Shetland Islands Council

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

Audit Scotland

October 2008

Shetland Islands Council

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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 a **qualified** opinion on the financial statements of Shetland Islands Council. This is the third year that the council has received a qualified opinion on the financial statements. The council are of the view that in 2007/08 the results of the Shetland Development Trust (SDT) and the Shetland Charitable Trust (SCT) should not be included in the group's financial statements. In our opinion, the substance of the council's relationship with these bodies represents a significant interest and their omission results in a material misstatement of the group accounts.

The council's net operating expenditure in 2007/08 was £83.717 million. This was met by government grants and local taxation of £88.089 million, resulting in an income and expenditure account surplus of £4.372 million. Adjustments are then made to the surplus for accounting adjustments required by statute and to reflect transfers to and from the council's reserves which leave the general fund balance as nil each year. The budget set for 2007/08 was based on a planned contribution of £32.724 million from reserves; £5 million to meet the general fund deficit, £7.724 million to meet planned expenditure and £20 million to fund the capital programme. Efficiency savings of £2.600 million were identified; £1.300 million on social care and a further £1.300 million across all services which offset unbudgeted costs of £1.720 million in respect of equal pay settlements. The final draw on reserves was £29.217 million; £3.574 million to meet the general fund deficit, £9.955 million to meet planned expenditure and £15.688 million to fund the capital programme, an overall decrease of £3.507 million.

The council has recognised that it is not sustainable in the long-term to utilise its substantial reserves for the delivery of services and has set a target to reduce and then maintain a reserves balance of £250 million. The unallocated balance on reserves at 31 March 2008 was £289 million. The council's 2008/09 budget forecasts the use of £32 million from the discretionary reserves (£4 million to meet the general fund deficit, £20 million to fund the capital programme and £8 million to meet planned expenditure).

The council has not yet reached a single status agreement. The council believes that unions and management are now close to an agreement and have agreed a revised project timetable. In December 2008, the council will then decide on the final details of the package to be offered to all single status employees. The council hopes that full implementation will be concluded by the end of 2008/09 financial year.

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 council's contribution to the government's 15 key national outcomes as set out in the concordat. The council has worked extensively with the full range of community planning partners to develop the agreement in parallel with the council's new corporate plan. The council's challenge is now to align the monitoring arrangements for the SOA with those of the new corporate plan. It is important that an updated action plan is developed to identify lead responsible officers and planned timescales to allow members to monitor progress against these stated targets.

Audit Scotland issued a report on the council's best value arrangements in 2005. A progress report in January 2007 concluded the council had made a start in addressing the improvement plan which was drafted in response to the best value report. However, at that time, a number of initiatives were relatively recent and consequently were not fully embedded and had not had an impact in terms of improved service delivery or outcomes. Since January 2007 the council has continued to take forward issues raised in these reports through an improvement plan which supported the 2007/08 corporate plan. Key improvements made include the 2008-11 corporate plan, which includes the targets and priorities of the community plan. Governance arrangements have been strengthened with the establishment of the audit and scrutiny committee. However, key areas where improvement has still to be achieved include effective asset management and procurement.

The council still does not have a comprehensive system in place for measuring asset management performance. The council has experienced slippage in consolidating the estates and maintenance records into a single database. In addition, a council plan to complete the review of the non housing estate by the end of March 2008 is still outstanding and it is unlikely this will be completed prior to March 2009. Until the council has completed these reviews there is a risk that the assets of the council are not being utilised in the most effective way.

Currently procurement within the council remains largely a devolved area of work amongst all services and as such there has been no one service or individual with the role to co-ordinate procurement across services, or to assess the benefits of national contracts for Shetland or to seek local collaboration between various Trusts and the NHS. Whilst the council has made positive steps they acknowledge the procurement policy requires to be further developed to realise the potential for significant savings and to fully incorporate the aims of the corporate plan.

The council has acknowledged that delivery of care at home packages are currently close to saturation point. There have been a number of instances recently where clients had to remain in hospital or respite care because it was not possible to put services in place quickly enough. There remains a shortage of staff employed as home helps and social care workers although managers are trying to resolve this situation by either appointing new staff or getting existing staff to take on additional contracted hours. Over the next few years it is likely that demand will increase further for care at home services. The council should ensure that budgets have been fully reviewed and are in line with council priorities.

During 2008 reviews have been undertaken within the education and benefits services. An HM Inspectorate report on the council's education function was published in January 2008. There were ten quality indicators which were examined. Five of these indicators were evaluated as very good, four evaluated as good and one was evaluated as adequate. The schools service will prepare an action plan indicating how the main points for action will be addressed and presented to the services committee in October 2008.

From April 2008, Audit Scotland took over responsibility for inspecting the housing and council tax benefit functions from the Department for Work and Pensions. The key objective of the risk assessment is to determine the extent to which the benefits service is meeting its obligations to achieve continuous improvement in all its activities. The assessment of the council was undertaken in September 2008. It was found that the council clearly demonstrates an awareness of what constitutes an effective, efficient and secure benefits service, and has much in place to support local and national objectives. Although the benefits service is performing well, a number of risks to continuous improvement were identified which should be addressed by the council.

Outlook for future audits

In March 2008 the SDT was directly placed within the council's governance structures and the results of the SDT are to be included in the group accounts for 2008/09. The position of the SCT has yet to be resolved and will require further consideration in 2008/09.

The council's financial strategy is to continue to reduce the demand upon reserves year on year so that by 2012/13 there will be no general fund deficit to be met from reserves. Currently the discretionary reserves (reserve fund, capital fund and repairs and renewals fund) are used to finance any in year deficits on the general fund, to finance the capital programme and to provide funding for the reserve fund planned programme of work. The council's financial plans will need to be closely monitored and reviewed on a regular basis to take account of continuing financial pressures.

Although there has been improvement in the council's budget setting processes and efficiencies have been achieved in certain areas, there continues to be a risk that budgets are incremental and budget savings are identified by top slicing without a review of the overall priorities and spending needs of the council. The council needs to review budget allocations as part of the 2009/10 budget setting process.

The council has reported that its capital programme includes projects of £112.491 million to be completed or commenced beyond 2009/10 - 2013/14. As part of this programme, expenditure required to complete projects scheduled for 2009/10 and 2010/11 totals £69.866 million (this excludes the revised estimated costs of £49 million for the Anderson High School Project). However the available funding identified is only £33.200 million, resulting in a funding gap of £36.666 million.

In June 2008 Audit Scotland published a report, Review of major capital projects in Scotland – How Government Works. This report highlighted that the scale of capital expenditure and its importance in supporting the delivery of public services, puts a premium on ensuring capital projects are well managed and provide value for money. In October 2008 a report was presented to the audit and scrutiny committee which considered the handling of a number of proposed key capital projects within the council. This highlighted that unclear project briefs and delays in approving capital projects have resulted in building projects being deferred. There has also been additional expenditure incurred on these projects because no clear scope was reached at an earlier stage. Any future discussions should consider the recommendations of the Audit Scotland report to ensure a strategic approach to managing the programme of capital projects is developed.

The co-operation and assistance given to us by Shetland Islands Council staff during our audit is gratefully acknowledged.

AUDIT SCOTLAND

October 2008

Introduction

1. This report summarises the findings from our 2007/08 audit of Shetland Islands 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 provided an outlook setting out 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 January 2008. The AAP summarises the specific governance and other risks that could affect the council'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 council in March 2008. Under the following strategic themes, the SARA set out our views on the key business risks facing the council and described the work we planned to carry out as part of the annual audit:

   - sustainability and efficient use of resources
   - using performance management to drive service improvement
   - supporting political governance
   - effective partnership working
   - workforce planning
   - effective management of assets
   - technical accounting and regulatory developments.

4. We also undertook a number of detailed exercises during the year which resulted in separate audit reports, for example, a review of financial systems report and a data handling report. Within this report, where appropriate, we highlight key messages from those separate reports for the consideration of members.

5. Overall conclusions about the council'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.

Financial statements

Introduction

6. In this section we summarise key outcomes from our audit of the council'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 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.

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 council to obtain assurances on systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the council.

Overall conclusion

9. 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.

10. We have given a **qualified** opinion on the financial statements of Shetland Islands Council for 2007/08. The *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice* requires group accounts to be prepared by local authorities where they have interests in entities meeting the definitions of subsidiaries, associates and joint ventures. Group financial statements are required to present fairly a full picture of the authority's activity and financial position. The council's group accounts do not include the Shetland Development Trust (SDT) and the Shetland Charitable Trust (SCT), and their related subsidiaries. In our opinion, the substance of the council's relationship with these bodies represents a significant interest and their omission results in a material mis-statement of the group accounts. Based on prior year financial statements, we estimate that these bodies would contribute:

    - a deficit position of approximately £3.325 million to the group income and expenditure account (resulting from income of £12.726 million and expenditure of £16.051 million)

- net assets of approximately £276.826 million to the group balance sheet (resulting from fixed assets of £29.240 million, investments and loans of £231.545 million, net current assets of £18.027 million and long term liabilities of £1.986 million).

This issue is discussed further at paragraph 13.

