets and increasing life expectancy impact on the funding level for the Highland Pension Fund, calculated as the ratio of fund assets to past service liabilities.

61. Recent changes to the Local Government Pension Scheme regulations are expected to release some future financial benefits, while providing additional flexibility to future pensioners.

Financial outlook

Equal pay and single status

62. 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 2006/07.

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

64. As detailed in our 2006/07 report, the council made a provision of £3.389 million in the financial statements for the cost of implementing a single status agreement. This provision was reversed out of the financial statements to 31 March 2008 and a provision for equal pay of £4.526 million created to make a further settlement covering the 18 month period from 1 October 2006 to 31 March 2008 funded in part from the budget set aside for pressures and growth.

65. The Chief Executive anticipates that a single status agreement will be implemented from December 2008 with payments backdated to 1 April 2008 negating the need for further substantial instalments of equal pay. Highland Council, like the majority of Scottish councils, has a significant number of outstanding employment tribunal claims related to equal pay.

66. Highland Council is one of a number of councils that expects to implement its single status agreement in the 2008/09 financial year. Although a significant amount of work has been done on implementing single status including estimating the initial and ongoing costs this still represents a continuing risk to the council.

Key risk area 5

EC landfill directive

67. 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 council 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, and 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.

68. In 2006/07 the council exceeded its target under the Landfill Allowance Trading Scheme by 2,137 tonnes and failed to meet its 2007/08 target by approximately 4,000 tonnes. The council has established a member/officer working group with Moray Council and obtained agreement with Moray Council to share its surplus landfill allowances to assist Highland Council to meet both its 2006/07 and 2007/08 targets.

Governance

Introduction

69. In this section we comment on key aspects of the council'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

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

71. The council has approved and adopted a local code of corporate governance based on best practice identified in the joint CIPFA and SOLACE Framework Note for Scottish Local Authorities – Delivering Good Governance in Local Government (2007). A Statement of Assurance on Corporate Governance is included within the annual financial statements for the council and was signed by the Convenor and the Chief Executive. This concluded that the council must strive for continuous improvement in performance and it needed to address a number of matters to further enhance corporate governance arrangements. These include:

- completing the review of wards forums
- implementation of job evaluation
- completing the remaining actions in the best value improvement plan
- going forward, delivery of the single outcome agreement.

72. A Statement on the System of Internal Financial Control for the group is also included within the financial statements. In accordance with the Code of Practice on Local Authority Accounting, the statement reflects the internal control environment for the group position. Following receipt of a range of assurances from managers across the council, the Head of Internal Audit and assurances contained within joint boards' financial statements, the Director of Finance concluded that he was satisfied that reasonable assurance could be placed on the adequacy and effectiveness of the systems of internal control operated by the council and its group.

Audit and Scrutiny Committee

73. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda.

74. Following the May elections in 2007, the council established an Audit and Scrutiny Committee to replace the previous Audit and Standards Committee. The Committee's remit includes overseeing risk management and dealing with matters referred to the Committee by the Council for scrutiny purposes in addition to considering the plans and work of internal and external audit. The committee chair is not a member of the administration. In November 2007 members received appropriate training on their audit and scrutiny role.

75. In 2007/08 we concluded that the committee provided an effective audit role. Under its scrutiny role the committee is in the process of concluding work on the council's relationship with small businesses in the Highlands. Planned work in the future includes a review of the efficiency agenda.

Internal Audit

76. Internal audit provides an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the council's internal audit arrangements against CIPFA's revised Code of Practice for Internal Audit in Local Government 2006. We found that the function continues to deliver work in accordance with a risk based framework. There was some slippage in the internal audit plan due to unplanned work and other priorities. However, most of the work on which we planned to place reliance was completed and relevant assurances obtained.

Systems of internal control

77. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on a number of the council's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:

Payroll	Accounts payable
Housing/council tax benefits	Council tax
Main accounting system	Non-domestic rates
Accounts receivable	Treasury management

Housing Benefit

78. From April 2008, Audit Scotland took over responsibility for inspecting the housing and council tax benefit functions from the Department for Work and Pensions. A team within Audit Scotland is carrying out risk based inspections on a cyclical basis and all councils will be inspected during an 18 month period.

79. A risk assessment was undertaken in Highland Council as part of the above programme and a report published in August 2008. The assessment did not represent a full audit of the council's benefits service.

80. The report concluded that the council demonstrates an awareness of what constitutes an effective, efficient and secure benefits service and has much in place to support local and national objectives. It also referred to actions taken by the council such as:

- investing in its IT systems to facilitate more efficient workflow management
- implementing a programme of pre-payment quality checks to reduce the amount of error entering the benefits system
- achieving continuous improvement in its counter-fraud performance in terms of identifying and investigating benefit fraud, and applying sanctions where appropriate
- taking some positive steps to meet the needs of its users and the community
- introducing a number of measures to reduce costs and provide value for money.

