

Comhairle nan Eilean Siar

Report to Members and the Controller of Audit
on the 2009/10 Audit

October 2010



 AUDIT SCOTLAND



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Key Messages

Audit opinion

We have given an unqualified opinion on the financial statements of Comhairle nan Eilean Siar. However, our opinion draws attention to the failure of the Building Maintenance significant trading operation to breakeven on a rolling three year basis. This significant trading operation has made a deficit for the past four years. This is unsustainable and must be addressed.

Financial results

The Comhairle made a net revenue surplus of £0.815 million in 2009/10 against a budgeted deficit of £0.101 million. Significant overspends on winter maintenance and children's residential placements were offset by savings on external interest payments as a result of slower than planned delivery of the capital programme, additional council tax income, delays in spending amounts included in the budget to fund specific projects and minor underspends across services.

Capital performance

Despite good quality capital budget monitoring reports, the Comhairle has again encountered significant slippage in its capital budget. Management have assured us that most of the reasons contributing to the slippage have been resolved. The Comhairle's capacity to deliver all strategic capital projects over the 2008-2013 period of the capital plan is under threat. This requires to be closely managed, particularly when resources will be stretched by the schools project requirements.

Construction of six new schools under the Western Isles schools project (WISP) is now underway. The funding gap that we have reported in previous audit reports has been addressed. Nevertheless, the timing of this project coincides with a period of financial austerity. This heightens the requirement that the project continues to be carefully project managed; that costs are closely monitored; and that an effective risk management process is in place to identify, assess, and manage all risks.

Financial planning and outlook

The Comhairle's financial budget for 2010/11 recognises the increasingly challenging climate and incorporates efficiency savings of £1.2 million. This is considered to be achievable. The real challenge to Comhairle finances begins in 2011/12. The Comhairle's longer term financial forecasts (2011/12 – 2014/15) identify that the net effect of the reduction in funding and increasing costs is a forecast spending gap of £5.5 million in 2011/12 which aggregates to around £24 million by 2014/15.

Work is ongoing to identify potential efficiency savings. However, this leaves a considerable residual funding gap which will require to be addressed. A timetable for considering service choices, public



consultation, implementing the results of the new HR strategy regarding redundancies, and considering findings from the Diagnostic Pathways project is in place. It is essential that members comply with this in order to set a balanced budget for 2011/12.

Use of resources

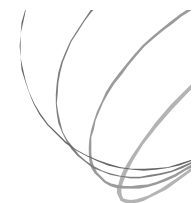
Good asset management and procurement practices are important to the Comhairle in its ability to respond to financial pressures. Improvements to each of these areas has been made, however, there is still further progress required.

There is evidence of good partnership working between the Comhairle and other services within the islands including NHS Eilean Siar. However, there is less evidence to demonstrate successes in integration or sharing of services.

Shared risk assessment

The Assurance and Improvement Plan (AIP) issued to members in June 2010 recognised the improvements in recent years and that most of the issues raised in the 2006 report had been addressed. However, the AIP also noted that there were uncertainties regarding the impact or extent of some of the improvements; and that the pace of change for some of the corporate assessment areas was slow. A BV2 audit is therefore planned for 2011. This will cover outcomes, services and corporate assessment areas. Some preliminary work was carried out in Autumn 2010. This focussed on leadership and culture in the Comhairle, its capacity for change and how this shapes service delivery. The preliminary findings are noted below.

- The Comhairle has strengthened political and community leadership and is well placed to deliver its corporate objectives.
- The Comhairle is committed to continuous improvement. During 2009 there has been steady progress in implementing a performance management system. There is still work to be done in embedding use of the system to systematically demonstrate that good quality information is available to, and used by, the Comhairle to make effective decisions and demonstrate continuous improvement. It is therefore still too early to assess its overall effectiveness. Individual service performance and improvement groups have been established providing opportunities for learning and sharing good practice.
- Up until 2009 the pace of change for corporate projects and continuous improvement activity was slow. There has been a recent increase in the pace of change and this needs to be maintained. The Comhairle needs to assure itself that the corporate improvement plan is realistic and achievable given their approach to corporate development activity and current financial pressures. The dependence on key staff to drive and lead corporate developments presents a risk to the Comhairle's resilience.



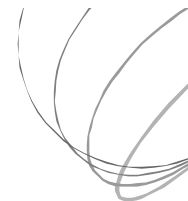
Outlook

The most significant challenge the Comhairle faces is a reduction in funding from 2011 to 2014 and beyond. Although the exact size of the reduction will not be known until later this year, the Comhairle must continue to take actions now to meet the projected significant cuts in its budget. The Comhairle has recognised the risks to its existing forecasts and has planned its budget strategy for 2011-14 accordingly. Never has the case been stronger for members to continue to support clear and consistent strategic decisions against a background of good governance, scrutiny and strong financial management. The likely scale of the reductions means the Comhairle faces the risk of poor morale and motivation amongst staff as well as dissatisfaction amongst some service users.

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

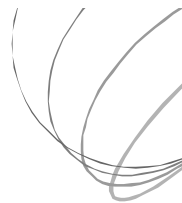


October 2010



Introduction

1. This report is the summary of our findings arising from the 2009/10 audit of Comhairle nan Eilean Siar. A number of reports have already been issued in the course of the year in which we make recommendations for improvements (see Appendix A). We do not repeat all of the findings in this report. Instead we focus on the financial statements and any significant findings that have arisen from our review of the management of strategic risks. The strategic risks are identified within the joint scrutiny bodies shared risk assessment and assurance and improvement plan (AIP) http://www.audit-scotland.gov.uk/work/scrutiny/docs/Eilean_Siar.pdf. The AIP gives a description of the Comhairle's context, including the challenges it faces and what it's trying to achieve. The AIP also sets out any areas of concern about the Comhairle.
2. The AIP noted uncertainties regarding the impact or extent of some of the improvements; and that the pace of change for some of the corporate assessment areas was slow. A BV2 audit is therefore planned for 2011. Some preliminary BV2 work was carried out in Autumn 2010. Findings from this, together with a follow up of some of the risk areas identified in the AIP are recorded in the "Performance management and improvement" section of this report.
3. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of interest are:
 - Making an impact – overview of best value audits 2004 - 09.
 - Scotland's public finances – preparing for the future.
 - Protecting and improving Scotland's environment.
 - The national fraud initiative in Scotland 2008/09.
 - Overview of local government in Scotland 2009.
 - Improving public sector efficiency.
 - Getting it right for children in residential care.
 - National scrutiny plan for local government 2010/11.
 - How councils work: an improvement series for councillors and officers - Roles and working relationships: are you getting it right?
4. These reports have been sent to the Comhairle for consideration and we do not consider them in this report. They are available on our website www.audit-scotland.gov.uk.



5. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *Planned Management Action*. We do not expect all risks to be eliminated or even minimised. What we are expecting to see is that the Comhairle understands its risks and has in place mechanisms to manage them. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to be duly assured that the proposed action has been implemented.

6. This report is addressed to members and the Controller of Audit. It will be published on our website after consideration by the Comhairle. The Controller of Audit may use the information in this report for his annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and it is also presented to the Local Government and Communities Committee of the Scottish Parliament.



Financial statements

Introduction

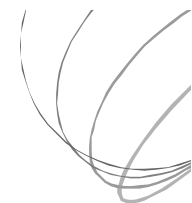
7. In this section we summarise the results from our audit of the Comhairle's financial statements for 2009/10, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.

Audit opinion

8. We have given an unqualified opinion that the financial statements of Comhairle nan Eilean Siar for 2009/10 give a true and fair view of the financial position and expenditure and income of the Comhairle and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
9. We have, however, drawn attention to a failure to comply with the Local Government in Scotland Act 2003: the Comhairle's only significant trading operation (STO), Building Maintenance, failed to breakeven on a cumulative basis over a three year period. It made a loss of £0.359 million during 2009/10 and a cumulative loss for the three year period of £0.549 million. Although this does not affect the overall opinion on the accounts it demonstrates that the Building Maintenance service is not operating within budget and their structure and performance require to be reviewed. Action taken by management to address this is discussed in more detail in the 'Use of Resources' section of this report.

Going concern

10. The Comhairle has prepared the financial statements assuming that the Comhairle and its group can continue to operate as a going concern into the future. The Comhairle's single entity balance sheet discloses a negative net worth of £6.2 million as a result of an increase in the pension liability of £34.1million since 31 March 2009. The main reasons for this increase are due to the reduced discount factor used to calculate future liabilities and the increased rate used to calculate future price increases. With regards to the group balance sheet, the combined deficit on the Local Government, Police and Fire pension schemes is £160.7 million. This has increased from £90.8 million in 2008/09. This has a substantial impact on the group balance sheet at 31 March 2010, which reports a negative net worth of £96.9 million compared to a negative net worth of £27.9 million in 2008/09. The Comhairle has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member.