Accounting practice

11. 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 impacting on the council's financial statements are in accounting for financial instruments and some changes to the capital accounts disclosed in the balance sheet, some of which are discussed below.

Presentation of accounts

12. Although there was an improvement in the overall presentation of the financial statements in comparison to the 2006/07 unaudited accounts, there were still a significant number of presentational issues that required amendment to the 2007/08 financial statements following our audit. Overall, we are now satisfied that the revised financial statements have been prepared in accordance with the SORP. As is normal practice, any unadjusted errors remaining have been reported to the head of finance 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:

- the addition of a statement of accounting policies in respect to the changes required by the 2007 SORP, and for the inclusion of intangible assets for the first time in 2007/08
- the inclusion of a paragraph in relation to the 2006/07 qualification and how this will be taken forward
- the application of an effective interest rate calculation on available-for-sale financial assets, and associated prior year adjustments
- adjustments to the revaluation reserve and capital adjustment account in relation to the disposal of fixed assets
- separate disclosure of depreciation charged in the year and the accumulated depreciation written back on the disposal or revaluation of fixed assets during the year.

Key Risk Area 1

Group accounts

13. As reported above, the SORP requires group accounts to be prepared by local authorities where they have interests in entities meeting the definitions of subsidiaries, associates or joint ventures. Group financial statements are required to present fairly a full picture of the authority's activity and financial position. The council's 2007/08 financial statements include group accounts, with Orkney and Shetland Valuation Joint Board, Northern Joint Police Board, Highlands and Islands Fire Board and Zetland Transport Partnership incorporated as associates.

14. However as was the position for the last two years, we have again in 2007/08 issued a qualified opinion on the financial statements due to the council's failure to include the SDT and SCT in its group accounts. In our opinion the omission of these bodies resulted in a material misstatement of the group accounts.

15. We are of the opinion that the following points are all factors in determining the entities to be included within the council's group accounts and support the inclusion of the SDT and the SCT:

    - the charitable trust provides services (arts and culture, amenity and environment, recreation and care facilities) which benefit the council community, in addition to those services provided by the council
    - council representation on the trusts changed after the May 2007 elections with all 22 elected councillors now sitting as trustees on both bodies. This link between council membership and representation on the trusts is an indication of 'influence and common interest'
    - since 2004 the development trust has required the approval of the council for any investment which exceeds £0.250 million. This is another clear indication of 'influence and control'.

16. In January 2008 a revised structure for the SDT was proposed by the chief executive for the re-establishment of a development committee within the council to deal with all matters related to economic development, with the SDT retaining a minimal number of financial related staff to monitor and manage its ongoing investments.

17. On the basis of the proposed new structure legal advice recommended that the results of the SDT should be included in the group accounts, whilst the position of the SCT required further consideration. In March 2008 the SDT was directly placed within the council's governance structures and the council has stated that the results of the SDT are to be included in the group accounts for 2008/09. The council took the view that that neither trust should be included within the 2007/08 financial statements.

18. In 2008/09 there have also been some operational and managerial changes within the SCT, including the appointment of a trust general manager to replace the council's chief executive. Whilst the impact

of these changes will be reviewed by us in forming an opinion on the appropriate accounting treatment of the SCT in the council's 2008/09 group accounts, it is likely to remain our view that the SCT should be included in the council's group accounts. The council has explained that the trust is concerned about their charitable status if they were to provide accounts to the council for group consolidation purposes. The council has explained that the trust is having discussions with the charities regulator OSCR over these concerns. Currently it remains our view that charitable trusts should be consolidated into group accounts where it is required to comply with the accounting code of practice.

Key Risk Area 2

19. To ensure that group accounts are compliant with accounting requirements (UK GAAP), adjustments should be made to include any assets and liabilities (and any associated income and expenditure) where the reporting authority controls the deployment of the assets. The council administers eight trust funds to the value of £0.702 million which have been excluded from the group accounts on the grounds of materiality.

Fixed assets

20. It was reported last year that audit work on the area of fixed assets identified a number of errors in the way in which the council accounted for the disposal of assets. This was the case again in 2007/08. Specifically, these were in relation to the entries within the revaluation reserve and capital adjustment account, and the calculation for the loss or gain on disposals. In addition, it was also found that a number of fixed assets had been omitted from the council's asset register. Given the number of issues identified within our review of fixed assets, the council must ensure that weaknesses within the fixed asset register and capital accounting system are fully addressed.

Key Risk Area 1

Financial instruments – investments

21. As reported above, the current year SORP introduced major changes in accounting for financial instruments. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables and trade payables and the most complex ones such as derivatives and embedded derivatives.

22. Given the council's debt free position, the main area for consideration is the council's external investments. The council has total investments of £257.266 million recorded in their balance sheet as at 31 March 2008. All investments are classified as available-for-sale and are shown at fair value which is based on the quoted market bid price provided by the council's external fund managers.

23. Of the council's total investments, £97.012m relates to bonds. The 2007 SORP requires the effective interest rate method is applied to these financial assets to determine the interest and investment income to be included in the 2007/08 Income and Expenditure Account, and associated prior year adjustments. More specifically, it is necessary to formally calculate an effective interest rate where a bond has been purchased at a premium or discount to ensure that the premium/discount is amortised over the life of the bond. The council did not apply this method for inclusion within the financial statements. We have included this as an estimated unadjusted error, within our International Standard on Auditing 260 (ISA 260) letter, *Communication of audit matters with those charged with governance*. It can be seen that the net effect of the above transactions would be to overstate the general fund balance by £1.430 million and understate the available for sale reserve by the corresponding amount. Assurances have been given that a full review will be undertaken in 2008/09.

24. At each year end an assessment should be made of whether there is evidence that any financial asset or group of financial assets may have suffered a decrease in its value i.e. its value is impaired. The council did not carry out a review of its assets to consider whether an impairment review was necessary. However written assurances have been obtained from the head of finance to confirm that he is not aware of any financial assets requiring significant revaluation as at 31 March 2008. The council should ensure an assessment is carried out at 31 March 2009 to identify any assets that may require revaluation.

Legality

25. Each year we request written confirmation from the head of finance that the council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The head 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) 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 the council's financial statements, supplemented by appropriate working papers.

27. The only additional potential legality issues arising from our audit which require to be brought to members' attention relates to the state aid issues reported at paragraph 90, on which the council is appealing the ruling.

Financial reporting outlook

IFRS adoption

28. 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. Finance staff should consider the need to incorporate elements of IFRS within the 2008/09 financial statements.

Key Risk Area 1

The EC Landfill Directive

29. The EC Landfill Directive sets limits on the disposal of biodegradable waste to landfill and requires the pre-treatment of waste prior to landfill. From 1 April 2008, Scottish councils will be allowed to trade landfill allowances. At this point it becomes a ‘cap and trade’ scheme and should be accounted for in accordance with the SORP. There are technical and financial challenges facing the council in delivering solutions and the implications of landfill penalties could be significant. Measures should be put in place to ensure that the necessary disclosures can be made from 2008/09 onwards.

Key Risk Area 1

Financial position

Introduction

30. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2008, providing an outlook on future financial prospects, including our views on potential financial risks. Under the strategic theme of 'sustainability and efficient use of resources', our SARA outlined the significant challenges being faced by the council both in relation to delivery of its improvement agenda but also with regard to managing ongoing financial pressures such as implementing single status.

31. 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

32. The council's net operating expenditure in 2007/08 was £83.717 million. This was met by government grants and local taxation of £88.089 million, resulting in an income and expenditure account surplus of £4.372 million. Adjustments are then made to the surplus for accounting adjustments required by statute and to reflect transfers to and from the council's reserves which leave the general fund balance as nil each year.

33. The budget set for 2007/08 was based on a planned contribution of £32.724 million from reserves; £5 million to meet the general fund deficit, £7.724 million to meet planned expenditure and £20 million to fund the capital programme. Efficiency savings of £2.600 million were identified; £1.300 million on social care and a further £1.300 million across all services which offset unbudgeted costs of £1.720 million in respect of equal pay settlements. The council finances in year deficits on the general fund from its reserves. One of the reserves, the reserve fund, was established under Section 67(i) of the Zetland County Council Act 1974 to provide the money for certain expenditure on the council's undertakings and for any other purpose which is solely in the interests of the county and its inhabitants. The final draw on reserves was £29.217 million; £3.574 million to meet the general fund deficit, £9.955 million to meet planned expenditure and £15.688 million to fund the capital programme, an overall decrease of £3.507 million. This was as a result of:

General Fund

- a net departmental expenditure underspend of £1.824 million against the original budget, over and above the required savings of £2.600 million that have been incorporated into the budget
- an underspend of £0.575 million against the original budget for net recharges
- additional council tax generated from improvements in council tax collection.

Reserve Fund

- £1.321m of capital to revenue transfers that were not originally budgeted for.

Housing Revenue Account

34. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. The budget set for 2007/08 was based on an average weekly rent level of £53.85, an increase of 2% on the previous year. A contribution of £0.085 million from the housing repairs and renewal fund was originally planned.

35. The housing revenue account shows a deficit on HRA services of £0.597 million for 2007/08. A total draw of £1.520 million was required from the housing repairs and renewals fund to allow a contribution of £0.469 million to fund capital expenditure and £1.051 million to take the HRA account to zero in accordance with council policy.

