



# Shetland Islands Council

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## MINUTE

## A & B

**Audit and Scrutiny Committee**  
**Council Chamber, Town Hall, Lerwick**  
**Wednesday 8 October 2008 at 10am**

**Present:**

F B Grains	A T Doull
A G L Duncan	A J Hughson
C H J Miller	G Robinson
J W G Wills	

**Apologies:**

R S Henderson

**In attendance (Officers):**

H Sutherland, Executive Director – Education and Social Care  
I Halcrow, Head of Roads  
G Johnston, Head of Finance  
J R Smith, Head of Organisational Development  
D Williamson, Head of Building Services  
J Emptage, Cleansing Service Manager  
S Pearson, Safety and Risk Manager  
E Perring, Transport Strategy Officer  
P Peterson, Performance Management Co-ordinator  
A Sutherland, Policy and Development Assistant  
D Smith, Manager – Islesburgh Complex  
A Cogle, Service Manager – Administration

**Chairperson**

Mrs F B Grains, Chairperson of the Committee, presided.

**Circular**

The circular calling the meeting was held as read.

**Declarations of Interest**

None.

## Minute

The minute of the meeting held on 27 August 2008, was confirmed on the motion of Mrs F B Grains, seconded by Mr A Duncan.

Updates were provided on the following matters, which had been raised at the last meeting for action:

### Audit Committee Training

Committee noted that this training had been extremely useful and that the trainers were to be invited to Shetland. The Committee agreed that an invitation to the training should be extended to all Councillors and Heads of Service.

### Toilet Signs, Grutness Pier

The Committee noted that signs for alternative disabled toilet facilities at Grutness Pier were now in place.

### Street Cleaning – Weekend Service

The Committee noted that cleaning of Commercial Street was undertaken on Saturday and Sunday mornings. It was further noted that whilst savings had been made in reducing the number of staff involved in this particular weekend service, the level of service had not reduced.

### Absence/Sickness Rates

The Committee noted that a report on absence/sickness rates would be reported to the Committee by the Human Resources Manager, at its meeting in November.

### Experimental Ferry Shuttle Service

The Committee noted that a report was being worked on and would be presented by the Ferry Services Manager to a future meeting of the Inter Island Ferries Board.

### Waste Heat from Lerwick Power Station

The Committee noted that a report on this matter was also being worked on and would be presented by the Waste Services Manager to a future meeting of the Infrastructure Committee.

### Conduct of Meetings

The Committee noted that the Service Manager – Administration would discuss this matter further with Dr Wills, and report to a future meeting of the Council.

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31/08	<p><b><u>Strategic Risk Register – Economic Risks</u></b></p> <p>The Committee considered a report by the Service Manager – Safety and Risk (Appendix 1).</p> <p>With regard to a question from Mr A Duncan regarding computerisation of the insurance and risk management system, the Service Manager – Safety and Risk advised that overall good progress was being made on its installation and implementation, and appropriate training was being organised.</p> <p>Mrs C Miller referred to recent issues regarding the current financial climate, and asked what the Council's strategy was for its reserves and Pension Fund investments. The Head of Finance said the situation at present was pretty unprecedented in world financial markets, but the strategy was the same as it had always been, which was to continue to liaise with the Council's financial advisers and fund managers to see whether any particular action is appropriate. He said the judgement so far had been that the Council may have to 'ride out this particular storm', which had been a strategy that had served</p>	
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	<p>the Council well during previous, and worse, financial collapse.</p> <p>Mrs Miller asked if there would be any need for the Council to consider liquidating any of its assets. The Head of Finance said that Fund Managers were selling and buying on a day to day basis, and these matters were all being carefully monitored, but he would expect some liquidation to be part of that activity.</p> <p>Mrs Miller went on to say that her concern was the Council policy regarding the Council's Reserves not dropping below £250 million. The Head of Finance said that policy in that area related to balance sheet valuation as at 31 March. He said that the balance at 31 March is the combination of investments at cost plus the value of lending of the reserves to the HRA. The Head of Finance said that as at 31 March 2008 the balance was £288m, and the expectation was that it would still be above the £250 million policy limit by 31 March 2009. He went on to say that last week's report had the reserves valued at £250.1m, however that was a market valuation of part of the reserves, and was not a measure of the success or failure of policy.</p> <p>Mr A Hughson said he would be concerned for the bigger capital projects, if the reserves were to go down any further. He went on to ask when consideration would have to be given to the capital programme in the event of the reserves decreasing.</p> <p>The Head of Finance said that current policy required the Council to review it at the end of the financial year. He said that final outturn figures would be available by May/June 2009. However, the Head of Finance said he believed the Council's spending plans, projections and financial planning were for the longer term, and were based on long term returns on investments. He said that this was the right approach for the Council to take, as to do anything drastic in the short term would be to risk destabilising the Shetland economy at a time of general fragility. The Head of Finance said the Council had some degree of duty to provide a bit of stability. He went on to say, in response to further questions, that budgets should not be based upon current circumstances, but would be reflected upon next year once the outturn figures were available, and then to consider whether adjustment to the long term plans were appropriate. In this regard, he said it was important for the Council to take a measured approach and take a long term view, rather make than a 'knee-jerk' reaction.</p> <p>Dr J W G Wills agreed that a 'knee-jerk' reaction was not the correct reaction, but he was concerned as to the long term effects on both revenue and capital funds. Dr Wills said that,</p>	