11. The Comhairle has considered the scale and reason for the net liability position and determined that it is appropriate to prepare the accounts on a going concern basis and we concur with this assessment. Whilst the deficit funding position of the pension funds indicates that the expected liabilities are not fully met at the balance sheet date, pension liabilities will be funded as they fall due through employee and employer contributions, government grants and council tax.

Annual assurance statement on systems of financial control

12. We were satisfied with disclosures made in the statement on the system of internal financial control and the adequacy of the process put in place by the Comhairle to obtain assurances on systems of control.

Accounts submission

13. The Comhairle's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Final accounts preparation processes and working papers were generally very good and this enabled the audit to progress smoothly. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2010. They are now available for presentation to members and publication.

Accounting issues

14. 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). We were satisfied that the Comhairle prepared the accounts in accordance with the 2009 SORP. The Comhairle adjusted the financial statements to reflect audit findings. As is normal practice, immaterial unadjusted errors have been reported to the Director of Finance and Corporate Resources and the Audit Panel.
15. From 2010/11, local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS). Because local government has already adopted some aspects of IFRS, we expect the transition to be fairly smooth. The Comhairle has recalculated its opening balances at 1 April 2009 in compliance with the new requirements. It still requires to prepare a restated balance sheet for 2009/10 (shadow accounts) for use as comparative figures for the 2010/11 financial statements. The other main issue that the Comhairle requires to develop is to refine its calculation of the employee benefit accrual. We suggest these are addressed soon.



Audit testing

16. As part of our work, we took assurance from a number of the Comhairle's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:

- Payroll
- Cash, income and banking
- Main accounting system/financial ledger
- Debtors and income
- Budgetary control
- Fixed assets
- Creditors payments
- Council tax income
- Non-domestic rates
- Housing and council tax benefits
- Treasury management

17. In arriving at these conclusions on key controls we relied on the work of internal audit for testing of the council tax system and the treasury management system. We will continue to work together to improve this process further and to avoid any potential duplication of audit resource. Audit work included identification of controls considered "key" within each system and an integrated and complementary process of testing these controls. In each case we considered the impact of the identified weaknesses in planning our work on the financial statements.

Prevention and detection of fraud and irregularities

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

NFI in Scotland

19. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies. This data is used to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant outcomes for Scottish public bodies (£21 million during the 2008/09 NFI cycle and £58 million cumulatively up to end March 2010).

20. The most recent data matching exercise for the NFI was carried out in October 2008 and helped participants to identify £21 million of outcomes since the previous exercise. The Comhairle identified no cases of fraud or error during this exercise. In our report to management following this work we recommended that the Comhairle should review its approach to identifying which NFI matches to investigate to ensure it is making the best use of the matching information available.



21. Instructions for the 2010/11 NFI exercise were issued by Audit Scotland in June 2010 and participants now need to actively plan for the submission of the data for this data matching exercise. This includes the following key steps:

- considering the 2008/09 national report and completion of the self appraisal checklist
- confirming that fair processing notes are issued in line with the 2010/11 instructions
- considering risk-based data sets
- ensuring the upload of all relevant data on time (4 October), or shortly thereafter.

Housing Benefit

22. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in 2008. Our specialist team carried out a programme of risk assessments of benefits services in all councils over a two year period.

23. The risks to the Comhairle's benefits service were assessed in December 2009 and a detailed report was issued. The Comhairle has responded to the risks we identified with an action plan. We believe the actions will make a positive contribution to improving the benefits service. We will monitor progress and plan to carry out a follow up visit in summer 2011.

Group accounts

24. The diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to give a true and fair view of a council's income and expenditure. The Comhairle formally re-considered its group structure during 2009/10. It has a fully owned subsidiary, Sgoiltean URA LLP, an arms length limited liability partnership responsible for the management of the design, construction, facilities management and lifecycle maintenance of the schools being built as part of the Western Isles Schools Project. It also has interests in three associates. These are Highlands and Islands Fire Board, Northern Joint Police Board and Highland and Western Isles Joint Valuation Board. They have been included in group accounts in accordance with the SORP.

25. We would like to highlight the following issues:

- all bodies within the group received unqualified audit opinions from their external auditors
- the overall effect of inclusion of the Comhairle's subsidiary and associates is to reduce the net worth by £90.7million, mainly because of pension liabilities. The group has a negative net worth at 31 March 2010 of £96.9 million. However, the group accounts have been prepared on a going concern for the reasons noted earlier in this section.



Trust funds

26. The Comhairle acts as sole trustee for twelve educational, social welfare and miscellaneous trusts. They relate principally to legacies left by individuals with Western Isles connections over a period of years. As none are registered charities the Comhairle is not required to prepare full financial statements for each trust fund to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006.

Legality

27. Through our planned audit work we consider the legality of the Comhairle's financial transactions. In addition the Director of Finance and Corporate Resources confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the Comhairle's management team, the financial transactions of the Comhairle were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

28. A number of changes to financial reporting are expected to apply from 2010/11:
- Full compliance with IFRS. This is not simply a technical accounting matter: the Scottish Government is in discussion with local government about areas where statutory adjustments are required to mitigate the impact on the general fund.
 - Carbon trading. From April 2010 a new and complex system for charging for carbon emissions was introduced by the EU. The Comhairle is not required to participate in carbon trading but merely to register half hourly meters and consumption. They have registered and fulfilled their duty towards Carbon Reduction Commitment (CRC).



Use of resources

Financial results

29. In 2009/10, the Comhairle spent £148.8 million on the provision of public services. £134.3 million was incurred on revenue services and the remainder was spent on capital. The Comhairle's net operating expenditure in 2009/10 was £119.9 million. This was met by central government and local taxation of £118.6 million, resulting in a deficit of £1.278 million, 1.1% of the net expenditure for the year. The budget set for 2009/10 was based on a Band D council tax level of £1,024 with a budgeted deficit of £0.101 million. After taking account of statutory adjustments, a surplus of £0.815 million was added to the general fund during the year.

Budgetary control

30. Satisfactory quarterly revenue budget monitoring reports are prepared. The overall surplus for the year of £0.815m was primarily due to savings on external interest payments as a result of slower than planned delivery of the capital programme, additional council tax income, delays in spending amounts included in the budget to fund specific projects and minor underspends across services. These were offset by significant overspends on winter maintenance and children's residential placements.
31. Excluding centrally held budgets the first quarter budget monitoring report forecast a net deficit of £0.840 million, mainly due to forecast overspends of £0.4 million on schools' energy costs and £0.905 million on children's mainland placements, due to additional placements. This changed to a forecast surplus at quarter two of £0.325 million due to improvements on the children's mainland placements position plus savings on loan charges. The forecast surplus decreased slightly to £0.276 million at quarter three due to savings on Education Department staff costs offset by the forecast overspend of £0.635 million on the winter maintenance budget due to the extreme winter. Additional council Tax income and RSG helped increase the end of year surplus to £0.815million.

Trading operations financial results

32. The Comhairle's only STO, Building Maintenance, made a loss of £0.359 million during 2009/10 and a cumulative loss for the three year period of £0.549 million. It therefore failed to achieve the statutory objective to break even over a three year period. Trading Operations overall returned a net deficit of £0.160 million. A significant operational factor contributing to the Building Maintenance loss was the reactive nature of much of the work carried out and the consequent uneven scheduling of work. There is an urgent need to schedule work more evenly through the year. Another contributing factor to the loss was the reduction in income without a corresponding reduction in workforce or other costs. These losses are unsustainable given the current financial climate and there are significant concerns going forward.



33. Management are in the process of addressing this. The best value review of trading operations has been completed and its findings are being acted upon. Several COU units have been integrated into the Technical Services Department; and repairs and maintenance budgets are now managed by the estates section of Technical Services to help avoid peaks and troughs of work. Going forward it is intended to develop a recovery plan for the Building Maintenance STO, to review the financial monitoring arrangements and to provide members with more regular performance reports. A detailed review of overheads will also be carried out since these have resulted in high charge out rates compared to the competitive market. It is essential that these actions demonstrate whether the Building Maintenance STO continues to be viable.