81. The report also highlighted that the council's speed of processing new claims and changes of circumstances declined significantly following the introduction of an electronic workflow management system and a revised operational structure in autumn 2007. By June 2008 there had been little sign of improvement. The council is monitoring the situation and taking recovery action. However, outstanding work was increasing month on month and there was no formal recovery plan setting out how and when performance would be improved.

82. In addition, the report also stated that while there is an annual business plan in place for the Investigation Team setting out its key priorities and performance indicators, there was no similar plan in place for the Operations Team, which is responsible for HB/CTB delivery. Such a plan would provide a focus for resources and help deliver continuous improvement in all areas of its work.

83. The Chief Executive, on behalf of the council, has agreed eight actions to address the findings from the report including a timetable for their completion. Audit Scotland's Director of Audit Strategy has asked the Chief Executive to provide a progress update as at 30 November 2008.

Roy Bridge Primary School

84. In December 2006, the council agreed to amalgamate Roy Bridge Primary School and Spean Bridge Primary School with the provision of additional accommodation at Spean Bridge to meet future needs. The council also agreed to examine possible community uses of Roy Bridge Primary School with the local member and representatives of the community.

85. As a result of local representations the council reassessed the financial information on which the original decision was based. A report to the council on 8 May 2008 by the Director of Education, Culture and Sport indicated a full review of the original financial analysis and the pupil projections was undertaken. The outcome of the review was a reduction of £425,809 in the projected savings from amalgamating the two schools to £29,630. The report also indicated the loss of grant income from the Scottish Government would negate the impact of any savings.

86. In view of the report the council agreed to set aside its decision of December 2006 and continue education provision at both Spean Bridge and Roy Bridge Primary Schools.

87. The council should review and revise procedures to ensure accurate, reliable information is available when taking decisions on future school amalgamations.

Key risk area 6

Information and communications technology

Electronic personnel system

88. The council replaced its mainframe payroll system with ResourceLink, a client server application system. ResourceLink can also undertake personnel functions such as employee management, contract management, timesheets and appraisals. The implementation of this part of the system has been ongoing from 2003 until the official project close at the end of 2007. To date limited employee management functionality is in place.

89. We issued a formal report in August 2008 on the progress in developing the personnel modules of the ResourceLink system. The action plan to the report identified twelve key risk areas of which eight were considered high risk including:

- absence of a business owner for the personnel functions of ResourceLink system
- responsibility for the day-to-day management of the system
- inappropriate user access
- lack of control over the quality of the data residing on the system
- possible breach of data protection principles
- absence of change management procedures
- absence of a business continuity plan for the personnel function in general and ResourceLink in particular
- absence of secure operating procedures.

90. A number of actions were agreed to address our findings and we will follow them up during the course of our audit appointment.

91. While there is improvement in the information held on council employees going forward there is a need to deliver efficiencies from the project.

Key risk area 7

Computer services review follow-up

92. Our initial work in this area was completed in 2006/07 and followed up in 2007/08. When we undertook our initial review we found progress in implementing the recommendations was disappointing. However, our more recent follow-up has shown that significant progress has been made in addressing the risk areas. Examples of progress are:

- a draft ICT Strategy has been prepared for the period 2008-2013. After consultation with services this document is expected to be approved by the Resources Committee in December 2008
- the Information Systems Security Framework (ISSF) has been updated to reflect the changes in the technological environment and to bring the council's standards up to industry best practice
- discussions are currently underway to restructure the IS client team, so it will be better able to meet business requirements. This would also coincide with the management framework for the new service contract which is currently being negotiated.

93. There are a number of developments which we will be monitoring in the future including:

- the changing role of the Digital Highland Programme Board in light of the implementation of the corporate improvement programme
- the extension of monitoring of ICT projects to include benefits identification and realisation stages
- improvements to IT security monitoring when the IS client is restructured and the ISSF is fully embedded
- the role of the recently appointed Emergency Planning and Business Continuity Manager who is expected to take corporate business continuity forward.

94. Business continuity and ICT failure were recognised by the council as an area where arrangements require to be improved. The council still has work to do to ensure business continuity planning enables it to sustain services during prolonged interruptions to ICT facilities.

Key risk area 8

Data handling and security

95. 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 council shares data with a number of organisations such as the Department for Work and Pensions and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to civil and criminal litigation.

96. The Council has a number of actions underway to address this including:

- production of an information management and security policy
- production of an information classification scheme
- the creation of an information security management system run by an information security management group
- a data sharing policy for the council.