36. The total draw of £1.520 million on the HRA is £1.435 million greater than originally planned. This was partly due to additional capital financing costs of £0.584 million and a net departmental overspend of £0.754 million. The HRA revenue overspend together with the overspend on HRA capital projects discussed at paragraph 80, highlights the need to monitor expenditure to ensure overspends are managed and financial targets are met. If not there is a risk that HRA reserves will be fully depleted by 2013.

Key Risk Area 3

Reserves and balances

37. Table 1 shows the balance of 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 £305.445 million, an increase of £1.536 million on the previous year. These include the reserve fund, a capital fund, an insurance fund and a repairs and renewals fund.

Table 1: Reserves and Funds

Description	31 March 2008 £ Million	31 March 2007 £ Million
General Fund	0	0
General Fund – Housing Revenue Account	0	0
Reserve Fund	87.220	87.273
Capital Fund	116.545	118.471
Insurance Fund	0.267	0.269
Repair and Renewal Fund	101.413	97.896
	305.445	**303.909**

38. The council have earmarked elements of these funds totalling £16.404 million. The council aim to reduce and then maintain the general fund reserves (excluding the earmarked elements) to a minimum threshold of £250 million by 2016. The council's view is this level of reserves will minimise the risk that the council will be unable to fund future capital expenditure on infrastructure development and remain debt free. The unallocated balance on these reserves at 31 March 2008 is £289.041 million, well above the minimum threshold amount of £250 million. The council will need to closely monitor both capital and revenue expenditure to ensure financial targets and the reserves strategy are met.

Key Risk Area 4

39. The capital fund can be used to defray capital expenditure or repay loan principal; £7.123 million of capital expenditure was funded during the year. Capital expenditure is discussed further at paragraph 75. The repairs and renewals fund can be used to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets. £4.577 million of capital expenditure was funded during the year. A range of financial issues which could further impact on the reserves position are discussed in our financial outlook section below.

Group balances and going concern

40. As reported earlier, 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 associates on the group balance sheet is to reduce net assets by £36.100 million, substantially as a result of pension liabilities. All the associate 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. The impact of the omission of the SDT and the SCT, and their related subsidiaries has been reported within the financial statements section above.

41. The council 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, Highlands and Islands Fire Board, and the Orkney and Shetland Valuation Joint Board. All of these boards had an excess of liabilities over assets at 31 March 2008. In total these deficits amounted to £397.094 million, with the council's group share being £40.113 million.

Spending on assets and long-term borrowing

Capital performance 2007/08

42. Since the introduction of the prudential code in April 2004, the council can decide locally on a capital investment strategy which meets best value requirements as well as being affordable. The council are required to set prudential indicators for the next three years to ensure that the council's capital investment plans are affordable, prudent and sustainable. Alongside this the council sets out its treasury strategy for borrowing and investment.

43. The council's prudential indicators for 2007/08 were set in February 2007. These show that capital expenditure is to be financed from the cash reserves and funding resources available to the council and no borrowings will be required. The council has maintained a policy of having no debt on the general fund since March 1992 (the Debt Free Policy), with a view to leaving no funding burdens for future generations in Shetland.

44. Capital expenditure in 2007/08 totalled £18.785 million, a reduction from prior years of £21.018 million in 2006/07 and £40.334 million in 2005/06. Capital investment in the last two years was funded as shown in Chart 1. Overall, an underspend of £5.562 million was reported to the council in September 2008. During the year there was project slippage of £2.120 million, including the Rova Head Reinstatement and the Uyeasound Harbour Development where £0.782 million and £0.694 million has been reallocated respectively.

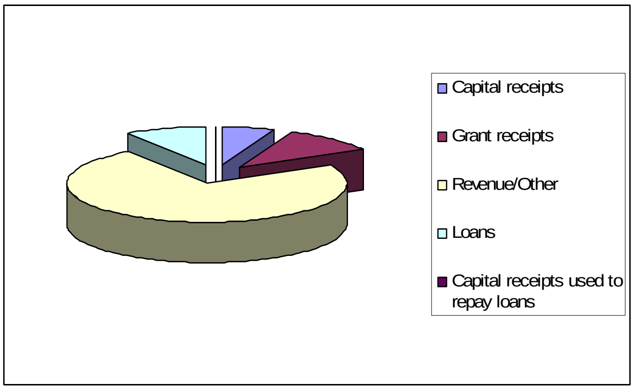
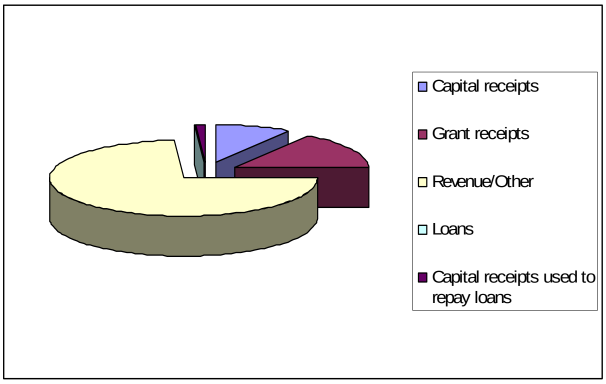
45. Included within the overall underspend of £5.562million above, there was slippage of £2.196 million within the HRA. This was mainly due to delays in planning and building control issues with the HRA's new build project, and a delay in Communities Scotland signing off the council's proposed delivery plan to meet the Scottish housing quality standard by 2015.

46. The council made a submission to the Executive in May 2008, where it was indicated there should be compliance with the Scottish housing quality standard by 2015. Since the submission was completed,

the council has undertaken a review of housing across Shetland to obtain an accurate database on the condition of all housing accommodation. This review is now almost 75% complete, and as a result, there will be an opportunity to review the position more accurately, and determine the investment required to bring housing to the SHQS standard.

Key Risk Area 3

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

2006/07	2007/08
	

Significant trading operations

47. 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.

48. The council has two STOs, highways and building maintenance. Both met the statutory target to return a cumulative surplus for the three years to 31 March 2008.

Pension funds

49. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, and the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. 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 involves substituting the actual payments made during the year to the pension fund by the individual council, with an estimate of the amount the council would be liable for if it had to pay out pension benefits arising from employee service in the current period. This requirement results in very large future liabilities being recognised in the financial statements.

50. The council is responsible for the management and administration of Shetland Islands Council Pension Fund. The pension fund is a pool into which employees' and employers' contributions and income from investments are paid and from which pensions and other lump sum benefits are paid out in accordance with the provisions of the Local Government Pension Scheme (Scotland) regulations. The council is trustee for the pension fund that covers 3,206 members, including 361 who are members of other admitted bodies and 14 who are members of a scheduled body. These figures do not include teachers, who are covered by the Scottish Public Pensions Agency.

51. The investment assets for the fund are under the management of external fund managers. Over the year, net assets of the fund decreased on a market value basis by approximately £11.957 million to £199.761 million at 31 March 2008. The trend over the last few years is indicated by the following table:

Table 2: Pension Fund Investments

	31/03/05 £000	31/03/06 £000	31/03/07 £000	31/03/08 £000
Shetland Islands Council	149,529	191,198	211,718	199,761

52. The last actuarial valuation of the fund as at 31 March 2005 was reported in March 2006. Factors such as the volatile stock markets and increasing life expectancy have resulted in the funding level, calculated as the ratio of fund assets to past service liabilities, falling from 101% at 31 March 2002 to 99% at 31 March 2005. The actuary is required to make a three-year assessment of the contributions that should be paid by the employing authorities from 1 April 2006 to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions, normally 5% - 6% of salary. This shows that budgeted contributions are expected to remain at 240% of employee contributions in 2007/08 and 2008/09.

Pension liabilities

53. The council's estimated pension liabilities at 31 March 2008 exceeded its share of the assets in the pension fund by £18.107 million, reducing from £35.133 million in the previous year. 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.

Financial outlook

Sustainability of resources

54. The local government sector faces a tight financial situation in the period 2008/09 to 2010/11 including a requirement to freeze council tax levels, develop asset management and continue to deliver efficiency savings. The council's financial strategy is to continue to reduce the demand upon reserves year on year so that by 2012/13 there will be no general fund deficit to be met from reserves. It will be challenging for the council to deliver a medium term financial and efficiency strategy that achieves balanced budgets while maintaining effective service delivery.

55. The Scottish Government partially removed the ring fencing of funding in the 2007 financial settlement. This removal of ring fenced funding together with a lack of a detailed breakdown of the 3 year settlement from the Scottish Government meant the council faced risks in the budget preparation process which they had not faced in the past. In addition, there were a significant number of new members for whom the 2008/09 budget was their first experience of discussing and approving the council's annual budget.

56. In February 2008 the head of finance presented a report outlining the general fund revenue estimates and council tax for 2008/09. The head of finance advised that the settlement from the Scottish Government was £5 million more than anticipated and proved vital to the achievement of a budget in line with the council's financial strategy. In addition the council were advised that despite the overall financial pressures, a pattern of under-spending of a number of approved budgets has emerged in recent years, with evidence that this pattern is continuing into 2008/09.