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	<p>in his view, it was inconceivable that the current situation would not affect next year's budget setting exercise. He said that the Council could not go on with its current spending plans if its reserves were not contributing what they should have been. He went on to ask what proportion of the Capital Fund, Reserve Fund and Repair and Renewal Funds was actually held in shares. He suggested that 50% of the Shetland Charitable Trust funds were overexposed in this way, and said that 25% exposure to equities could be preferable, as whilst this would result in a lower income, it would reduce exposure. Dr Wills also asked what was meant by 'broker lending risk'.</p> <p>The Head of Finance advised that, from time to time, and given the nature of the Council's cashflow, available amounts of cash were placed in a way which ensured best advantage for the Council. He said that very often this meant holding cash in a Bank of Scotland account that pays interest, but on occasions lending to other institutions would give better returns. He explained that such lendings were done through brokers to reliable and quality institutions, such as other local authorities or "AAA rated" banks. In terms of the Council's long term planning and its policy framework, the Head of Finance said he did not believe the value of reserves would be below £250m by the end of March 2009.</p> <p>Reverting back to the detail in the report, the Service Manager – Safety and Risk advised that the grading of these risks would be reported to the next meeting of the Council.</p> <p>Mrs C Miller moved that the Committee approve the recommendations in the report, but that (1) a comparison report be prepared for 6 months' time; and (2) a report on the full financial risks also be presented to the Council in 6 months' time. Mr A Duncan seconded, and the Committee agreed.</p>	
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32/08	<p><b><u>Private Use of Council Vehicles</u></b></p> <p>The Committee considered a report by the Performance Management Co-ordinator (Appendix 2).</p> <p>The Performance Management Co-ordinator summarised the terms of the report, and drew attention to the recommended proposals in Section 5.</p> <p>Mrs F B Grains said that staff had collected a lot of data, and she was glad to see that a number of action points had been taken forward.</p> <p><i>(Dr Wills left the meeting.)</i></p> <p>Mrs C Miller referred to paragraph 5.3, and suggested that the</p>	
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target for reducing derv usage should be extended to the next 4 years so that this would bring a continuation into the next Council.

Mrs Miller also referred to paragraph 5.5 and asked what responsibilities the Fleet Management Unit already had, and what was required to increase that responsibility. She said it seemed as though there was a role here for the Fleet Management Unit to ensure that all services were looking to procure more efficient vehicles.

The Performance Management Co-ordinator said that discussions did take place with the Unit, but agreed that there could be a case made for strengthening the role of the central point during procurement exercises.

The Head of Roads said that, from his perspective, if services did have a difference of opinion with the Fleet Management Unit the mechanism would have been to accede the matter to the Executive Director for a decision after hearing both cases. The Head of Roads said he did not think that matters had ever come to that, as matters had always been in agreement with the Fleet Management Unit.

The Performance Management Co-ordinator agreed that there was a need for services to look at the whole specification, and not just the budgetary element, and said that this could be built into the remit of the Fleet Management Unit.

*(Dr J W G Wills returned to the meeting.)*

After some detailed discussion regarding the specific savings that could be made in relation to size and number of vehicles, the Head of Roads said that the recommended 5% reduction in the use of derv would be a challenging commitment for the service, but Members were happy to this target saving would be monitored through the performance review meetings.