Financial position

34. Exhibit 1 provides some information about the Comhairle's financial position compared to other Scottish councils.

Exhibit 1

Key indicators

Ratio	Description	Comhairle nan Eilean Siar		Range for all Scottish Councils
		2008/09 £'000	2009/10 £'000	2009/10
Working capital (Current assets as a ratio of current liabilities).	This is an indicator of the Comhairle's ability to pay its current liabilities in the short term.	1.22 19,135/ 15,648	1.34 24,191/ 18,071	0.33 to 2.48 The Comhairle is in the upper quartile.
Useable reserves as a percentage of net operating expenditure.	This shows the proportion of revenue expenditure that could be met from reserves.	10.06% 11,289/ 112,229	10.13% 12,153/ 119,918	3.7% to 19.6% (excl Orkney and Shetland). The Comhairle is in the middle of the range.
Long term borrowing compared to income from local taxation.	This ratio illustrates the proportion of a council's income from CT and NDR that would be needed to pay off long term debt.	7.23 145,238/ 20,077	6.79 143,134/ 21,082	0.48 to 6.79 The Comhairle is the highest in the range.
Long term assets as a percentage of long term borrowing.	This gives an indication of the ability to borrow to replace or repair assets.	175% 253,539/ 145,238	178% 254,138/ 143,134	178% to 755% (excl Orkney) The Comhairle is the lowest in the range.
Interest payable as a percentage of total income from government grants and local taxation.	This demonstrates the percentage of income that is used to service financing costs.	9.73% 11,112/ 114,211	8.24% 9,774/ 118,640	1% to 8.6% The Comhairle is the 2 nd highest in the range.



35. These ratios indicate the liquidity and financing position of the Comhairle. In making comparisons between councils there are a number of factors which affect the ratios. These include councils' group structures, asset management arrangements (e.g. housing stock transfers) and financial strategies. The ratios confirm the high level of borrowing and interest payable by the Comhairle relative to other councils. This is mitigated by the loan charge support that the Comhairle receives each year within their RSG settlement. We have compiled this information to establish a starting point to enable the Comhairle's financial stability to be monitored in the future. The Comhairle should consider whether any of the ratios indicate areas for further consideration within the context of its financial strategies.

Reserves and balances

36. Exhibit 2 shows the balance in the Comhairle's funds at 31 March 2010 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a capital receipts reserve. At 31 March 2010, the Comhairle had total cash backed funds of £12.153 million, an increase of £0.864 million on the previous year.

Exhibit 2

Reserves

Description	31 March 2010 £ Million	31 March 2007 £ Million
General Fund	10.281	9.466
Capital Fund	1.306	1.306
Capital Receipts Reserve	0.566	0.517
	12.153	11.289

37. The general fund increased by £0.815 million during the year to a balance of £10.281 million which equates to 8.6% of the Comhairle's net operating expenditure. Of this balance £7.339 million has been earmarked for specific purposes. This leaves an unallocated balance of £2.942 million, which is less than the Comhairle's policy to maintain an uncommitted general fund balance of £3 million. However, as a result of committee decisions taken in the first quarter of 2010/11, uncommitted reserves have increased to £3.1 million.

Capital performance 2009/10 and future years plans

38. There continues to be year on year slippage of the capital programme. In September 2009 the capital programme for 2009/10 was revised to £17.827 million. The quarter 3 monitoring report projected capital outturn of £15.377 million with slippage of £5million offset by projects of £2.5 million being brought forward. Final outturn capital expenditure was £14.598 million. The narrative accompanying



the quarter four capital budget monitoring report described this as 94% of the revised programme at December 2009. However, this represented only 82% of the planned £17.827 million that was forecast at September 2009 and 87% of the original capital plan for 2009/10 of £16.758 million.

39. Factors contributing to the delay in progressing projects included the lack of staffing resources in the Technical Services department, additional staff time required for the WISP and administrative problems resulting in delayed billing at the COU. Management have assured us that most of these problems have been resolved. Nevertheless, year on year slippage of the capital programme is a concern. The Comhairle's capacity to deliver all strategic capital projects over the 2008-2013 period of the capital plan is under threat. This requires to be closely managed, particularly when resources will be stretched by the schools project requirements.

40. The original capital budget for 2010/11 was £20.360 million but is currently forecast to be around £17.6 million. In June 2010 the Comhairle decided that no further project initiation documents (PIDS) would be considered during the 2010/11 to 2012/13 capital programme until savings necessary to attain a balanced revenue budget during this period are identified. £18.767 million of PIDS not yet approved and £5million of new projects (both scheduled for 2012/13) have therefore been put on hold. This moratorium on PIDS may therefore manifest itself in 2012/13 since few of the projects planned for that year have had their PIDS approved yet. As previously noted, the Comhairle's capacity to deliver all strategic capital projects over the 2008-13 period of the capital plan is under threat.

Action plan no 1

41. There are satisfactory capital monitoring financial records which provide appropriate information to monitor individual project spend. The capital programme is reviewed regularly by the Finance & Strategy Working Group. A capital review group, consisting of all heads of service responsible for the delivery of projects, is in place.

42. The trend in capital investment and sources of funds is reflected in exhibit 3.

Exhibit 3

Sources of finance for capital expenditure 2006/10

	2006/07 Actual £M	2007/08 Actual £M	2008/09 Actual £M	2009/10 Actual £M	2010/11 Budget £M
Borrowing	15,939	14,173	7,735	6,907	15,361
Fixed Asset Disposal	74	390	55		
From Revenue Account		45			
Government Grants/Other	5,486	7,548	7,642	7,609	4,999
Total	21,499	21,766	15,432	14,516	20,360



Treasury management

43. As at 31 March 2010, the Comhairle held cash and temporary investments totalling £14.520 million (£9.117 million at 31 March 2009).
44. The current economic climate means that interest rates on investments are low – the Comhairle received £0.078 million in investment income this year compared to £0.340 million last year. Total borrowing increased slightly during the year from £145.343 million at 31 March 2009 to £145.739 million at 31 March 2010. Borrowing rates are at a historic low. Most of the Comhairle's debt is at fixed rates over a long term period. A combination of debt restructuring, early repayment of debt and new borrowings resulted in £9.5 million of loan debt being replaced by £10 million of new borrowings. This helped to reduce the average rate on external debt from 6.48% at 31 March 2009 to 6.28% at 31 March 2010 and generate loan charge savings of £0.772 million compared to budget.
45. Internal audit carried out a review of the treasury management function during the year and confirmed that they complied with the Comhairle's policy for the investment of its funds; and that they comply with CIPFAs revised Code of Practice for Treasury Management in the Public Service covering borrowing. We consider that the Comhairle continues to adopt a well structured and prudent approach to treasury management.

Financial planning and outlook

46. The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. In June 2010 the new UK Government set out an Emergency Budget, planning for a period of significant fiscal consolidation. It immediately implemented £6 billion of UK budget reductions. The Scottish Government agreed that it would defer its share of these 2010/11 cuts (estimated as £332 million) until 2011/12, and will have to implement these alongside continuing reductions in the Scottish budget.
47. There remains uncertainty about what the financial implications for the Comhairle will be. The UK government published its comprehensive spending review on 20 October and the Scottish Government will publish the results of its own review in late November. A key issue will be the extent to which some priority services, particularly health, may be protected from budget reductions. Hence while local government will be aware of their likely position from November, the final settlement may not be fully agreed until January 2011. Negotiations are continuing and the Scottish Government is consulting on an end to the council tax freeze.
48. While recognising this uncertainty, Scottish councils have been working with the Centre for Public Policy and the Regions (CPPR) to estimate the potential impact on the government funding they receive. This provides a basis for financial planning and understanding the level of savings that they will require to make to balance future budgets. Current projections are that a 14% real terms reduction



will be experienced over 2011/14, heavily weighted toward 2011/12 reflecting the deferral of 2010/11 cuts. In cash terms this is equivalent to annual reductions in grant of 4%, 1.7% and 1.7% respectively.

49. As well as addressing the anticipated reduction in funding, councils also have to manage a range of cost pressures and consider the extent to which they can fund new developments, priorities and responsibilities. In establishing its financial plans, the Comhairle has made an allowance for these factors. This means that savings targets need to be greater than would be required to simply offset the anticipated reduction of grant.
50. There are costs which are either increasing or could impact future budget provision. The Comhairle recognise they need to keep these under control and take steps to mitigate them. These include: care costs due to the aging demography of the islands; the year on year costs associated with children's placements; future fixed running costs associated with WISP; costs and savings associated with the school closure programme; energy costs; and proposed improvements to the fostering and adoption service.
51. Moving forward it is important that the Comhairle has a clear understanding of what its spending priorities are, developing these in partnership with other public sector organisations where appropriate. The immediate challenge is to balance the 2011/12 budget – particularly given the extent to which cuts are frontloaded - but this needs to be achieved in a manner that best supports the Comhairle's overall objectives and priorities. Real terms grant reductions are expected to continue until 2015/16 on current projections, and the Comhairle will continue to face tough decisions about spending and priorities.

2010/11 budget

52. In 2010/11, the Comhairle again froze council tax in accordance with the concordat with Scottish Government. The net revenue budget includes efficiency savings of £1.165 million, which are considered to be achievable, and a budgeted surplus of £0.018 million. The 1st quarter general fund monitoring report forecasts a net overspend of £0.426 million. Projected overspends on bus contracts within Education and Children's Services and Technical Services of £0.590 million; and overspends by the Community Care Service of £0.598 million, mainly relating to domiciliary care, are offset by a favourable variance on loan charges of £0.5 million.