57. The current strategy for the general fund capital programme is to limit the draw on reserves to £20 million per annum, for as long as that can be sustainably supported. Currently the discretionary reserves (Reserve Fund, Capital Fund and Repairs and Renewals Fund) are used to finance any in year deficits on the general fund, to finance the capital programme and to provide funding for the reserve fund planned programme of work.

58. In 2007/08, £35 million of expenditure was planned from the general fund reserves across general fund revenue, reserve fund revenue, capital programme and single status. Actual expenditure on these activities was £30.500 million, £4.500 million less than anticipated. The unallocated balance on reserves as at 31 March 2008 was £289 million.

59. In September 2008 the head of finance reported on the implications of the council's financial circumstances on the discretionary reserves. These findings were used to give direction to the budget exercise for the financial year 2009/10. The report concluded that:

- the council's £250 million reserve floor policy should be reaffirmed, to provide sustainable future funding for the general fund capital programme and the reserve fund programmes
- a 2009/10 target be set to restrict the use of the reserves to £30.700 million (£3 million to meet the general fund deficit, £7.700 million to meet the reserve fund programme expenditure and £20 million for the capital programme).

60. Recently the value of investments has fallen significantly. External investments with fund managers are reflected in the financial statements at a value of £257.266 million for the single entity accounts and £180.800 million for the pension fund. An estimate of the effect of the fall in investment values for the council cannot be reasonably made due to the ongoing volatility within the markets.

61. For the council to maintain its reserves at £250 million, whilst ensuring sustainability and quality of services, a comprehensive policy led approach to budgeting is required. This would demonstrate which of the council's objectives could be delivered within the resources available each year. It would provide the information needed by the council to prioritise its objectives if the council's reserves were at risk of falling below the target level in the longer term. Although there has been some improvement in the council's budget setting processes, there continues to be a risk that budgets are incremental and budget savings are identified by top slicing without a review of overall priorities and spending needs of the council.

Key Risk Area 5

Equal pay

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 June 2008, it was reported to council that the failure to meet equalities duties has already cost the council over £3 million in equal pay compensation; the cost for 2007/2008 was over £1 million. A provision of £0.214 million is included in the accounts at 31 March 2008 (£0.342 million at 31 March 2007) to cover the estimated costs to settle claims taken to employment tribunal. Equal pay compensation liabilities will continue to rise throughout 2008/2009 and until single status is eventually introduced. Therefore significant risks remain while existing pay reward structures are in place. In addition to the provision above, a contingent liability has been disclosed in the accounts highlighting the possibility of further currently unquantifiable claims.

Key Risk Area 6

Single status

64. 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). 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.

65. More than half of Scottish councils have now implemented single status or have firm plans in place for implementation soon. Shetland Islands Council is one of the councils that does not expect to implement an agreement until April 2009 at the earliest. Following the rejection of a proposed settlement in March 2007, a single status steering group and project team was formed in July 2007. The council decided that job redesign and job families should be the basis of joint investigation by management, unions and staff to progress single status.

66. The September single status news letter notes that the unions and management are now close to an agreement and have agreed a revised project timetable. It is anticipated that the issuing of individual letters will be undertaken at the end of October and will mark the start of the employee consultation period. The consultation feedback will be collated and presented to the council meeting in December 2008. The council will then decide on the final details of the package to be offered to all single status employees. The council hopes that full implementation will be concluded by the end of the 2008/09 financial year.

67. The work of the project team has confirmed that delivery of single status pay rises, and the full assimilation of all adversely affected staff to avoid pay losses, will increase the annual pay bill by a projected £4 million. This is in line with the estimates previously reported to council. The council must ensure that these costs are factored into their financial planning.

Key Risk Area 6

Procurement

68. In July 2007, the council approved a procurement strategy which covered a number of initiatives to progress a more efficient approach to the council's procurement processes. In June 2008, the Waste Services Manager was assigned to establish a corporate procurement function within the capital programme service and to progress the implementation of the procurement strategy.

69. The report presented to council in September 2008 identified that currently procurement within the council remains largely a devolved area of work amongst all services. As such there has been no one service or individual with the role to co-ordinate procurement across services, to engage with the national agencies (Procurement Scotland, e-Procurement Scotland and Scotland Excel) to represent

the needs of Shetland Islands Council and to assess the benefits of national contracts for Shetland or to seek local collaboration between various Trusts and the NHS.

70. The benchmarking process to date has demonstrated that the council can achieve significant savings (£366,000) through participation with Scotland Excel and Procurement Scotland. The conditions of membership are such that procuring officers would require to have a sound business case for the procurement of goods, work and services not to be sourced via Scotland Excel. One such example where the council has agreed with Scotland Excel that it will not be pursuing national contracts is the purchase of local food.

71. Whilst the council has made positive steps they acknowledge the procurement policy requires to be further developed so that it fully incorporates the aims of the corporate plan.

Key Risk Area 7

Effective management of assets

72. Best value requires councils to demonstrate the sound use of the resources in their control, covering physical assets as well as financial resources and human resources. Definitions of assets vary, with the focus traditionally being on capital assets such as infrastructure, land and buildings, but the principles of good asset management also extend to other assets such as stock and facilities.

73. As reported in 2006/07 the council do not have a comprehensive system in place for measuring asset management performance. Whilst work is being undertaken to implement a Computer Aided Management System (CAMS) there has been slippage in consolidating the estates and maintenance records into a single database to improve the availability of information on the council's asset base. At present there is a risk that council assets are not being effectively utilised.

74. In March 2008, we reported in our Strategic Audit Risk Analysis that the corporate estates management plan was progressing and the council had plans in place to complete the review of the non housing estate by the end of March 2008. As yet the council has still to complete this review and has advised that it is unlikely this will be completed until March 2009. Until the council has completed the estate management reviews there is a risk that the assets of the council are not being utilised in the most effective way.

Key Risk Area 8

Future capital programme

75. The current strategy for the general fund capital programme is to limit the draw on reserves to £20 million per annum, for as long as that can be sustainably supported. Council forecasts suggest that ongoing capital programme funding should reduce to £15 million per annum from 2010/11 onwards.

76. The council's capital programme comprises a prioritised list of capital projects of £21.100 million for 2008/09; this is based on anticipated slippage of £1.100 million being rolled forward from 2007/08. The 2008/09 housing capital programme is £2.496 million.

77. In September 2008 the capital programme review team identified slippage of £1.758 million on a number of projects during 2008/09 mainly caused by the New Mid Yell junior high school. In response the council agreed to re-allocate the slippage in order of current priority. Going forward, officers need to continue to closely monitor the achievement of the capital programmes and report areas of slippage to the council on a regular basis.

78. The council has reported that its capital programme includes projects of £112.491 million to be completed or commenced beyond 2009/10 - 2013/14. As part of this programme, expenditure required to complete projects scheduled for 2009/10 and 2010/11 totals £69.866 million (this excludes the revised estimated costs of £49 million for the Anderson High School Project). However the available funding identified is only £33.200 million, resulting in a funding gap of £36.666 million.

79. In response to identification of the funding gap, in September 2008 a report was presented to council which outlined a revised process to the prioritisation of the capital programme. This followed a call by members for the existing point system to be removed and replaced with a system that allows each committee to decide priorities. This proposed process places a responsibility on all Boards and Committees to liaise with the relevant services to identify projects in advance and in good time. Furthermore, it is hoped the proposed process will remove the complications and uncertainty caused by allocation of slippage, which has been an ongoing issue for the council.

Key Risk Area 9

80. For several years up to 2007/08, HRA revenue expenditure was mainly funded from rents and the housing support grant. This led to the policy decision that the housing repairs and renewals reserve would be dedicated to achieving increases in housing stock. Since 2006, a range of purchases have been made and more projects are currently in development. However, a deficit of £0.597 million has been reported in 2007/08 which has to be met from the HRA reserves. Should this persist, it will diminish the availability of reserves to invest in extra housing stock. Projections based on current trends suggest that the HRA reserve will be exhausted by 2013, after which there will be no means to support either revenue or capital expenditure within the HRA.

Key Risk Area 3

Governance

Introduction

81. 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

82. Corporate governance is concerned with structures and processes for decision-making, accountability, internal controls and behaviours at the upper levels of the organisation. Based on the work undertaken, we concluded that, with the exception of the capital accounting system discussed further at paragraph 103, the council has systems in place that operate well, within a sound control environment.

Political Governance

83. Elected members are responsible and democratically accountable to the local electorate for the overall performance of the council. In carrying out their role elected members require to balance the interests of their individual wards and the council as a whole. Members play a key role in making choices between competing priorities, setting objectives that reflect the needs and aspirations of their communities and ensuring that these are met through the services that the council provides.

84. Since the 2007 elections a number of training courses have been delivered as part of the programme to help support the new members. These include: Local Government Finance, Financial management and monitoring, Local Government and the wider world, and Performance Management for elected Members. In general these courses have been well attended. While there is no formal mechanism in place to monitor the impact of the training, a review with members is planned prior to Christmas. This will seek to gather qualitative data from members on how well they feel the training and development programme has met their needs.