Payment card standards

97. 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. We were advised that the council is fully compliant with the standard.

Prevention and detection of fraud and irregularities

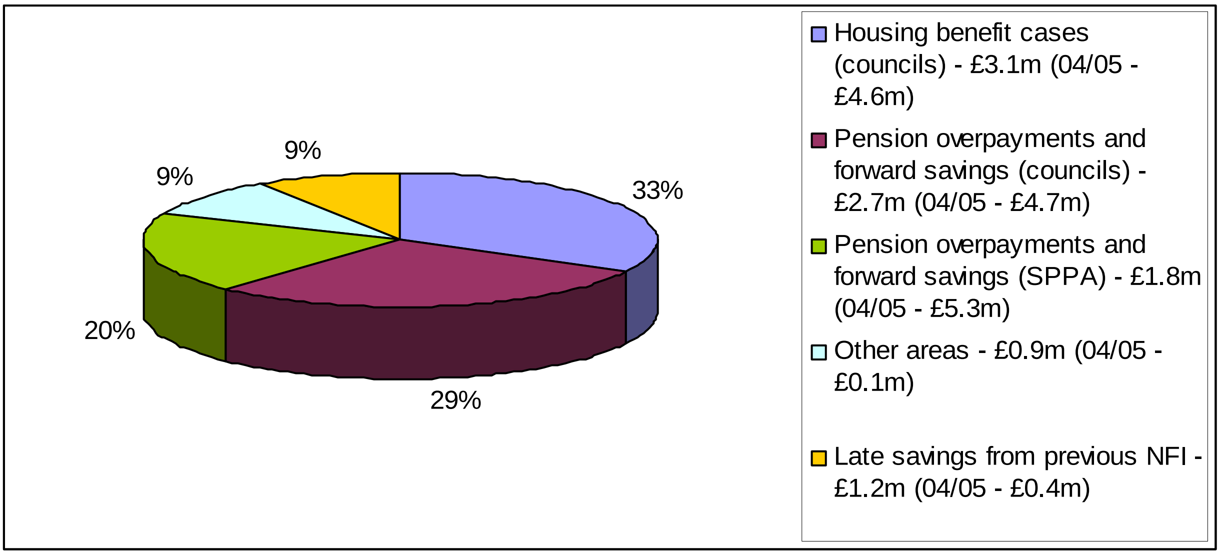
98. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include an anti-fraud and corruption policy and response plan, a whistle blowing policy, codes of conduct for elected members and staff,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

NFI in Scotland

99. During 2007/08, we continued to monitor the council's participation in the 2006/07 National Fraud Initiative (NFI). This exercise is undertaken as part of the audits of participating bodies. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings for Scottish public bodies (£9.7 million from the 2006/07 exercise and £37 million including previous exercises). Where fraud or overpayments are not identified in a body, assurances can usually be taken about internal arrangements for preventing and detecting fraud.

100. Audit Scotland's report on the National Fraud Initiative in Scotland 2006/07, published in May 2008, provided an analysis of the frauds and overpayments of £9.7 million and this is set out in the chart below.

Analysis of savings from the 2006/07 NFI in Scotland



101. The report also highlighted that the level of fraud and error identified from the 2006/07 exercise is about a third less than that reported in the 2004/05 exercise. It suggested the most likely reasons were that:

- 2004/05 NFI was the first significant roll out of NFI for councils in Scotland, and was always likely to be untypical. NFI 2004/05 helped bodies to identify the longest-running frauds and errors; whereas most fraud and error found at the 2006/07 exercise should only have run for two years at most
- NFI, and other anti-fraud work by bodies, is making an impact in deterring fraud
- informed by the fraud and error cases identified previously, bodies have made improvements to their systems of control
- in addition, Scottish Public Pensions Agency (SPPA) had not completed its investigations at the time of preparing this report and its final results are expected to reduce the difference between the 2004/05 and 2006/07 NFI outcomes.

102. The next NFI exercise will commence in October 2008 and the scope is likely to be similar to NFI 2006/07. NFI 2008/09 will see the addition of online interactive training modules that will make it easier for officers to learn about the application, and how to use it efficiently and effectively, at the times when it best suits them.

Governance outlook

Single outcome agreements

103. 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.

104. The council produced its first draft single outcome agreement in association with its principal community planning partners, NHS Highland, Highlands and Islands Enterprise, Highland and Islands Fire and Rescue Service and Northern Constabulary, in March 2008. The council actively sought the views of other organisations, particularly for performance information, including Scottish Natural Heritage, University of the Highlands and Islands, Northern Community Justice Authority, Job Centre+ and Skills Development Scotland. In addition, work from functional partnerships within the Highlands was included in the single outcome agreement which brought in other organisations indirectly, e.g. housing associations and local community groups and voluntary organisations.