2011/14 budget

53. To ensure that it is able to respond effectively to the projected funding reduction the Comhairle agreed its budget strategy for 2011-14 in April 2010. The strategy comprises five strands of work that will lead to the construction of the 2011/12 budget and the framework for the following years. These are: financial modelling, departmental efficiencies, Diagnostic Pathway projects, service choices and HR Strategy. Financial projections incorporate a planning assumption of savings of 5% for each of the next three years. This is based on the work of COSLA's Strategic Finance Review Group which takes



account of real cost growth, a 12% fall in funding and the freezing of council tax. This was subsequently updated to reflect the Comhairle's share of 2010/11 budget cuts deferred by the Scottish Government into 2011/12 resulting in a projected funding gap of £5.5 million in 2011/12 rising to an aggregate of nearly £24 million by 2014/15. A realistic, yet challenging, target for efficiency savings is £2 million, leaving £3.5 million to be funded through service choices from 2011/12.

54. Members were provided with several opportunities to consider service choices over the summer. This included a budget discussion workshop when areas for changing, reducing or charging for services were considered. Members agreed to set out their individual preferences for service choices. The results will form the basis for wider consultation through public consultation meetings in late September and October. A members' seminar will review the outcome of these meetings and decide which proposals should go forward for formal consideration at the next series of meetings.
55. The Comhairle approved its HR Strategy in June 2010. This is a key element of the efficiency savings of £2 million required from 2011/12. It highlights the need to reduce the level of recruitment to a minimum, seek volunteers in the first instance in all services, and develop efficiency savings in methods of working. Staff taking early retirement will be offered up to two added years retirement benefit. The response to date has been mixed, with more interest being expressed by teaching staff. The Comhairle agreed a proposal in relation to the voluntary retirement of teachers with indicative savings of around £0.4 million from 2011/12 onwards. Officers are currently reviewing expressions of interest from the invitation to certain management grades to consider voluntary severance. The Comhairle recognises the need to take immediate action to reduce costs for future years. Savings take time to accrue and the Comhairle needs to take action now to be sure of achieving savings in the future.
56. The Comhairle's settlement from the Scottish Government will be known within the next couple of months. It is essential that the planning assumptions and steps required to achieve a balanced budget continue in accordance with ongoing financial plans.

Action Plan No 2

Western Isles schools project (WISP)

57. The preferred bidder for the Hybrid Schools PPP was approved in 2010 and work on construction of six new schools has now commenced with a view to meeting the Comhairle's requirements of having all schools available to pupils by August 2012. The funding gap that was previously an issue has been resolved now that the actual bid costs are known and also due to more favourable interest rates. The method of Scottish Government (SG) contribution to funding this project has changed. Until recently, the SG had committed to provide the Comhairle with £52 million loan charge support towards this project. They have now stated that they will provide £41.6 million of general capital grant over the



next three financial years (starting in 2010/11), with the remaining £10.4million provided via loan charge support.

58. The Education and Children's Services Department has reviewed its whole school population (both primary and secondary) with a view to how it fits in to its long term vision regarding population changes and demographics. This has included engagement within each learning community area; and with each school that could be merged with another. Formal consultation commenced in May 2010 with communities regarding 11 potential school closures. This was followed at the beginning of the new school year by consultation regarding the potential closure of another three schools.
59. Capital expenditure of £2.111million was incurred during the year bringing cumulative capital expenditure to 31 March 2010 on the WISP to £3.037 million. £1.744million of the expenditure incurred in 2009/10 related to design costs. Revenue expenditure of £0.362 million was incurred during the year bringing cumulative revenue expenditure to 31 March 2010 to £2.243million. Revenue expenditure includes in-house design team costs, private sector development partner costs, financial modelling costs and technical advisors costs. This brings total expenditure incurred by the Comhairle to 31 March 2010 on the WISP to £5.280 million. In addition to this, Sgoiltean Ura LLP have incurred £0.982 million revenue expenditure over the last two financial years bringing total expenditure to nearly £6.3 million. Officers stated that these costs have been necessary to design the schools and determine overall costs; to attract widespread interest and identify the preferred bidder; and to demonstrate to the SG that the hybrid model is the best approach and represents value for money. The Comhairle will be undertaking a review of the structure for the delivery of the project in December 2010.
60. The timing of this project coincides with a period of financial austerity. This heightens the requirement that the project continues to be carefully project managed; that costs are closely monitored; and that an effective risk management process is in place to identify, assess, and manage all risks. Internal audit plan to carry out further reviews of the project management arrangements in 2010/11.

Action Plan No 3

Asset Management

61. In 2009, Audit Scotland published *Asset Management in Councils*. The study found that strategic asset management was not well developed in most councils. For Scottish councils as a whole, over a quarter of all properties were in poor condition and slightly less than that were not suitable for the services being delivered from them. The study found that the Comhairle did not know the condition or suitability of over 35% of its buildings and of those buildings which the Comhairle had assessed, 13% were reported as poor in terms of condition and suitability. An Asset Management Action Plan linked to the recommendations of this report was approved in August.



62. There has been slow progress in implementing the Corporate Asset Management Policy, Strategy and Plan that was approved in June 2009. Although there are adequate practices relating to asset management utilised in the Comhairle, the current strategy and plan does not draw these together into one coherent framework. A recognised priority is to review current practices and procedures, strategies and policies and produce a framework where property asset management is clearly linked to corporate objectives and service needs and drives the capital programme.

Action Plan No 4

63. In April 2010 it was agreed to transfer responsibility for repairs and maintenance budgets from individual departments to the Technical Services estates function. It was recognised that the devolvement of maintenance budgets to departments had led to inefficiencies and inconsistencies in the actual delivery of building and grounds maintenance. It is hoped that this change will enable more effective work planning throughout the year, in turn realising efficiencies and delivering best value to the Comhairle as a whole.
64. In February 2010 the Comhairle approved a new process for the disposal of surplus assets. Nine surplus properties have recently been advertised in the local press seeking expressions of interest from community groups.
65. Technical Services maintain a comprehensive database of all property. This records progress against the Federation of Property Societies Disability Discrimination Act (FPS DDA) key criteria, as well as condition and suitability information. The Comhairle undertake full condition surveys on school properties every five years as there is a statutory requirement to do so. With regard to other properties owned by the Comhairle, desk top condition surveys are undertaken as part of the annual reporting of Key Performance Indicators. Since 2004/05, through the statutory performance indicator, the Comhairle have had to report on the percentage of their service buildings which are suitable for, and accessible to, disabled people. For 2009/10 the percentage slightly increased to 34% compared to 31% in the previous year. Disability access audits have been completed on all schools and 5% of all other properties.

Procurement

66. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement and to deliver value for money and increased efficiency through improved structures, capability and processes. In 2009, the Scottish Government promoted the use of an annual procurement capability assessment (PCA) to assess procurement performance in all public sector bodies and as a basis for the sharing of best practice and continuous improvement. Results are summarised as non-conformance, conformance, improved performance and superior performance.
67. All councils were assessed by Scotland Excel and scored as non-conformant. This means that councils are not achieving best value across their procurement activities. In response, in December



2009, councils agreed to participate in a national procurement improvement programme. The programme addresses the following areas:

- The role of procurement in the organisation: the key issue facing most procurement functions is lack of influence across the organisation.
- Getting the right people doing the right things: there is a need to be clear on the structure of procurement across the organisation and its accountability to the procurement leader.
- Adoption of a strategic approach to sourcing: this means making money out of all aspects of the contract life cycle, not just by getting the best price.
- Embedding new systems and processes.
- Conformance: councils with the lowest scores can access an experienced procurement professional to help work with their procurement leader on the improvement plan for their council.

68. The Comhairle scored 15% which is low in absolute terms as well as in comparison to the local government average of 22%. Improvements are required across all assessment criteria particularly benchmarking and supplier strategy and policy. Improving the Comhairle's performance and score will require significant investment by the procurement team in procurement practices across the organisation with the active support of senior management to achieve the greater visibility and control required.
69. The Comhairle approved a revised procurement strategy in October 2009 and a procurement strategy action plan in April 2010. Each action point is underpinned by detailed tasks which have been linked to the national PCA. All actions in the action plan have a target date of 31 March 2011. The Comhairle's procurement performance will be judged on the improvement from one PCA to the next.
70. Performance indicators for 2009/10 showed that 31.4% of annual procurement spend was with contracted suppliers and 1.8% of the annual procurement spend went through eProcurement (EButh). eButh has recently been rolled out across all services apart from Catering. Since March 2010 this has resulted in a significant increase in the amount of goods procured through eProcurement. The Comhairle has also developed a contract database which continues to be uploaded and populated.
71. The islands are challenged by geographical remoteness from the marketplace. Ongoing commitment is required to improve procurement performance across the organisation and the Comhairle's score at the next round of PCAs. We will monitor the situation and the ongoing commitment by the Comhairle to improving the situation.