85. Elected members play an important role in community planning and in the development of shared services. Where councils set up external organisations to deliver services and decide that elected members are to represent the council on boards of companies or on trusts, councils must ensure that those members are properly supported and advised about their roles and responsibilities. The principles set out in the joint COSLA and Accounts Commission "Code of Guidance on Funding External Bodies and Following the Public Pound" are therefore of increasing importance. This underlines the need for good governance and clear accountabilities, in relation to both finances and performance.

86. In March we reported that members represent the council on a number of arms length organisations, with subsequent potential for conflicts of interest. We recommended that to avoid restrictions in the member's role, the council should review the need for member involvement in arms length organisations. Furthermore, where it is decided that continued involvement in arms length organisations is warranted, dispensations should be pursued as appropriate to maximise the capacity of members to engage in any necessary representative role without compromising obligations under the Councillors Code of Conduct.

87. The council has advised that a training course in this area has still to be delivered to members. However the aim of the committee services team has been to raise members' awareness of the potential for conflict. The committee services manager e-mails each member once a month reminding them to update their Register of Interest. The members' declaration of interests is now included on the agenda at every committee meeting. The council intend to revisit member plans early in the New Year to obtain feedback to confirm whether conflicts of interest is an area where they believe they would benefit from training.

Key Risk Area 10

Audit Committee

88. 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. The scrutiny committee was established in November 2005 with the committee's remit expanded in March 2007 to include the audit function.

89. Training was provided by CIPFA for all audit and scrutiny committee members in August 2007. In June 2008 an activity report was presented to the audit and scrutiny committee. As well as reviewing activity over the previous year the report also considered how its effectiveness could be enhanced in light of feedback gathered from members and officers.

State Aid

90. In November 2007 the EU Commission issued its decisions on three of the council's schemes, namely 'First Time Shareholders', 'Fishing Vessel Modernisation' and 'Fish Factory Improvement'. These decisions were all negative and required a full repayment to the council of grants paid plus compound interest added from the date of payment. The Commission has addressed its decision to the UK Government and the council is obliged to recover the monies from the beneficiaries within 4 months of the decision although the council have appealed against this ruling. Management assurances have been obtained from the head of finance that the council has reviewed its arrangements to ensure no other breaches of state aid rules have taken place in 2007/08.

91. To avoid future state aid problems, it is important that all staff understand the principles and the more routine practices of awarding financial assistance under the state aid regulations. The council has recognised this and the head of business development presented a report to council in September 2008. It was recommended and accepted that a state aid manual should be issued to all staff engaged in providing financial assistance for economic activities. The manual emphasises the methods that can be used to advance projects within the state aid framework.

Key Risk Area 11

Internal Audit

92. 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 quality work in accordance with a risk based framework. We were able to place specific reliance on the sections work on payroll, stock and the SPIs. During 2007/08 internal audit successfully retained its ISO 9001:2000 quality accreditation standard.

93. For 2007/08 Internal Audit has achieved 94% of their audit plan, this compares to 92% completion in 2006/07. The main areas of slippage were the corporate review of single status which cannot be progressed until the process is finalised, the audit on youth work which has been re-scheduled for 2008/09, and the follow up of the additional support needs investigation which was carried forward to 2008/09 at the request of the Executive Director of Education and Social Care.

94. It was noted that the follow up audit of social care identified that progress made by the service in implementing recommendations was disappointing. However, upon further review, the internal audit manager is now content with the revised action plan, which shows that positive solutions are being progressed. The executive director has agreed to provide a 6-month progress report in October 2008.

Risk Management

95. Risk management involves the systematic identification and management of risks affecting the organisation, highlighting where action is required and where performance needs to improve. The Risk Management Board is responsible through the Executive Management Team for monitoring and directing the control of strategic and corporate risk across all areas of the council. The board is currently in the process of reviewing the strategic risk register. The council's risk management arrangements will be updated to align corporate and community risks alongside the single outcome agreement arrangements. Community planning partners will be invited to share and participate in those activities.

Capital Project Management

96. In June 2008 Audit Scotland published a report, Review of major capital projects in Scotland – How Government Works. This report highlighted that the scale of capital expenditure and its importance in supporting the delivery of public services, puts a premium on ensuring capital projects are well managed and provide value for money. To achieve this, a strategic approach to managing the programme of capital projects is required.

97. The recommendations included in the report which are particularly relevant to the council are that they should:

- prepare robust business cases for every project. These should be clear about the project aims and benefits, and include assessment of risks and the range of options to be considered
- ensure cost, time and quality targets are clear from the outset, include the costs of all stages of the project and properly recorded
- ensure that risk management strategies explicitly consider and mitigate the risk of changes in scope after the contract has been awarded
- ensure appropriate project management and governance arrangements are put in place for every project from the outset.

98. In October 2008 a report was presented to the audit and scrutiny committee which considered the handling of a number of proposed key capital projects within the council. This highlighted that unclear project briefs and delays in approving capital projects have resulted in building projects being deferred. There has also been additional expenditure incurred on these projects because no clear scope was reached at an earlier stage. The costs and timescales for each project is summarised below:

- **Anderson High School:** Since 2000/01 £3 million has been spent to date however the final specification for the project has still to be agreed and contract awarded.
- **Bressay Transport Links project:** Since 1999/00 £2 million has been spent but the project has not yet started as no agreement has been reached over the preferred approach to improve the transport links.
- **The Mareel project:** Since 2000/01 £1.100 million has been spent but the project has not yet started. Recently agreement has been reached on the buildings design and site.

99. The intention is now to convene a special audit and scrutiny committee meeting which will invite a number of senior officers and councillors to discuss the findings of this report. Any future discussions should consider the recommendations of the Audit Scotland report to ensure a strategic approach to managing the programme of capital projects is developed.

Key Risk Area 12

Systems of internal control

100. A Statement on the System of Internal Financial Control (SSIFC) for the council and its group was included within the financial statements. The conclusion of internal audit, reporting to the audit & scrutiny committee, on 2007/08 was that the council's system of internal control was adequate and effective to provide reasonable assurance that the assets were safeguarded, waste or inefficiency was avoided, reliable financial information was produced and that value for money was continuously sought.

101. In accordance with the Code of Practice on Local Authority Accounting, the Statement reflects the internal control environment for the group position. The head 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 associates.

102. 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
- debtors
- housing rents
- creditors
- local taxation (council tax and non domestic rates)

103. Due to the number of fixed asset errors identified during the 2006/07 audit of the financial statements, capital accounting was selected as a system where a full review of the controls would be performed as part of the 2007/08 audit. Our work was planned to start in December 2007, however, due to technical problems with the system, we were unable to undertake any of the systems work prior to our final accounts audit. This resulted in additional substantive testing work during final accounts to give us the required assurances on the reliability figures included within the financial statements.

104. A key recent development has been a change in the available good practice guidance with the introduction of 'Delivering Good Governance in Local Government.' The new guidance recommends that the review of the effectiveness of the system of internal control should be reported in an Annual

Governance Statement. The council should consider preparing an Annual Governance Statement to comply with best practice accounting requirements.

Key Risk Area 1

Prevention and detection of fraud and irregularities

105. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption.

NFI in Scotland

106. The council participates in the National Fraud Initiative (NFI) in Scotland. 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 exercise was extended in 2006/07 to include information on tenants.

107. In May 2008 we reported that there was no evidence of the NFI results being presented to the council, audit and scrutiny committee, or senior management. In order to raise the profile of NFI, it was recommended that the council make regular presentations to the audit & scrutiny committee on the national position. The council agreed that they would report any issues in a timely manner, should they arise.

Housing Benefit

108. 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 key objective of the risk assessment is to determine the extent to which the benefits service is meeting its obligations to achieve continuous improvement in all its activities.

109. The assessment of Shetland Islands Council was undertaken during the quarter July to September 2008. It was found that the council clearly demonstrates an awareness of what constitutes an effective, efficient and secure benefits service, and has much in place to support local and national objectives.

110. Although the benefits service is performing well, a number of risks to continuous improvement were identified, including the following:

- the Finance Service Plan 2008/09, which is the key strategic document for the service, lacks a clear focus on what the benefits service should deliver each year against national and local objectives

- the council has no specific counter-fraud function and relies on the DWP to investigate suitable cases on their behalf
- the Anti-Fraud policy, which has not been updated since 2002, and the Fraud Sanctions policy do not reflect current legislation and working practices.

Key Risk Area 13

Data handling and security

111. 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. The Scottish government has created a working group to review local government data handling and security. The group will develop principles to influence future information management and security.

112. The council 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 the information security policy, to provide the control environment needed to ensure an appropriate level of information awareness and security.

Governance outlook

Single outcome agreements

113. 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 council'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.

114. The council accepted the concordat at a meeting in February 2008 and has worked extensively with the full range of community planning partners to develop the agreement in parallel with the council's new corporate plan. It is important therefore that the council develops robust governance arrangements for the development and monitoring of this key document.

Key Risk Area 14

Performance

Introduction

115. In this section we summarise how the council manages its performance. We discuss the council's performance in the current year, including consideration of the statutory performance indicators and the progress against best value, before reviewing the overall arrangements in place for managing and reporting performance. We give an outlook on future performance, including our views on the current status of identified risks from our SARA where these have not been addressed elsewhere in this report. Finally, we comment on the findings of Audit Scotland's national performance studies, relating them to the situation within the council.