105. The culmination of this process was a revised draft single outcome agreement covering all 15 national outcomes, submitted to the council in May 2008 with a final version submitted to and agreed by the council in June 2008. The agreement was signed by Scottish Ministers in August 2008.

106. The single outcome agreement includes a framework which draws on the performance measures of the principal partners and these were aligned to the local outcomes agreed by the partnership. Performance measures are mainly those in partner organisation's existing corporate and other partnership plans and very few new measures were devised.

107. Going forward it is anticipated that there will be fuller integration of the relevant performance measures during 2008/09 for some of the principal community planning partners as their operating plans are approved by the Government. In addition, the partnership intends to refine the performance measures adopted in the single outcome agreement to make sure these will provide a good indication of partnership service improvement against the local and national outcomes. The council also anticipates that during 2008/09 all relevant regional partners across the public, voluntary and private sectors will be brought into the outcome agreement and reflected in the outcome agreement for 2009/10 onwards.

Performance

Introduction

108. In this section we summarise how the council manages its performance. We discuss the overall arrangements before focussing on the specific areas of Highland Council. We comment on the findings of Audit Scotland's national performance studies, relating them to the council's situation. Finally, we give an outlook on future performance, including our views on the current status of identified risks.

Corporate objectives and priorities

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

110. The SNP group resigned from the Independent/SNP administration with effect from 26 June 2008. At the council's meeting on 1 August a new administration was formed consisting of Independents (30 members), Liberal Democrats (20 members) and Labour (7 members).

111. The council considered and agreed a revised programme entitled "Strengthening the Highlands – the Programme of the Highland Council 2009 -2011" at its meeting on 4 September 2008. The programme has five key themes setting out what the council proposes to do to address a number of issues related to:

- children and families
- communities and older people
- the economy
- the environment
- making Highland Council more effective and efficient.

112. The council's progress against its original Programme for Administration was detailed in the annual performance report and this is discussed below.

Overview of performance in 2007/08

Annual Performance Report

113. In October, the Chief Executive provided his 2007/08 annual performance report to the council. This report highlighted the council's progress against its corporate plan and the former Programme for Administration. In the report the Chief Executive advised members that of the 101 commitments, 83 are progressing well or are on target; it is too early to assess 14 commitments; there is mixed performance on three commitments and one commitment was not met in year one. Key progress areas included:

- outline planning permission obtained for three care homes, negotiations are ongoing for a site for another and a joint project is under consideration with NHS Highland for the fifth care home
- the percentage of older people receiving personal care at home increased from 83% in 2006/07 to 86% in 2007/08
- 8% of the council's stock meeting the Scottish Housing Quality Standard (SHQS) at the end of March 2008, an increase from 3% in 2007 with 22% expected to meet the target by March 2009 with all but 2,000 properties expected to meet the target by 2015
- 592 affordable houses completed or started on site through the Housing Association development programme in the 15 month period to end June 2008, towards the council's target of completing 2,000 affordable houses for rent and low cost home ownership over the next 4 years
- a 12% reduction in energy use from 2005 to the end of March 2008 towards the council's target of reducing energy use by 15% by 2010.

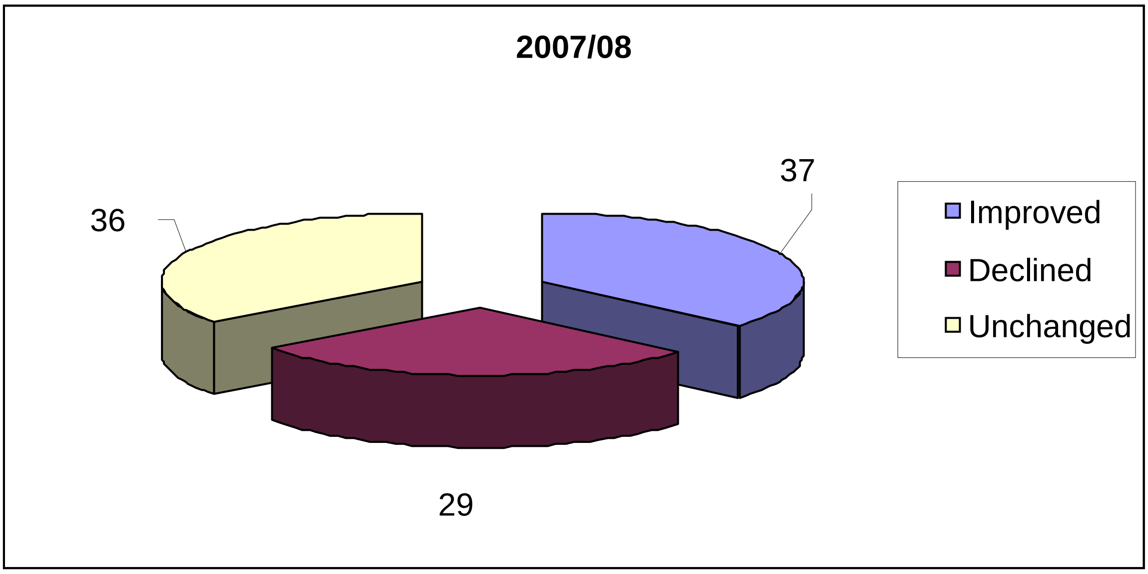
114. The council is also developing a customer care strategy and proposes to submit it to committee in early 2009. It is performing well above the national targets for customer contact through its Service Centre and receives positive feedback from customers in the public performance survey each year.