Action Plan No 5



Managing People

72. The Comhairle is making progress towards a more corporate workforce strategy. In June 2010 it agreed its HR Strategy in response to anticipated future financial pressures and to ensure that the Comhairle has mechanisms in place to ensure the efficient operating and delivery of its services. The proposed strategy is to reduce recruitment to a minimum, seek volunteers in the first instance in all areas of requirements for service reduction and seek and develop efficiency savings in methods of working.
73. A revised performance management appraisal scheme with management standards and core values was approved in September 2009 and is now in use throughout the Comhairle. It incorporates personal development plans to assist employees with career development. The completion rate corporately for 2009/10 was only 43% with some departments performing better than others. The HR Sub Committee receives quarterly updates on progress and is addressing this issue.
74. The Corporate Improvement Plan contains an action to support the development of departmental training plans incorporating succession planning and skills gap analysis. Three departments' training plans have now been approved and the other three are being developed. It is important that these actions continue to be carefully managed and monitored.
75. The Corporate Improvement Plan also contains an action to attain departmental and corporate investors in People. A draft Corporate Investors in People plan has been developed.

ICT

76. Progress on the implementation of the Comhairle's IT strategy for 2009-2011 is slow but steady. The implementation of the Lagan Customer Relationship Management (CRM) system is well under way, although the current use is limited to a small customer services team based in the Town Hall in Stornoway. Other projects, such as the implementation of Voice over Internet Protocol telephone technology and server virtualisation is progressing as planned.
77. Arrangements for a disaster recovery site to support the Comhairle's business continuity planning, however, are more problematic. This is partly due to the cost of putting the appropriate infrastructure in place and also due to the need to find a suitable partner to share such facilities with.

Data handling and security, and website overview

78. We followed up on two reviews of previous years: Web Overview and Information Handling and Security (cultural aspects). We concluded that a third of the actions agreed in our initial review had been implemented and a further four had been partly implemented with additional action required.



79. Remaining risk areas, which are being followed up by internal audit and monitored by the Audit Panel are:

- Absence of a strategic and systematic approach to the development of the website to support corporate objectives. This increases the risk of lack of ownership for the content provided.
- The lack of staff awareness about appropriate information handling procedures and registration of movement of sensitive information. This increases the risk of data loss.

Implementation of Lagan CRM

80. This year, we also looked at the implementation of the Lagan CRM system which went live in October 2009. Although the system is currently in limited use, there are two important areas that require attention to help ensure efficiency and to measure the effectiveness of the system in the future:

- There is a need to maintain accurate and up to date customer information as the system grows and more enquiries are logged on the system.
- Management information requirements on the customer management process have not yet been determined. This information is necessary to measure the effectiveness of the system and the processes it supports.



Governance and accountability

Introduction

81. Corporate governance is about direction and control of organisations. Councils are large complex organisations and so good governance is critically important. The Comhairle has assessed its own arrangements against the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government*. The assessment identified a number of areas for improvement, but overall, the results suggest that the Comhairle has a sound governance framework. The assurance and improvement plan assessed the Comhairle as having no significant risks in this area.

Scrutiny

82. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. Overall, the Comhairle's Audit Panel is effective and complies with most of CIPFA's good practice principles for audit committees. The panel also fulfils a scrutiny function by requesting follow up work in relation to areas of concern. All members of the audit panel are also members of the Audit & Scrutiny Committee. This committee receives audit panel minutes but has a wider role. It considers performance reports, business plans, risk management and follow up of the best value improvement plan.

83. There is scope for further learning and development opportunities so that members are appropriately supported and equipped to challenge officers and increase the effectiveness of each committees' work. In particular, we would highlight the following matters where committees could focus attention:

- Members should be kept abreast of the reporting capabilities of the Comhairle's electronic performance management system (Interplan). Where appropriate, reports presented to them should be summarised in a user friendly manner to highlight meaningful comparisons to targets and benchmarks for members attention.
- Over the last year, Comhairle services such as social work and education services were inspected by relevant inspection agencies. The detail of these reports are addressed by the relevant service committees but good practice suggests that audit committees should have a role in monitoring implementation to ensure that key risks faced by the Comhairle are being addressed. The Audit & Scrutiny committee does not currently have any scrutiny role with regard to inspection reports.
- The Accounts Commission issue a range of national study reports and an overview of local government each year. Recent reports issued include "Getting it right for children in residential care" and "Asset management in local government", both of which contain good practice



checklists and recommendations that should be of particular interest to the Comhairle. Recommendations are generally directed at all councils so it would be appropriate for the Audit & Scrutiny Committee to consider findings and ensure that significant matters are being addressed by the Comhairle.

Roles and relationships

84. The Accounts Commission recommends that councils give priority to the continuous professional development of its members. Induction training was provided to all members post election. Since then, there has been further member training at each committee cycle. Training to date has been diverse and has included budgeting, an overview of the Comhairle's IT systems, options for addressing winter maintenance costs, how to access homecare, and the Comhairle's Interplan system.
85. Job descriptions were provided to all members as part of their induction pack. The Chief Executive held meetings with all members in September 2008 regarding their needs assessment and agreement of a personal development plan (PDP). These will be reviewed by the end of the year, when it is also intended to provide a review of the effectiveness of training provided to date.
86. The creation of multi-member wards required new ways of working to support efficient representation and sharing of the workload. The Comhairle are satisfied that members are working in a collaborative and constructive manner, however, logistical issues mean that issues are dealt with geographically in some wards.

Partnership Working

87. The Comhairle continues to show evidence of good partnership working. It is the driving force behind the Outer Hebrides Community Planning Partnership (OHCPP), which is responsible for monitoring progress against the single outcome agreement (SOA). Seven sub groups have been set up with appropriate representation at political and officer level; and also by various community groups and partners. Updates on progress are reported, however, there is little evidence to link reported progress to SOA performance targets.
88. Areas of good partnership working include the joint agreement in place with NHS WI to reduce carbon emissions by 7,000 tonnes by 2014; the introduction of the Outer Hebrides Business Support Programme; the development of the Creative Industries and Media Centre; the productive partnership with Lews Castle College which has assisted the expansion in Skills for Work provision in schools and in adult learning opportunities; and the joint officer group between the Comhairle, NHS WI, and UHI to promote and preserve the Gaelic language. A joint strategy with partners successfully averted major job losses following QinetiQ's proposals to rationalise Command and Control functions at Hebrides Range on Benbecula. This group continues to lobby the government to safeguard local jobs against the threat of impending MoD cuts.



89. The Community Health and Social Care Partnership (CHaSCP) is not progressing as well as planned due to the challenge of reconciling partners' different priorities with existing competing demands and decreasing resources. The structures are currently being reviewed. A joint planning and liaison group has been established with the remit of identifying and agreeing key strategic priorities for joint working from 2010-2012.
90. The Comhairle put forward proposals to consider the viability of a single public authority within the islands. However, NHS Eilean Siar could not commit to this. Nevertheless, the Comhairle and NHS Eilean Siar are committed to the integrated service delivery project and funding has been secured to facilitate this. Opportunities for sharing include estates management services and printing facilities. However, progress is slow and it is uncertain if this and the other projects will proceed to implementation.

Community engagement

91. Members have a good understanding of the issues facing the Western Isles and their communities and have led community engagement workshops across the council area. We are therefore satisfied with the Comhairle's overall approach to community engagement and the recent improvements it has made. However, it is important that actions taken following engagement and consultation with the community is clearly documented and communicated. For example,
- the HMIE Inspection of the education functions found that plans to evaluate the effectiveness of community capacity building activity were unclear
 - findings from youth engagement events should be translated into actions to take forward
 - the Comhairle introduced two new PI in 2009/10 relating to satisfaction surveys regarding user/care meetings; and the percentage of clients who said they were satisfied with the help they received from the community care service. No data was collected during the year and it was decided to defer this until 2010/11.
92. There has been progress with Community Engagement Action Plans, taking the Scottish Government's forthcoming Community Empowerment Action Plan as the model. Since October 2009, meetings of the OHCPP have been held at geographical locations (spread out in Lewis, Harris, Uist, and Barra).
93. The Scottish Public Services Ombudsman criticised the Comhairle regarding the time it takes to deal with complaints. The Comhairle are in the process of addressing this. It intends to streamline its complaints procedure from a three stage review to a two stage review.