Corporate objectives and priorities

116. As part of its ongoing development of a systematic approach to corporate performance management, the council identified three priority areas for 2007-08:

- the production of a new corporate plan (discussed below)
- the introduction of community planning priorities and targets (see paragraph 115)
- formally aligning the service planning and budget setting processes (see paragraphs 118-119).

117. A new corporate plan for 2008-11 was approved by the council on 19 March 2008. This is the key mechanism for driving improvement and change and sets out the council's key priority areas for the next three years. Its principal aim is to ensure that what the council intends to do will help to contribute to improving Shetland's sustainability. The plan is structured to reflect three themes:

- a sustainable economy
- a sustainable society
- sustainable environment and transport.

118. The council has further identified it requires to be a sustainable organisation in order to deliver these three key themes.

119. A total of 8 targets and priorities are linked to these themes. These targets and priorities were developed by the Community Planning Board (CPB) as a way of setting some long-term aspirations for Shetland. The council, as a lead member, agreed to help achieve and support these aspirations and these targets and priorities are included within the council's corporate plan. The targets and priorities, which align with the national outcomes set out in the Scottish Government's 'Concordat', are set out below:

- increase employment opportunities by 1,000 full-time equivalents by 2025
- increase average personal and household income by 10% above 2005 in real terms
- increase the supply of housing to 12,000 by 2025
- place more effort on stimulating demand for living in the remoter areas of Shetland by ensuring that the ratio of jobs to people and housing is the same
- be internationally renowned by ranking in the top 5% for Quality of Life on a European stage
- ensuring that equal opportunities exist for all, no matter an individual's age, race, gender, faith, sexual orientation or disability and decrease social inequalities
- be world renowned for being clean and green islands, decreasing CO2 emissions by 30% by 2020
- increase the population of Shetland to 25,000 by 2025.

Performance Management

120. As noted above, through its corporate plan, the council is committed to delivering on the outcomes set out in the Scottish Government's 'Concordat'. The targets and priorities detailed above have been aligned with the indicators contained within the council's Single Outcome Agreement. Delivery of the corporate plan will therefore deliver on the outcomes from the Single Outcome Agreement.

121. An implementation plan was created to support the corporate plan. This identified lead responsible officers accountable for the delivery of each project. Planned timescales were established to allow members to monitor progress against these stated targets. However with the development of the Single Outcome Agreement (SOA) the implementation plan has been superseded. The council's challenge is now to align the monitoring arrangements for both.

Key risk area 14

122. In the February 2008 report to council on the General Fund Revenue Estimates for 2008/09 it was noted that budget responsible officers have had some success in reducing their budgets. However, in the big spending areas of community care and schools & children's services, the target was missed by approximately £5 million.

123. In October 2007, the creation of a Finance Review Panel (FRP) was approved as part of the budget strategy. One of the recommendations made by the FRP has been to set up working groups to look at budget proposals, review services in order to remove inefficiencies and make savings across all services. The FRP would then consider the outcomes from these working groups. Since its creation the FRP has met regularly to consider proposals for budget reductions.

Key risk area 15

Overview of performance in 2007/08

Annual Report

124. The annual public performance report is in the form of a calendar issued to every household on the islands. Information is easily obtainable, indicates both good performance and areas where improvement is required, and shows recognisable outcomes and targets. It is also forward looking detailing developments the council is planning in the future. Some of the key achievements in the year are detailed below:

- 233 speakers of other languages improved their English language through a joint programme with Shetland College, a rise of 153% from 06/07. This was recognised as "Good Practice" by Her Majesty's Inspectors of Education.
- Currently 41.7% of all people over 65 who receive long-term care receive their care at home rather than in a residential setting compared to the government target of 30%
- The Energy Recovery Plant and the Gremista Waste Management Facility were commended by the Chartered Institute of Waste Management.
- Shetland has the lowest housing management costs in Scotland.

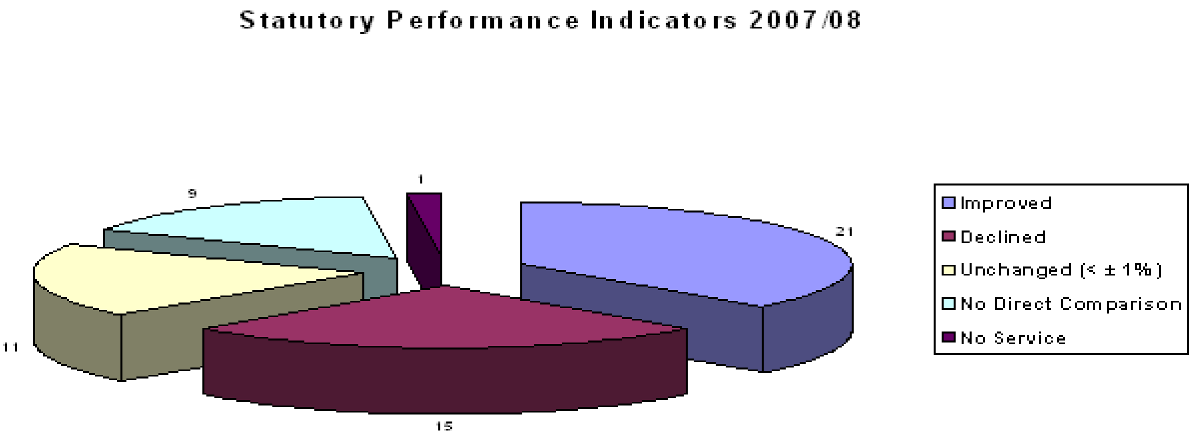
Statutory performance indicators

125. One of the ways of measuring council performance is through the statutory performance indicators (SPIs). In 2007/08, a total of 57 SPIs were reported and published by 30 September 2008 on the council website and are submitted to the council's audit and scrutiny committee. The committee considers this information and will consider how performance can be further improved.

126. Each year we review the reliability of the council's arrangements to prepare SPIs. Overall, the processes in place to support the submission of the SPI data have improved from last year. We are pleased to conclude that all of the 2007/08 SPIs reported are considered to be reliable. This compares favourably to the 2006/07 when the council failed to report the information required for three indicators and seven were concluded to be unreliable by us. However the quality and timeliness of the supporting working papers varied and we will continue to work with the council to improve the overall arrangements for 2008/09.

127. In overall terms, the following chart confirms that the council has made improvement in a number of areas:

Chart 2: Improvements demonstrated by SPIs (Total 57 indicators)



128. Particular areas of improvement include:

- for those aged 65+ there has been a rise in day time respite care (up 36.6%)
- processing time of individual changes to benefit claims has been reduced (down 36.6%)
- the costs of collecting council tax has been reduced (down 28.9%)
- there has been an increase in the time available for day time respite care for children aged 0-17 (up 11.6%)
- an increase within children's hearing reports submitted in time (up 33.5%)
- a larger percentage of premises requiring a hygiene inspection classed as "Greater than 12 months" have been inspected (up 29.2%)
- there has been a reduction in the net costs of waste disposal per premise (down 13%).

129. However, the following indicators are examples of where the council's performance has declined:

- there has been a reduction in the number of nights available for respite care for those aged 18-64 (down 13.7%)
- the number of household planning applications dealt with within 2 months has fallen (down 46.7%)
- the required number inspections for premise requiring a hygiene inspection every 6 months has fallen (down 40%)
- there has been an increase in the cost for the net collection of waste per premise (up 14.7%).

Best Value audit

130. 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.

131. A Best Value and Community Planning audit of the council was completed in 2005. A progress report was issued in January 2007 which outlined the steps taken by the council during 2005/06 and the extent to which the objectives of the Improvement Plan had been achieved. This report concluded that the council had made a start in addressing the issues raised, but that a number of initiatives were relatively recent and consequently not fully embedded and had not yet had an impact in terms of improved service delivery or outcomes.

132. Since January 2007 the council has continued to address and monitor the risks arising from the BV follow up report some of which are highlighted below and referred to in more detail elsewhere in this report:

- the improvement plan was a detailed action plan which supported the 2007/08 corporate plan
- the implementation plan was created to support the new corporate plan
- the targets and priorities of the community plan are now included within the council's corporate plan
- the council has a capital programme prioritisation system in place
- continued improvement within the council's performance management framework
- a procurement strategy is being progressed with the recommendation that the council join Scotland Excel
- an audit and scrutiny committee was established in March 2007.

133. As noted above, the council now need to align their monitoring arrangements of the corporate plan, community plan and single outcome agreement whilst continuing to track the recommendations included within the best value report and subsequent follow-up report to allow members to monitor progress.

Key risk area 14

Performance outlook – opportunities and risks

Introduction

134. In the course of our audit work we identified some of the strategic risks to the council delivering its stated objectives and priorities in the years ahead. These risks were set out in our SARA and grouped into risk themes. A number of these risks relate directly to governance and financial themes and progress was detailed in these earlier sections of the report. The risks relating to performance are detailed in the following paragraphs.