115. The council's progress on the schools estate is included at paragraphs 155 to 157 of this report and on landfill allowance targets is included at paragraph 68 of this report.

Statutory performance indicators

116. One of the ways of measuring the council's comparative performance is using Statutory Performance Indicators (SPIs). A summary of performance in those indicators related to the council is provided in the table below. The Director of Finance in a report to the council on 4 September set out where performance in SPIs improved by 5% or more, declined by 5% or more or where there was no significant change in performance. Overall, improvements were achieved in 37% of the areas covered by SPIs, with performance falling in about 28% of cases.

Changes in SPIs (Total of 102 indicators in 2007/08)



117. Notable improvements have been made in:

- the percentage of council buildings that are suitable or accessible for disabled people increased from 61.3% in 2006/07 to 70.2% in 2007/08
- the number of attendances per 1,000 population for all pools increased from 5,060 in 2006/07 to 5,332 in 2007/08
- the percentage of waste recycled and composted increased from 26.1% to 30.7%
- the average time taken to re-let council houses improved from 63 days in 2006/07 to 48 days in 2007/08.

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

- the number of probationers seen by a supervising probation officer within one week decreased from 81.1% to 62.9%
- the average time to process new benefit claims increased from 28.7 days in 2006/07 to 38.4 days in 2007/08.

119. The best value follow up report submitted to the council on 30 October states that SPI performance is reported to service committees and to council with a view to improve performance.

120. Each year we review the reliability of the council's arrangements to prepare SPIs. Overall, the working papers provided to support the SPIs were of a good standard. No indicators were classified as unreliable compared with one in 2006/07.

121. In 2007/08 the SPI - median time between identification of need and delivery of community care services in respect of community care assessments was classified as a failure to report. This was due to a decision of the Scottish Government and its concern to emphasise preparation for reporting against the new Community Care PI framework and the continuing uncertainty over the quality of data available from a number of councils in 2005/06 and 2006/07. As a result councils which were not in a position to provide the information without undue resource use, were advised to report the SPI as 'unable to report'.

Best value audit

122. 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.

123. The best value audit of Highland Council was carried out in 2005 and the findings published in April 2006. As the local auditor, we follow-up the council's progress in completing outstanding actions in the best value improvement plan.

124. A report to the council on 30 October 2008 indicated it has made good progress with best value improvement actions with four completed, another partially completed and seven progressing. We note the council will monitor progress of implementing actions in its best value improvement plan through its service planning process. We will continue to monitor progress in the 2008/09 audit.

Performance outlook – opportunities and risks

Introduction

125. In the course of our audit work we identified some of the strategic risks to Highland Council delivering its stated objectives and priorities in the years ahead. These risks were set out in our Strategic Audit Risk Analysis (SARA) and grouped into six risk themes.

126. In the following paragraphs, we comment on the progress made by the council during the year and the key risks yet to be fully addressed, where they are not covered elsewhere in this report. 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.

Supporting political governance

127. Elected members play a critical role in representing the views of the electorate and in ensuring that the Council responds to those views. Elected members need access to appropriate training and development tailored to their needs and the competencies required to be effective in their role. This need and others related to political governance were or are being addressed by, for example:

- providing a comprehensive induction programme for continuing and new Members and this and other measures, such as experienced Members taking 'lead roles', to reduced the potential risk that the transition between the outgoing and incoming administrations could disrupt Council business
- reducing the previous eight Areas to three and creating an administrative structure to meet the needs of its twenty-two new multi-member wards, including appointment of ward managers who report to a corporate manager appointed for each of the new operational management areas
- evolving the functions and role of Ward Forums and developing working practices to suit local requirements and constraints
- forming a Working Group with a remit to review the current political arrangements and examine the strategic committee structure and the operation of Wards and Ward Forums.