Public performance reporting

94. Until recently, there were no public performance reports (PPR) since 2005/06. The first integrated PPR for a number of years was published on the Comhairle's web site in March 2010, following the structure of the Comhairle's corporate plan. It is intended to publish these twice yearly from now on. The Interplan system will help deliver this in a variety of accessible formats, including the Communities Connect Portal. It is important that performance reports portray a balanced view of the Comhairle's achievements and objectives.

Governance and internal control

95. As mentioned in the "financial statements" section of this report, we carried out an assessment of the Comhairle's main financial systems, and the key internal controls operating within them. In most cases we assessed these as operating effectively and our testing provided sufficient audit assurance that there are no material misstatements in the accounts. Following our review we issued a report to officers summarising our findings in these areas. The report included some areas for improvement on which the Comhairle has agreed to take action.

Outlook

96. Governance and accountability issues are likely to be prominent as the Comhairle's operating environment and economic position becomes more difficult and the development of working in partnership with other increases.
97. As funding is reduced and difficult choices between service priorities require to be taken, it is essential that good governance arrangements are observed and that decisions are taken in the interests of the Comhairle as a whole. The robustness of the information provided to members from the performance management system; and the arrangements for working with partners and monitoring their contribution towards outcomes will assume greater importance.



Performance management and improvement

Introduction

98. We believe that an effective council has a clear and ambitious vision for what it wants to achieve for its locality and communities to secure high quality services and effective outcomes for local people. The vision is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective council has a performance management culture which is embedded throughout the organisation.
99. The first Best Value (BV) audit of Comhairle nan Eilean Siar was reported in August 2006. The report concludes that the Comhairle had strong foundations in its local communities and had raised the standard and availability of local services across the Western Isles. It also identified that the Comhairle's long-term vision was supported by energetic members and committed employees. The report highlighted the need for the Comhairle to develop an effective and systematic approach to continuous improvement. While members and officers demonstrated leadership on strategic objectives, particularly through flagship projects, there was no clear leadership in establishing the systems and processes necessary to support continuous improvement and ensure achievement of Comhairle objectives.
100. The Assurance and Improvement Plan (AIP) issued to members in June 2010 recognised the improvements in recent years and that most of the issues raised in the 2006 report had been addressed or were in progress. However, the AIP also noted that there were uncertainties regarding the impact or extent of some of the improvements; and that the pace of change for some of the corporate assessment areas was slow. A BV2 audit is therefore planned for 2011. This will cover outcomes, services and corporate assessment areas. Some preliminary work was carried out in Autumn 2010. This focussed on leadership and culture in the Comhairle, its capacity for change and how this shapes service delivery. Findings from this work are recorded in **paragraphs 101 to 110** below. The objectives of the preliminary work were to assess:
- political and managerial leadership of and commitment to continuous improvement
 - the extent to which a culture of continuous improvement has been created throughout the organisation
 - the effectiveness of actions taken since the 2006 audit to build improvement capacity and improve the pace of change across the organisation
 - the impact of capacity building and workforce planning to support improvement.



Leadership

101. In October 2008 the Comhairle introduced the role of Leader and clarified the roles and responsibilities of the Convenor and Leader. The Convenor is responsible for civic leadership and the Leader is responsible for strategic leadership and direction. The Leader is Chair of the Policy and Resources Committee and is now the Comhairle's principal representative on COSLA. The Leader has reached agreement with other elected members on his position and officers seek his advice and guidance. This has provided overall clarity on the Comhairle's priorities and strategic direction.
102. The Corporate Management Team (CMT) has been at full complement since the start of this year. They work together to make corporate decisions rather than focussing on their individual services. For example there was unanimous agreement among Directors to combine property maintenance budgets and have a single budget controlled by the Head of Estates rather than individual service Directors. In addition to regular agenda items the CMT focus sessions on topics that have included CMT priorities, Performance Management and Investors in People. Relationships between the Chief Executive, other members of the CMT and elected members are very good.
103. The Comhairle is demonstrating effective leadership within the Outer Hebrides Community Planning Partnership. There are good examples of the Comhairle working well together with other partners for positive outcomes. The alcohol and drugs partnership recently reported a significant drop in alcohol related crime due to early intervention. The Comhairle also led work with other partners to respond to Ministry of Defence proposed job cuts at Uist test range. The Comhairle is pursuing with partners the creation of a single public authority for the islands.

Continuous improvement

104. The Comhairle has a comprehensive corporate improvement plan incorporating previous Best Value Improvement plans, internal audit activity and improvement activity identified in business plans. The Audit & Scrutiny Committee monitors the progress of the corporate improvement plan. During 2009/10 the Comhairle started an annual programme of Best Value reviews with an officer dedicated to carrying them out. Staff have a good awareness of ongoing corporate improvement activity.
105. There has been steady progress in implementing the Comhairle's performance management system. Now the systems and processes are in place the Comhairle is beginning to monitor performance which will enable them to direct improvement activity more effectively. Reports from the system are currently available to members but are not yet considered and subject to scrutiny by all committees. Further comments on performance management arrangements are noted in **paragraphs 124 to 127**
106. The Education and Children's service has a long established performance management and improvement group. Other services (Social and Community and Technical Services) have developed



similar groups more recently. The groups consider items such as inspectorate improvement plans, budgets, outcomes and performance indicators.

Pace of change and capacity

107. Up until 2009 the pace of change for corporate projects and continuous improvement activity was slow. There has been a recent increase in the pace of change and this needs to be maintained. The Comhairle needs to assure itself that the corporate improvement plan is realistic and achievable given their approach to corporate development activity and current financial pressures.
108. An organisation wide restructuring has been ongoing since 2007. During this time a number of corporate developments have also been ongoing including the development of asset management and performance management systems. The timescale for these has been protracted, but there has been recent steady progress in the development of performance management and, to a lesser extent, asset management.
109. The Comhairle takes time to consider corporate development activity and believes that this achieves the desired outcome with fewer disruptions. The June 2010 corporate improvement plan monitoring report contains ambitious targets that may be difficult to achieve given this approach.
110. The Comhairle has no overarching corporate workforce strategy but has developed a strategy in response to future anticipated financial pressures. This strategy will reduce overall workforce numbers. A number of corporate developments and projects rely on key members of staff to drive and lead them. This presents risks in terms of resilience to current financial pressures and to corporate developments.

Progress against audit risks identified in the AIP

111. The AIP contains audit and scrutiny risk assessments prepared by a local area network with membership drawn from representatives of the major audit and scrutiny bodies, with direct experience and knowledge of Comhairle nan Eilean Siar. This was presented to members in June 2010, together with a response from the CMT highlighting how the Comhairle was managing the risks identified.
112. ***In addition to the issues highlighted at paragraph 100***, the AIP highlighted that the Comhairle's self-evaluation needed further development and that performance reports need to eliminate any uncertainties regarding the extent to which corporate objectives are met and outcomes reported. The AIP also highlighted the risks to the Comhairle if progress on corporate issues such as public performance reporting, risk management, asset management and working with NHS Eilean Siar are not progressed. These issues are addressed in more detail within this report.



113. The AIP raised specific concerns regarding recycling performance and the improvements required to the adoption and fostering service. Specific scrutiny in these areas will be carried out during 2010/11. We note that:

- The Comhairle reported an improvement in waste recycling in 2009/10, however, this is still low compared to all other councils in Scotland. Further details are noted at paragraphs 119 to 123.
- A review of the waste management services is currently under way and the Comhairle will report its outcome during 2010/11.
- A review of the adoption and fostering service has been carried out and proposals for the development of the service are being considered.

Progress on delivery of the Comhairle's best value improvement plan

114. Following the Best Value audit of Comhairle nan Eilean Siar in August 2006, the Comhairle approved a Best Value Improvement Plan (BVIP) in October 2006 setting out the 16 improvement agenda items from the report together with the planned actions and timescales for implementation. Since then, the improvement plan has been incorporated into performance management arrangements and progress reports to each Audit and Scrutiny Committee meeting.

115. Most of the improvement actions from the BVIP have either been implemented or revised to take account of changing circumstances. In 2010 the Comhairle decided that all "live" actions from the original plan be carried to a new Comhairle wide Improvement Plan. This is supplemented by relevant internal audit reports, updated via Interplan, and reported to the Audit & Scrutiny Committee on a regular basis.

116. Issues carried forward into the new improvement plan where progress is not within the timescale originally planned include improvements to public performance reporting; implementation of disability access audits; more robust staff development appraisals; development of departmental training plans; embedding of risk management; and improving workforce communications. The slow pace at which some of these actions are being implemented is covered earlier in this section.

117. The Comhairle is committed to a rolling programme of Best Value service reviews. The 2009/10 programme covered services provided by significant trading operations and trading operations (with a focus on the client/contractor split), external funding, and integrated transport. The integrated transport review has been extended to incorporate other agencies on the islands. The Building Maintenance service review has continued into 2010/11 to address how to reconfigure the service given the unsustainable losses incurred. In 2010/11 the program will cover mobile phones, waste management services, and care at home and care home services.