135. It should be noted that 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.

Efficient use of resources

136. Significant efficiencies are required for the council to both balance its budget and to meet targets set out in the Scottish Executive’s Efficient Government programme. The council presented its efficiency statement for 2007/08 to the Audit and Scrutiny committee in August 2008 which showed that the council achieved total efficiencies of £0.792 million. As noted above, during the past year, the FRP, consisting of elected members and the Executive Management Team, was established. Their remit was to monitor efficiency activity and ensure that required savings were being made. As well as that, having analysed the 2008 Efficiency Statement, the audit and scrutiny committee has, over the past 11 months, taken an active interest in promoting the efficiencies agenda and have carried out studies into a number of areas.

137. The council’s focus for efficiency activity in 2008/09 is on the following areas:

- improving procurement practices (this is discussed above at paragraphs 68-71)
- further rationalisation of the staffing structures, seeking wherever possible, to reduce establishment numbers without impacting on service levels
- seeking to spend to save on various council building upgrades and reduce the overall amount of fuel being used across council services
- joining the National Recruitment Portal – a website which will host all Scottish Local Authority jobs, thereby reducing the need to advertise in national newspapers
- carry out a review of vessel docking contracts.

Effective partnership working

138. The community plan (Sustaining Shetland) has been endorsed by the council and was formally adopted by all partners in 2006. It contains clear priorities and explicit targets to be achieved by the council and its partners. Sustaining Shetland is regularly monitored and annual reports are presented to the community planning board and the council. The third annual report is due to be reported in October / November 2008. As noted above the community planning priorities and targets set the high-level objectives for Shetland to aspire to over the medium to long term. These priorities and targets have been adopted as part of the corporate plan and have been aligned with the SOA.

139. Due to the relative size of the council compared to the other partnership bodies they are able to direct partnership working from many of the local agencies. The two largest local trusts, the SCT and the SDT, are aligned with the council's aims and there are strong partnership arrangements in place. However in their report, issued to the council in March 2008, Dundas & Wilson noted the council is also under an obligation to follow the principles of Following the Public Pound. The report went on to recommend that the council and the Trusts, in particular the Charitable Trust, consider how best to address the issue of Community Planning and, in that context, Best Value and the principle of Following the Public Pound.

140. 'The Power to Advance Well Being', within the Local Government Scotland Act 2003, presents opportunities for the council to promote economic development and carry out all the functions currently undertaken by the SDT. This links in to the council's corporate plan which sets out a range of priorities to more effectively organise the council's business.

141. In the report dated 19 March 2008, the council agreed to a recommendation that a development committee within the council should be re-established to deal with all economic development matters and a transfer of the activities and undertakings of the SDT to the council. This recommendation followed on from the report by Dundas and Wilson, which detailed that trust status no longer attracted the same tax advantages and that it no longer provides a defence against State Aid.

142. Last year we reported a risk in relation to the lack of a formal review of community planning processes by the council. In March 2008, members of the Community Planning Board (CPB) discussed and agreed proposals for restructuring of the Board. Members agreed to replace the CPB with a Community Planning Partnership (CPP). Membership of the CPP will be:

- all Council Members
- all NHS Board Members
- all Shetland Charitable Trustees
- Police and Fire boards

- ASCC executive
- chairs of all strategic groups
- council's executive management team.

143. It was also agreed that a Community Planning Delivery Group (CPDG) be set up 'to provide leadership and facilitation to community planning in Shetland, through the adoption and overall monitoring of Shetland's Single Outcome Agreement / Sustaining Shetland. The CPDG is responsible for taking the priority areas that have been set by the CPP and ensuring a structure is developed to deliver on these in the short, medium and longer term.

Workforce planning

144. Workforce related issues are at the forefront of the council's priorities as it aims to achieve workforce efficiencies whilst negotiating a single status settlement and dealing with outstanding equal pay claims including those at industrial tribunal. Both these issues are considered within the financial position section of the report.

145. In 2006/07 the council introduced a management development programme to ensure service managers have the relevant skills to drive the council forward in the achievement of its corporate objectives. The programme involves 360 degree review to ensure that a complete view of performance and potential development areas is achieved. Succession planning was the driver behind the introduction of this programme to ensure key staff are identified and provided with the necessary management skills for the future. This programme has been successful as recent internal promotions have been made to fill management positions.

146. The ongoing single status review has resulted in a delay in implementing a structured training plan for each individual member of staff. The council is using the single status review to establish a skeleton corporate training plan which can then be built on for each individual group of staff. There is a risk that without a structured training plan in place staff will not have the appropriate skills to undertake the additional responsibilities within their revised job descriptions.

Key risk area 16

147. The staff survey which was originally planned for April 2007 was undertaken in May 2008. The survey was developed by Gallup and has been used previously in a wide range of public and private sector businesses. The survey generated 693 responses by e-mail and 61 paper copies, a total of 754 responses, or 22 per cent of the total workforce. The council has reported that overall the results are very positive although it is acknowledged that there area number of areas where there is room for improvement. The council intend to publish the results of the survey on the council's intranet site. Human resources intend to work with managers to review the results and agree what action needs to be taken to increase the response rate and address areas for improvement.

National studies

148. 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

149. 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 2001/2 to 25% in 2005/6
- there has been slow progress in developing facilities to treat residual waste and there is a significant risk that across Scotland EU landfill directive targets might not be met.

150. Sustainability, self-sufficiency and the proximity principle, and the waste hierarchy are key principles that underpin the National Waste Strategy. The waste hierarchy summarises the objectives of sustainable waste management which are to:

- minimise the amount of waste generated
- optimise the amount of material that can be reused or recycled
- minimise the amount of waste disposed of in landfill sites.

151. The aim is to move from the bottom to the top of the hierarchy and to eliminate landfill as far as possible. In Scotland, most of the movement has been in diverting material from landfill via recycling and composting. However, the report highlighted that Shetland is only one of two councils to take this to the next stage in reducing waste by recovering energy with heat and power. Shetland's hub for waste disposal and recycling is the Energy Recovery Plant in Lerwick at the Greenhead base. The waste incinerator provides heat to the Lerwick district heating scheme, which now has over 400 customers. A report was presented to the Development Committee in August 2008 on renewable energy projects within Shetland. The energy recovery plant is one of a number of options being considered for future development.

152. As discussed at paragraph 29 above, from 1 April 2008, Scottish councils will be allowed to trade landfill allowances. The council does not anticipate any issues with the EC Landfill Directive as it is

already meeting its target for 2020. The total biodegradable waste land filled in 2007/08 was 583 tonnes, well below the council's limit of 2567 tonnes.

Free personal and nursing care

153. 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 January 2008 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.

154. Shetland Islands Council provides one of the highest levels of care at home hours (per head of population) of all local authorities within Scotland (Source – Scottish Government, Home Care Services (2006)). Shetland is the only local authority area that does not levy a charge for care at home services. The actual cost for delivering each hour of personal care is £14.83 and the cost for delivering domestic care is £9.70.

155. The council prioritises services under the following criteria:

- Priority 1 tasks are those which are essential to the client if they are to remain in the community and not be admitted to residential care or hospital.
- Priority 2 tasks need to be done, but the client could cope without harm if the service was not immediately available or had to be reduced to meet greater need elsewhere.
- Priority 3 tasks are a minimum service provided for preventative reasons. If necessary, service could be withdrawn for a long period with no risk to the client.

156. Currently, all Priority 1 clients receive a service and as many Priority 2 and 3 clients as is possible within current staff availability. New clients assessed as not being at definable risk are not receiving new services. Existing staff are being consulted about increasing their hours and work is ongoing to address these issues.

157. The council has acknowledged that delivery of care at home packages are currently close to saturation point. There have been a number of instances recently where clients had to remain in hospital or respite care because it was not possible to put services in place quickly enough. There remains a shortage of staff employed as home helps and social care workers although managers are trying to resolve this situation by either appointing new staff or getting existing staff to take on additional contracted hours. Over the next few years it is likely that demand will increase further for care at home services. The council should ensure that budgets have been fully reviewed and are in line with council priorities.

Key risk area 17

Scotland's school estate

158. 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.

159. In July 2007, the services committee agreed a 4-year plan, as the service element of the council's Corporate Plan. In relation to the schools service, the plan states:-

"Shetland schools population projections anticipate a substantial reduction in pupils within a relatively short time frame. The challenge for the authority is, therefore, to develop a modern "blueprint" for the shape of the service across Shetland for 10 years time. This model will consider the educational and financial viability levels for schools, their host communities as well as important associated issues such as transport requirements. It is anticipated that significant capital investment will be required to bring some schools and facilities up to a modern standard".

160. The council are committed to producing a model for education by 2009 that considers the educational and financial viability for schools and communities. At the services committee in January 2008 a report was presented entitled, "Developing a "Blueprint" for the Education Service". The committee agreed to the establishment of the working group to undertake the 'blueprint' review. The Blueprint working group met in April and it was decided to have sub-groups to look at quality education and transitions at three stages: Pre-School/Primary, Secondary/Further and for pupils with Additional Support Needs. These reviews are currently being progressed.