128. The creation of multi-member wards has required new ways of working to support efficient representation and sharing of the workload. However, multi-member wards are still fairly new in Scotland and the practical issues will become clearer as the new arrangements mature.

129. We were advised that although there is no protocol for multi-member working, the council operates a system of ward business meetings and ward forums supported by ward managers. Ward business meetings are held regularly (usually once a fortnight) and provide a forum for information provision, consultation and joint working between members. Ward forums are held up to six times per annum and provide a basis for members to meet with the Highland population and partner organisations on a range of issues. A review of ward business meetings and ward forums was recently completed with positive outcomes reported.

Adopting a strategic framework to deliver change

130. A strategic framework is essential to deliver change through corporate strategies and objectives supported by longer term financial and asset management plans. Change agendas need to be driven forward to ensure resources are used efficiently and effectively. Inevitably, any significant change programme carries risks.

131. The council is making progress in planning its overall financial position over the medium term and is also working towards longer term integrated capital investment and asset management planning.

132. The council in addressing these issues has agreed:

- in setting the 2008/09 budget, to continue to maintain a minimum unallocated general fund balance equivalent to 3% of the net budget, equivalent to £17m with earmarked balances for specified purposes
- to maintain reserve balances at a level considered prudent to enable it to respond to unforeseen financial pressures over the medium to long term without a significant impact on council tax
- a timetable for implementing asset management planning including a property asset management plan and an infrastructure asset management plan by March 2009
- to include in the 2008/09 budget, provision to establish an Asset Management Team to take forward asset management planning.

Sustainability and efficient use of resources

133. Councils administer large sums of public money within a complex financial and policy environment, often as key partners in delivering central government and local policy objectives. Sound financial planning is critical to ensuring that significant public monies and assets are applied to meet national priorities and the needs of local communities.

134. The council has a commitment to the efficiency agenda and, as stated in its 2007/08 annual efficiency statement, it exceeded its savings target of £6.059 million in 2007/08 with cash efficiency gains of £7.62 million. Efficiencies were identified through a variety of sources including revised management structures to reflect reduction in number of services and operational areas (£0.843 million), management of change in the teaching profession (£0.65 million), review of organisational structures within the social work service (£0.5 million), increase in council tax collection rates (£0.137 million) and the energy management performance plan (£0.183 million).

135. Emerging pressures on the council's 2008/09 budget include delivery of its savings target, rising energy costs and the related impact on school transport, additional support needs and devolved school budgets. As a result the council is operating in a difficult financial environment and will need to find sustainable efficiencies if it is to continue to deliver its existing range of services.

136. The council 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 ring fencing. The council's 2008/09 budget assumes a gross budget increase of £38.332 million and efficiency savings of £12.753 million giving a net budget increase of £25.579 million mainly funded by additional grant of £26.929 million.

137. The council faces the ongoing challenge of budgeting for no increase in council tax in 2009/10 and 2010/11. Whilst it is recognised that the relaxation of some ring fencing gives the council greater flexibility in the allocation of resources and the Scottish Government is providing additional grant aid the council tax freeze increases the pressure to identify and deliver efficiency savings. Work commenced in March 2008 to take forward the revenue budgets for both 2009/10 and 2010/11.

Key risk area 9

Using performance management to drive service improvement

138. An effective corporate performance management system is essential to enable elected members and senior managers to form an overall view of how their council is performing across all areas of activity. Councils also need to know how their services are performing before they can demonstrate that they are improving, offer value for money, are competitive and are of high quality.

139. The council developed over 200 outcome measures related to its Programme for Administration (PfA) and corporate plan and the measures recognised the need to improve performance. The matrix of measures included the PfA reference; responsible officer; baseline position in 2006/07; target for the end of the 2010/11 financial year and target profile over the intervening period; linkages to service plans, risk registers and the single outcome agreement; and actions to achieve the targets and/or measures. The outcome measures are currently being revised to reflect the change in administration and its programme for the period 2009 – 2011.

Working with communities and partners

140. The Council's approach to community planning is through the single outcome agreement. The agreement reflects the Government's 15 national outcomes and requires the co-operation of all partners to ensure national outcomes are delivered. The council has completed a single outcome agreement with the Scottish Government and involves e.g. NHS Highland, Highlands and Islands Enterprise, Highland and Islands Fire and Rescue Service and Northern Constabulary. The agreement has a performance framework to demonstrate improvements in services.

141. The council is looking at how it will work with the voluntary sector including developing a compact, commissioning services and grant aiding the sector. To assist this process a conference was convened involving interested voluntary and public sector bodies.