118. In view of the real term reductions in budgets from 2011/12 onwards, it is essential that these and subsequent service best value reviews are completed and solutions identified and addressed. These should include a strategic review of the way services are delivered with a view to identifying areas of service that could be carried out more effectively, efficiently, or not at all. These reviews should therefore complement the existing “service choices” decisions that members currently face regarding future provision of services. As each review is completed it is useful to identify any cross sector reviews to establish whether any good practice or savings can be applied to other services.

Action Plan No 6

Waste recycling

119. Waste recycling improved from 18.6% in 2008/09 to 24.1% in 2009/10. This is a commendable improvement, however, this is still well below the Scottish Government target of 40% by 2010 and is also the lowest in Scotland.

120. Unlike most Local Authority areas, there are no private sector refuse collection services for commercial wastes in the Western Isles. Therefore, all commercial bins are collected along with household waste on the same route. As a result the tonnage of municipal waste collected by the Comhairle per head of population is higher than any other Scottish Local Authority.

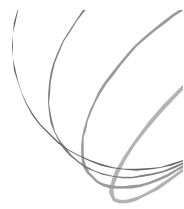
121. Due to the low level of manufacturing activity on the islands the market for recycled materials is very limited. This means that most recycled materials, or materials separated for recycling require to be transported to the mainland. This carries a cost per tonne in terms of both money and carbon footprint. This presents a conundrum to the Comhairle regarding any future investment required to improve recycling activity.

122. The Comhairle are currently considering options on how to address their low recycling. This includes considering the viability of incineration utilising pioneering technology; addressing the high level of contaminated waste that arrives at the recycling plant at Creed Park; and developing local PIs that address specific issues encountered by the Comhairle.

123. As noted in the AIP, we will continue to monitor steps taken by the Comhairle to improve its recycling performance.

Performance management

124. The introduction of the Interplan performance management system throughout the Comhairle in August 2009 has provided the Comhairle with a much sounder basis for recording and monitoring its performance. There are clear links between the targets and indicators, service business plans, the corporate plan and the SOA. The number of indicators recorded in 2010/11 is being reduced to those



that are most relevant and thus help make their monitoring more manageable. 70 of the indicators (50 local, 20 SPI) will be reported externally.

125. The Performance Monitoring Group meets regularly. This group consists of representatives from all departments. The group monitors the development of Interplan and how departments are using it. It resolves any issues regarding performance reporting and is addressing public performance reporting requirements, including the development of the community connect portal. The group has also ensured that appropriate training on the Interplan system is rolled out to relevant staff.
126. Service business plan monitoring reports were produced biannually in 2009/10. From 2010/11 the Comhairle intends to report PI performance and service business plans performance quarterly; and that these reports will be combined.
127. There has therefore been good progress recently regarding the development of the Interplan system and the development of performance reporting processes. However, there are still key challenges facing the Comhairle, some of which are currently being addressed. These include:
- Ensuring that all services accurately and regularly update actions, tasks and key performance indicators; thereby ensuring meaningful and reliable performance information is produced.
 - Ensuring targets set for all indicators are realistic, yet challenging. In some cases we noted that targets for 2009/10 were the same as the outcome for the previous year despite this placing it in the lowest quartile in Scotland.
 - Ensuring that senior officers within each department take ownership of the quality of performance management information submitted.
 - Ensuring that quarterly reports to members put performance into context regarding improvements achieved, reasons for not meeting targets, and, importantly, how does service performance reported impact on the Comhairle's corporate objectives.
 - Continuing to review the appropriateness of the indicators gathered and recorded in comparison to service and corporate objectives.
 - Ensuring that information is reported promptly to help influence the decision making process.

Action plan No 7

Overview of performance in 2009/10

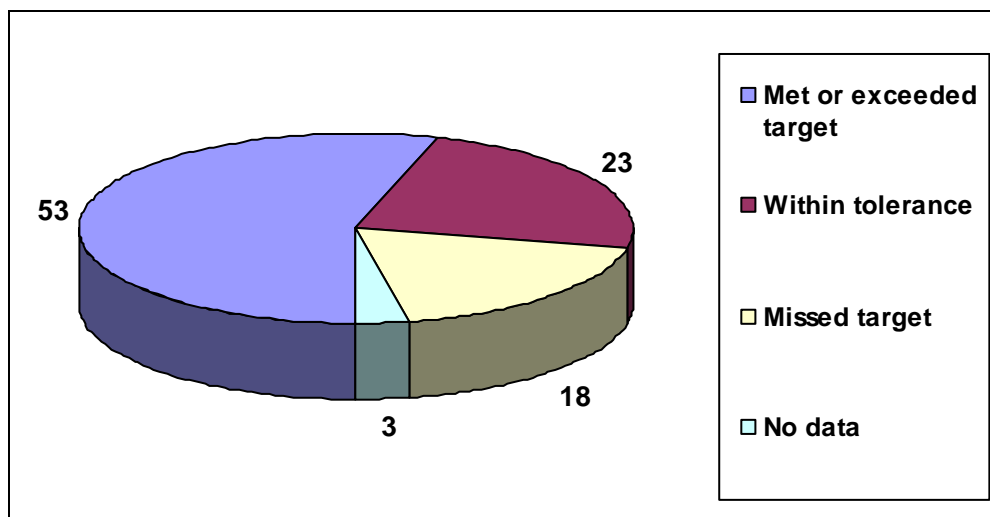
128. Exhibit 4 summarises progress in 2009/10 against 70 performance indicator targets (50 local PIs and 20 SPIs). Note that some of the 70 PIs have more than one component to them: these translate into 97 individual targets. These are measured and reported through the Interplan system. They are also



reported on the Comhairle's website and are distributed to a variety of locations throughout the islands.

Exhibit 4

Achievement of the Comhairle's targets 2009/10



129. Some of the measures of performance that **met or exceeded target** in 2009/10 were:

- The number of new business start ups.
- The number of home care hours provided to people age 65+.
- Attendance at pools and other indoor leisure facilities.
- The percentage of municipal waste collected that was recycled and composted.

130. The eighteen measures of performance that **missed their target** in 2009/10 include:

- Percentage of home care clients aged 65+ receiving a service during evenings/overnight.
- The number of arts and cultural events.
- The percentage of non-householder planning applications dealt with within two months.

Statutory performance indicators

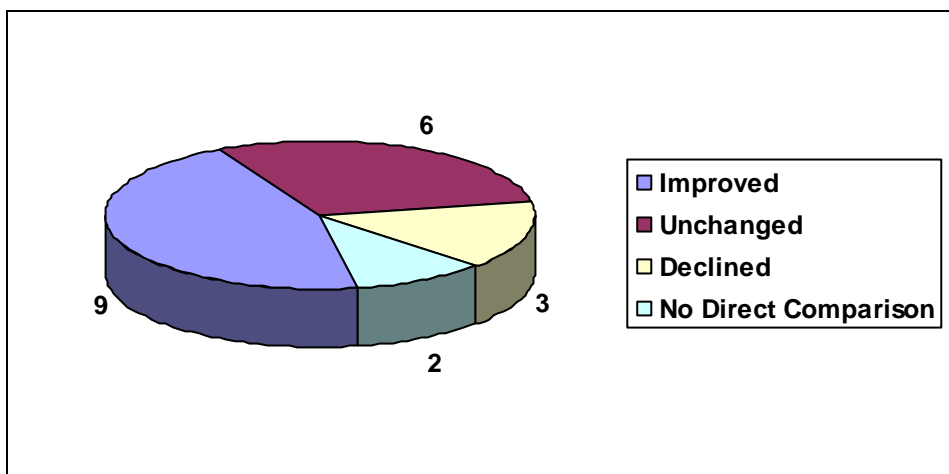
131. The Accounts Commission has significantly reduced the number and range of statutory performance indicators (SPIs) that all councils must report. This reflects the developing scrutiny arrangements, single outcome agreements and proposals for the next stage of the Best Value audit regime. The SPI information is published on the Comhairle's website and will be incorporated within the forthcoming PPR report.



132. In 2009/10, a total of 20 SPIs were required. These indicate an overall improvement of performance as summarised in Exhibit 5.

Exhibit 5

Improvements demonstrated by SPIs (Total 20 indicators)



133. The improved indicators include sickness absence levels, trading standards complaints dealt with within 14 days, and homelessness cases dealt with within guidelines. The three declines occurred in cost of collection of council tax, the cost of refuse collection and disposal and use of libraries.

134. Each year we review the reliability of the council's arrangements to prepare SPIs. Given the improvements to the Interplan system mentioned earlier, it was disappointing to note the poor quality of information retained in support of some of the SPIs and the fact that some back up evidence did not agree to the figures recorded in the Interplan system. This resulted in some of the indicators reported to management requiring to be changed. One indicator (attendance at Museums) was classified as unreliable and is included in the 'no direct comparator' grouping above.