161. On 1st May 2008 the education secretary launched the Scottish Government's own consultation entitled "Safeguarding our Rural Schools and Improving School Consultation Procedures", which makes proposals for changes to current legislation. The council schools service response to the consultation, submitted in September, has been developed in discussions with central staff and head teachers taking into account the range of differing views held in different communities across Shetland.

162. The education function of the council was inspected in January 2008 as part of HM Inspectorate commitment to inspect and report on the quality of education and to help secure improvement across Scotland. The report by HM Inspectorate of Education was published on 8 July 2008. Inspectors evaluated the education function of the council under four main questions:

- How good are attainment and achievement of children and young people and how well are they supported?
- What impact has the authority had in meeting the needs of parents, carers and families, staff and the wider community?
- How well is the authority led?
- What is the council's capacity for improvement?

163. There were ten quality indicators which were examined. Five of these indicators were evaluated as very good, four evaluated as good and one was evaluated as adequate. The schools service will prepare an action plan indicating how the main points for action will be addressed and presented to the services committee in October 2008. The District Inspector will continue to monitor progress made as part of the agency work with the council.

164. The new Anderson High School (AHS) capital project is the largest individual capital investment project within the current capital programme. The project is fundamental to the council being able to deliver a quality education provision to more than 800 pupils. It was reported in June 2008 that the project, as currently designed, would be well over the indicative budget of £48 million. In August,

members were asked to agree to a revised programme, with a target date for submission of a planning application of March 2009 and slightly amended governance and management arrangements. The Anderson High School staff, together with representatives from the schools service management team and the architect involved in the project, has been working up a revised accommodation schedule, to meet the 15,000 m2 limit and the £49 million revised financial budget. The council also contacted the Head of Schools Division within the Scottish Government who has a remit which includes development of school estates. It is anticipated that he could be invited to advice on best practise across Scotland on school design. The council faces a number of difficult decisions in relation to the educational service within the current financial constraints. There is a risk that the council do not address the difficult financial choices required to provide a sustainable educational service.

Key risk area 18

Overview of sport in Scotland

165. 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.

166. Shetland is unique in that it is the Shetland Recreational Trust and not the council which is the largest provider of sport and leisure facilities in Shetland. The trust operates a network of leisure centres and swimming pools throughout the islands. The Shetland Charitable Trust (SCT) has provided the recreational trust with capital funding for the seven leisure centres that are located adjacent to local secondary schools throughout the islands, as well as the Clickimin leisure complex in Lerwick. In addition to the capital funding, the SCT continue to provide a major contribution towards the running costs.

Final Remarks

167. 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.

168. 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.

169. 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.

170. The co-operation and assistance given to us by Shetland Islands Council 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	12 20 28 29 104	**Financial Statements** Procedures are not adequate to ensure financial statements are prepared and presented in accordance with the SORP. Specifically, in 2007/08 issues were raised in respect of fixed assets, investments and the treatment of unspent grants ***Risk: the financial statements do not present fairly the result of council activities.***	The council will review the procedures for preparing the 2008/09 financial statements. Specific areas for early consideration include: • fixed asset/ capital accounting • investments • disclosures re landfill allowances • publication of a corporate governance statement • IFRS issues	Head of Finance	March 2009
2	18	**Group Accounts** In 2007/08 the council did not include the results of the charitable trust and development trust in the group accounts. Audit disagrees with this accounting treatment. ***Risk: the council may continue to receive a qualified audit opinion.***	The results of the development trust will be included in the group accounts from 2008/09. The situation regarding the charitable trust requires further consideration.	Chief Executive	Ongoing
3	36 46 80	**HRA Budget** Financial pressures in the HRA have resulted in a deficit in 2007/08 which has to be met from the HRA reserves. ***Risk: HRA reserves will continue to be used to cover in year deficits. Projections suggest that the HRA reserves could be exhausted by 2013, after which there will be no means of support for either revenue or capital expenditure. This could impact on compliance with the SHQS standard by 2015.***	The council will monitor HRA expenditure to ensure that overspends are managed and financial targets are met.	Head of Finance	December 2008

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	38	**Revenue Budgets** As well as ongoing financial pressures, particularly from education and social care services and single status, the council faces the ongoing challenge of budgeting for no increase in council tax for 2009/10 and 2010/2011. The need to identify and deliver efficiency savings is therefore essential. ***Risk: reserve balances will be used to support general fund expenditure. The target balance of £250 million may not be achieved and maintained.***	The council will monitor general fund expenditure to ensure that overspends are managed and financial targets are met.	Head of Finance	December 2008
5	61	**Budget setting process** The council should undertake a review of budget allocation to ensure that these are properly matched to service need. ***Risk: There is a risk that without a full review the budget allocated to service departments will not reflect current service provision.***	The council will continue to review budget allocations as part of the 2009/10 budget setting process.	Head of Finance	January 2009
6	63 67	**Single Status/ Equal Pay** The council has yet to implement single status, it is expected that this will be achieved in 2009. As a result the equal pay compensation liability will continue to rise throughout 2008/2009 and until single status is eventually introduced. ***Risk: the council are exposed to continuing risks while the existing pay and grading structure remains in place, for example associated costs cannot be fully quantified and as a result initial and continuing costs may be considerably higher than expected levels.***	The council is to progress the implementation of single status and equal pay agreements.	Chief Executive	March 2009

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
7	71	**Procurement** Procurement policies need improvement. The council could make efficiency savings through membership of Scotland Excel. ***Risk: there is a risk that best value will not be achieved until the procurement efficiencies are generated.***	The council will continue to work to further develop procurement policies in 2008/09.	Chief Executive	December 2008
8	74	**Effective management of assets** The council has yet to consolidate the estates and maintenance records or review the non housing estate. ***Risk: there is a risk that the assets of the council are not utilised in the most effective way.***	The council will progress implementation by March 2009.	Head of Finance	March 2009
9	79	**Capital Programme** The capital programme is heavily over-subscribed, with a funding gap of £36.666 million identified to 2010/11. This is before the inclusion of Anderson High School at an estimated cost of £49 million. Current forecasts suggest that ongoing capital programme funding should reduce to £15 million per annum from 2010/11 onwards. ***Risk: the capital programme may slip or may not be delivered and corporate priorities not achieved.***	The council will prioritise the capital programme to reflect corporate aims and objectives. Council officers will closely monitor the achievement of the capital programme and report areas of slippage to the council on a regular basis.	Capital Programme Review Team	Ongoing
10	87	**Political Governance** To ensure that members are fully aware of any conflict of interests a formal training programme should be provided. ***Risk: there is a risk that members' are not fully aware of a conflict of interest.***	Officers will provide a formal training programme after consultation with members.	Head of Organisational Development	December 2008

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
11	91	**State Aid** The European Commission has ruled three council schemes amounted to state aid and have calculated the total amount repayable is £1.2 million. The council have appealed against this ruling. A draft state aid manual is to be issued to all staff engaged in providing financial assistance for economic activities. ***Risk: further breaches of state aid rules may have taken place prior to the introduction of the state aid manual.***	The council will review its arrangements to ensure that no other breaches of state aid rules have taken place.	Head of Finance	September 2008
12	99	**Capital project management:** The council needs to ensure that capital projects are well managed and provide value for money. ***Risk: there is a risk that without a clear project brief additional expenditure will be incurred and projects will be deferred.***	The audit and scrutiny committee will consider this at a specially convened meeting.	Head of Finance	December 2008
13	110	**Housing Benefit:** The council needs to address the findings from the benefits review to ensure continuous improvement is achieved. ***Risk: there is a risk that there is not clear focus on delivering against national and local objectives and fraud is not fully considered.***	The council will address the findings of the benefits review.	Benefits Manager	December 2008
14	114 121 133	**Performance management** The council need to ensure there is a detailed action plan in place that clearly links the SOA, the corporate plan, the community plan and the BV recommendations. ***Risk: there is a risk that projects are not properly monitored***	The council are in the process of aligning monitoring arrangements in order to streamline reporting	Head of Organisational Development	December 2008

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
15	123	**Performance management** The council need to ensure that the 2009/10 budget setting process considers the findings of the financial review panel. ***Risk: there is a risk that budgets do not properly reflect service provision.***	The council will ensure that the findings of the FRP are considered as part of the 2009/10 budget setting process.	Head of Finance	January 2009
16	146	**Workforce Planning** As part of the single status implementation it is important that detailed training plans are provided to individual staff members. ***Risk: there is a risk that staff will not be properly supported or trained to take on additional responsibilities within the revised job descriptions.***	The project team will ensure that training plans are formalised to support staff during the implementation of single status	Human Resources Manager / Project Management Team	December 2008
17	157	**Free Personal & Nursing Care** The council must ensure that budgets are reviewed to reflect the changing service demands. ***Risk: there is a risk that the council will no longer be able to meet the demands of the service.***	The council are aware that the delivery of care at home packages are at full capacity. The council is looking at a number of options to resolve this ongoing issue.	Executive Director of Education and Social work	December 20008
18	164	**School estate** The council faces a number of difficult decisions in respect of providing an educational service within certain financial constraints. ***Risk: there is a risk that the council do not address the difficult financial choices to provide a sustainable educational service.***	The council is committed to producing a model for education by 2009.	Executive Director of Education and Social work	March 2009