142. Councils in the North of Scotland (Aberdeen City, Aberdeenshire, Argyll and Bute, Moray, Highland, Orkney and Western Isles) have agreed to participate in a shared services initiative for the administration, billing and collection of council tax and non domestic rates and administration of benefits. Moray Council is leading on this project and Highland Council has provided the project manager.

A modern and streamlined workforce

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

144. The council has established a framework for a co-ordinated, corporate approach to workforce planning and staff development through the implementation of its workforce management plan. This plan facilitates the council in its aim to ensure a suitably trained workforce to meet current and future demand for services.

145. As part of the implementation of the single status agreement, the council has taken the opportunity to review, redesign and modernise working practices in some areas, including operational services which have been redesigned around business needs and areas where there is flexibility around working hours. A move towards more generic job descriptions which will allow more flexibility around services is also on the agenda.

National studies

146. 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 council 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

147. 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:

- significant progress has been made in meeting interim recycling targets, but the rate varies considerably between councils. The percentage of municipal waste recycled and composted increased from 7% in 2001/02 to 25% in 2005/06. 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.

148. Fieldwork was undertaken in six councils, including Highland, which included structured interviews with senior managers and practitioners and visits to waste management facilities.

149. Highland Council has a number of waste management initiatives underway including:

- the possibility of carrying out cross boundary recycling collections with Moray Council
- the possibility of using small, strategically placed high efficiency waste plants to treat residual waste
- a re-routing exercise for waste collection.

Free personal and nursing care

150. 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.

151. Key findings from the report related to the Highland Council are:

- just under 9% of older people (37,480) received free personal care in 2005/06
- personal care provision has increased by over 50% across Scotland between the introduction of the policy in 2002/03 and 2006/07 although the increase varies among councils. The increase in Highland Council was 65.7%
- councils were concerned that demand might increase because older people might move from other parts of the UK to benefit from free personal care services. Nine councils had said that this was a concern for their council but only five of these (including Highland Council) were able to provide the number of clients and associated costs.

Scotland’s school estate

152. A major programme of school building renewal started at the end of the 1990s and is continuing today. The programme 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 and councils are working together to manage improvements to the schools estate. One of the main conclusions of our report, published in March 2008, is 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 Scottish Government 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.

153. Fieldwork was undertaken in six councils, including Highland, which included structured interviews with senior managers and key officials in the Scottish Government and other key stakeholders.

154. The report suggests environmental sustainability should be a key element of school design, not an added extra, if schools are to become the environmentally sustainable buildings described in the Executive’s guidance document, *Sustainability: Building our Future: Scotland’s School Estate* (2004).

155. In this context, the report noted that the Highland Council decided to replace Acharacle Primary School as a sustainable pilot project and the project aims to deliver a school which:

- is a sustainable building that is highly insulated, has high levels of natural light and is naturally ventilated
- has a minimal mechanical and electrical engineering requirement
- incorporates materials which provide a toxin-free environment
- has very low energy use, contributing to the reduction of CO_2 emissions and carbon footprint.

156. The council set a target of securing Healthy Living Status for all Highland schools by ensuring they achieve Eco School status by 2011. From 2006-7 to 2007-8, the number of schools achieving Eco School status rose from 40 to 67:

- from 20 to 36 for bronze award
- from 12 to 18 for silver award
- from 8 to 13 for Green Flag award.

157. The council also has a target to complete a programme of eleven new primary and secondary schools and invest £28 million in a schools capital building programme to refurbish five secondary schools, replace two primary schools and start work on replacing a third primary school by 2011. In 2007/08 five new schools were completed and work was on target for the refurbishment and replacement of the remaining schools.

Overview of sport in Scotland

158. Public bodies spend on average £558 million a year on sport in Scotland. Councils are responsible for 90% of this expenditure. Most of the money is spent on providing and maintaining facilities as well as programmes to encourage participation and support individual athletes. Our national report, published in April 2008, found that:

- the provision of sports facilities and other services is fragmented, with no clear links between the government's national strategy for sport and councils' investment. The development of single outcome agreements is an opportunity to clarify and align the links between national and local strategies
- the level of participation and funding in sport has been declining and participation by younger people falls short of targets
- Sportsscotland estimates that an additional £110 million a year is needed for the next 25 years to bring sports facilities up to an acceptable standard
- arrangements to deliver the 2014 Commonwealth Games are still being developed. These will be critical in ensuring the success of the games and safeguarding the large sums of public money that will be invested.

159. In the Highland Council area there is a tradition of enabling and supporting the voluntary sector to provide sport. It has a number of swimming pools and leisure centres, particularly in fragile rural areas are community owned and run, with grant and advice from the council.