Action Plan No 8

Risk Management

135. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance.

136. The current financial climate heightens the importance of good risk management procedures when making important decisions over service choices or reductions in service delivery.

137. The AIP identified that risk management is still not fully embedded throughout the Comhairle and the link with departmental plans and reports to members needs improvement. We also noted that there is



a lack of up to date risk registers, a lack of promoting and using best practice risk management techniques throughout the organisation and a lack of direction in the dissemination of the importance of risk management.

138. The Comhairle has begun to address this. A risk management officer has been appointed to support and co-ordinate risk management activity; risk awareness training has been provided to members/senior officers (albeit this was poorly attended by members); and training on the risk management module of Interplan has been provided to department risk co-ordinators.

139. The challenge now facing the Comhairle is to ensure that risk registers are kept up to date; ensure that progress in mitigating risks is monitored; utilise Interplan to demonstrate the integral part that risk management plays within service/business plans (from 2011/12); and demonstrate that major projects and decisions take due cognisance of identified risks.

Action Plan No 9

Outlook

140. The long term nature of many of the Comhairle's outcome targets, together with the ongoing development of the Interplan performance management system pose challenges to management. We recognise the challenges and we will continue to review the systems the Comhairle has in place to monitor progress and take remedial action.

141. The Accounts Commission approved a new approach to best value in July 2010. Details of our new approach can be found at www.audit-scotland.gov.uk/work/scrutiny/index.php. We plan to carry out a BV2 audit at Comhairle Nan Eilean Siar in 2011. It is important that the Comhairle can demonstrate outcomes in relation to its Corporate Plan objectives. In addition, the AIP highlights scrutiny activity planned by other scrutiny bodies over the next three years including:

- Care Commission – Follow up of the Fostering and Adoption service (2010/11).
- HMIE – review of ways in which the Education Psychology Service has continued to engage with stakeholders to deliver improved outcomes for children and young people in line with Education & Children's Service priorities (2011/12).
- On-going dialogue and follow up work carried out by link/district inspectors from HMIE, SWIA and the Scottish Housing Regulator.



Appendix A

External audit reports and audit opinions issued for 2009/10

Title of report or opinion	Date of issue	Date presented to Audit Panel or Audit & Scrutiny Committee (ASC)
Audit of housing and council tax benefit	December 2009	11 March 2010
Annual audit plan	29 January 2010	11 March 2010
Review of internal audit	29 January 2010	11 March 2010
Review of data handling follow up	18 March 2010	15 June 2010
Website overview follow up	18 March 2010	15 June 2010
NFI 2008/09 – Summary of Comhairle participation	31 March 2010	15 June 2010
Customer services project review	1 June 2010	15 June 2010
Shared risk assessment/ Assurance and improvement plan	29 June 2010	16 June 2010 (ASC)
Review of governance arrangements and main financial systems	5 July 2010	23 September 2010
Review of the opening IFRS balance sheet as at 31 March 2009	6 September 2010	23 September 2010
Report on financial statements to those charged with governance	17 September 2010	23 September 2010
Audit opinion on the 2009/10 financial statements	17 September 2010	23 September 2010



Appendix B: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	38-40	<p>Capital performance 2009/10 and beyond</p> <p>There was capital slippage, again, in 2009/10. The capital programme for 2010/11 has been revised downwards, and some projects for future years have been put on hold</p> <p><i>Risk: Important or strategic capital projects may not be progressed.</i></p>	<p>The Comhairle will review the capital programme as part of its budget setting process. This will take account of any changes in resources and the deliverability of specific projects. Monitoring reports on the Programme will continue to be considered by the Comhairle on a quarterly basis.</p>	Director of Finance and Corporate Resources	February 2011
2	53-56	<p>2011/2014 Budget</p> <p>Current forecasts present significant spending gaps from 2011/12 to 2014/15 which cannot be met from efficiencies alone.</p> <p><i>Risk: the achievement of spending reductions present a significant challenge to the Comhairle.</i></p>	<p>The Comhairle agreed its budget strategy in April 2010 and is in the process of consulting on budget options. Initial proposals will be considered at the December 2010 series of meetings. As well as considering savings for 2011/12 the process will identify initial opportunities for savings in subsequent years.</p>	Director of Finance and Corporate Resources	February 2011
3	57-60	<p>Western isles Schools Project (WISP)</p> <p>This major capital project requires to be carefully project managed to ensure cost overruns do not occur.</p> <p><i>Risk: project cost overruns could severely impact revenue budgets at a time when the Comhairle are facing reduction in central government funding.</i></p>	<p>The Chief Executive is reviewing the governance and project management arrangements for the Western Isles Schools Project and following a Members Seminar will present recommendations to the Comhairle in December 2010.</p>	Chief Executive	December 2010



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	61-62	<p>Asset management</p> <p>The current asset management strategy does not bring existing plans and policies into a coherent framework; nor is it clearly linked to corporate objectives.</p> <p><i>Risk: efficiencies from good asset management practices may not be attained; and asset management strategy may not be aligned to the capital programme.</i></p>	<p>A report to the October Committee series detailed a structure of focus groups coordinated by an Asset Management Working Group (AMWG), which would be Chaired by the Chief Executive. The focus group structure covers all aspects of asset/facilities management and is linked to the Asset Management Improvement Plan which was approved in principle at the August Committee series. It is proposed that the AMWG meet in the next month to agree the remit and membership of the focus groups and prepare an update report to the December Committee series.</p>	Head of Estates	December 2010
5	66-71	<p>Procurement</p> <p>The Comhairle scored very lowly and was assessed as non-conformant in a recent assessment of procurement practices by Scotland Excel.</p> <p><i>Risk: the Comhairle may not attain potential procurement savings.</i></p>	<p>An action plan is in place to systematically improve conformance. This is targeted at the areas identified as priority in the Comhairle's Procurement Strategy.</p> <p>An updated action plan will be produced following the 2010 Procurement Capability Assessment.</p>	Head of Exchequer Services	February 2011
6	117-118	<p>Best Value Service Reviews</p> <p>It is not clear whether all of best value service reviews completed/in progress are identifying savings that could be applied to other services; or which could impact the service choices being presented to members to address the 2011/2014 budget funding gap.</p> <p><i>Risk: the existing best value service reviews may not achieve all possible savings.</i></p>	<p>Reviews are selected in consultation with key officers, CMT and Members. Reviews are proactive and often focus on areas of high value/cost, linked to attaining the Comhairle's corporate objectives and to address future service provision issues. Each review's scope details each strategic objective of the review.</p> <p>Each year there is a provision for an additional review to address a reactive issue that arises throughout the year which is rated as a high priority on the risk register.</p> <p>It is proposed that an additional section be added into each review to highlight any potential savings, efficiencies or areas of good practice which could be applied to other services.</p>	Head of Human Resources	March 2011



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
7	124-127	<p>Performance Management</p> <p>Despite good progress, there are still challenges facing the Comhairle to ensure that the performance management system is fully embedded and utilised. A culture of ownership and the need for focused, accurate and timely information for key decision making must be fostered.</p> <p><i>Risk: the Interplan system may not be fully utilised, targets may be unchallenging or outdated, and improvements in service delivery may not be achieved.</i></p>	Corporate Management Team has agreed guidelines and a timetable for the preparation of business plans and performance measures for 2011/12. Progress will be monitored through the interdepartmental Performance Monitoring Group, the minutes of which are reported to the Corporate Management Team.	Head of Executive Office	February 2011
8	131-134	<p>Performance indicators</p> <p>Back up information in support of performance indicators did not agree to information recorded on the Interplan system.</p> <p><i>Risk: Information presented to the public could be inaccurate; and policy decisions taken on the basis of performance information could be flawed.</i></p>	The Chief Executive has written to all Directors requiring them to ensure effective procedures are in place to provide the necessary information.	Chief Executive	Complete
9	135-139	<p>Risk management</p> <p>Risk management is still not embedded throughout the Comhairle. Risk registers are not up to date and the link with department plans needs to be improved. Good risk management procedures take on greater importance when decisions regarding future service provision are being taken in response to the financial climate.</p> <p><i>Risk: significant risks facing the Comhairle may not be fully identified or addressed throughout the organisation. This could result in important strategic or departmental decisions being taken without fully understanding all of the risks or options.</i></p>	<p>The Strategic Risk Management Group has agreed a timetable for the completion of departmental risk registers which ties in with the business plan preparation so that necessary actions to address risk form part of departmental targets.</p> <p>The Comhairle's strategic risk register is being reviewed and will be considered at the December 2010 series of meetings.</p>	Director of Finance and Corporate Resources	February 2011