160. Highland Council delivers sport in a number of ways. It supports sport directly through a joined up approach to sport in schools and community through its physical education staff in schools, Active Schools Coordinators working in schools and in the community, and a number of sports specific officers and staff organising sporting events and activities. Secondly the Council enables sport by providing an infrastructure of leisure centres, swimming pools and games pitches. Recently the Council has invested significant sums in "new community schools" through a programme of public and private partnership (PPP). These facilities have dual use, and the community side is managed by a constituted committee made up of volunteers from the local population.

161. The council is currently drafting a new sport and activity strategy based on the national sports strategy, Sport 21, taking the same key themes and creating local action plans. Sport forms part of the single outcome agreement with the following targets:

- to increase cardio-vascular fitness of boys and girls in primary 7 as measured by shuttle runs over a set period in controlled conditions
- increasing participant sessions by Active Schools by 3%
- increase the numbers of training awards for volunteers in sport.

Final Remarks

162. 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.

163. 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.

164. 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.

165. The co-operation and assistance given to us by Highland Council 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.	20	**Developers' deposits** The council holds developers' deposits for capital projects and some agreements have clauses which might require repayment of deposits if projects do not proceed. ***Risk: the deposits are incorrectly treated in the financial statements.***	Although the treatment of developers' deposits is consistent with previous years we will undertake a review of the status of agreements in 2008/09.	Director of Planning/ Director of Finance	March 2009
2.	35	**Rent arrears** Rent arrears increased from £3.008 million in 2006/07 (8% of gross rents) to £3.412 million in 2007/08 (8.8% of gross rents) ***Risk: rent arrears will continue to increase without a clear policy and action plan to contain and reduce them.***	The council's policy on rent arrears was reviewed in March 2007. A short term improvement group was established in September 2008 with the aim of reducing both current an former tenant arrears and improving performance.	Director of Housing and Property Services	September 2009
3.	48	**Capital programme:** There was slippage in the general fund capital programme. ***Risk: the council may not deliver its capital projects on time, which might impact on the achievement of corporate priorities.***	The council will actively manage its capital programme in 2008/09 and report regularly to committee on progress against plans and action taken to address any slippage.	Director of Finance	Ongoing
4.	55	**Significant trading operations:** The council has not produced a timetable to complete options appraisals for its STOs to demonstrate the competitiveness of these services. ***Risk: the council will not be able to demonstrate best value in the delivery of its trading operations.***	The council will use a robust framework to complete best value reviews to demonstrate competitiveness of trading operations.	Director of Housing and Property Services/ Director of Education, Culture and Sport/Director of Transport, Environmental and Community Services	October 2009

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5.	66.	**Single status:** The council has not implemented a single status agreement. ***Risk: the initial and continuing costs of implementing an agreement are underestimated.***	The council will implement its single status agreement from December 2008 and continue to monitor the costs of the agreement.	Chief Executive	March 2010
6.	87	**Roy Bridge Primary School** As a result of a full review of the original financial analysis and pupil projections undertaken the council, the council agreed to set aside its decision of December 2006 and continue education provision at both Spean Bridge and Roy Bridge Primary Schools. ***Risk: without a review of procedures there is a possibility future decisions on school amalgamations will not be supported by accurate, reliable information.***	The council will devise a framework whereby appropriate educational, technical and financial expertise is used to inform the decision making process for proposed amalgamation of schools.	Director of Education, Culture and Sport	April 2009
7.	91	**Electronic personnel system** There is scope going forward to deliver to deliver improved efficiencies from the project. ***Risk: the project may not realise its full potential to deliver efficiencies.***	The council will take the project forward through its corporate improvement programme with the aim of identifying and delivering the potential benefits of financial efficiencies and service improvements. The first stage in this process is the production of a project plan setting out a timetable for delivery of potential benefits.	Assistant Chief Executive	March 2009
8.	94	**Business continuity** The council still has work to do to ensure business continuity planning enables it to sustain services during prolonged interruptions to ICT facilities. ***Risk: the delivery of services may be disrupted due to an unplanned event.***	Improved business continuity around ICT is an integral part of the service specification for ICT services. The council will award the new contract in October 2009.	Chief Executive	October 2009

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
9.	137	**Council tax freeze** The council faces the ongoing challenge of budgeting for no increase in council tax in 2009/10 and 2010/11 and this puts pressure on it to identify and deliver efficiency savings. ***Risk: the council is unable to identify and deliver efficiency savings to help balance the council's budget.***	The council has in place a number of arrangements to identify and deliver efficiency savings including efficiency targets for services and a corporate change programme to identify short and medium term efficiency projects using the diagnostic tool.	Director of Finance	February 2009