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Mr A Doull moved the recommendations in the report, plus the suggestions made by Mrs Miller, subject also to paragraph 5.5 being amended to read "The Fleet Management Unit to be given responsibility to engage at an early stage with services seeking to procure new vehicles being sought are necessary for service delivery, fit for purpose, and more fuel efficient." Mrs Miller said this would ensure that the Fleet Management Unit would have the responsibility for decision making in relation to the purchase of vehicles.

With regard to efficiency savings, Mr A Duncan asked if there was any way in which the Council could reduce the number of its vehicles or if there was any advantage in keeping them for a time longer. The Head of Roads explained that these were matters that were always being considered, and in fact over the past 2/3 years the number of lorries being operated by the Roads Service had been reduced by making greater use of the private sector. He said it was a matter of balance between keeping a vehicle longer and incurring rising maintenance costs against the capital costs of a new purchase. He said that the advice of the Fleet Management Unit would be sought on those sorts of matters.

Mr A Duncan referred to paragraph 3.3.4 of the report and asked whether the duties of this post were covered when the postholder was on holiday. The Cleansing Services Manager confirmed that the post was covered by another trained member of staff during holiday periods.

Mr A Duncan suggested that this was a service where there was potential for savings to be made, in that the duties could be incorporated within another post. He said he had no wish to see anyone unemployed, but suggested they could be redeployed. The Service Manager – Safety and Risk provided the Committee with background information to the requirement for skips to be checked on a regular basis, and for proper checks and corrective action to be taken when necessary. She indicated that there had been some serious incidents relating to hazardous materials being put into community skips, and the Council had to do whatever was reasonably practical to mitigate those types of incidents recurring. She added that between 1999 and 2004, 228 items had been taken out of community skips that should not have been there and were a danger to the public. She said that consideration could be given to providing this service in a more financially viable way, and offered to consider this matter further along with the Cleansing Service Manager, and present a report to the Infrastructure Committee on this matter. Members agreed.

Mrs C Miller asked if central refuse collection points could be provided in rural areas similar to what was provided in Lerwick. The Cleansing Service Manager advised that many of the collection points in Lerwick had been provided by the Housing Service, but there were no plans to provide central refuse collection points in the rural areas. He added that the Council had an obligation to collect along the public road, and in some cases this did mean travelling a distance to single dwellings. He added that in those instances people were being asked to bring their refuse to the nearest main road for collection, but it was accepted that the Council had no means of insisting on this, and was obliged to collect along the public road.

Mr G Robinson said that the liability for any accident occurring

	<p>with the community skips lay with the Council. He agreed that a structured method of surveying the content of the skips on a regular basis was required, and he therefore favoured the status quo. The Cleansing Service Manager said he appreciated that there were perhaps flaws with the service, but it was being managed in the best way possible. He said that the Council also offered a collection service for hazardous materials and it was the same postholder that provided this and other services, all of which were valuable. The Service Manager Safety and Risk advised that proper recording satisfied the requirements of the Health and Safety Executive and the Council's insurers, and therefore on a financial and moral level the Council was doing everything possible to ensure the safety of the public.</p> <p>The Committee agreed to accept the recommendations in the report, subject to the amendments to paragraph 5.5 detailed above, and also that (a) a follow up report be provided in 6 months time, instead of one year and (b) a report on the options for the community skip service be presented to the Infrastructure Committee with a view to achieving a financially viable alternative to the current service. This was agreed on the motion of Mr A Duncan, seconded by Dr J Wills.</p>	
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33/08	<p><b><u>Islesburgh Complex</u></b></p> <p>The Committee considered a report by the Sport and Leisure Services Manager (Appendix 3).</p> <p>Mrs F B Grains referred to Appendix A of the report, and asked for more information relating to the costs associated with "Hired and/or Contracted Services" and "Refuse Collection Contractor". JE confirmed that the refuse collection costs related to the provision of skips at Islesburgh Community Centre and at Islesburgh House. The Executive Director advised that she would provide Mrs Grains with the detailed information after the meeting.</p> <p>In response to a question from Mr A Duncan, the Executive Director confirmed that the compensation payment amounting to over £30k was in relation to equal pay compensation, as referred to in paragraph 5.4 of the report.</p> <p>Mrs C Miller referred to the £66k deficit relating to the Central Cafe. She expressed concern that such catering establishments were in competition with the private sector, and the Council was subsidising this cafe to the detriment of the private sector. Mrs Miller asked what possibility there was of the cafe breaking even.</p> <p>The Executive Director advised that a £66k deficit was a significant amount to make up through charges to the users. She said that, predominantly, the deficit was made up of staffing costs involved with the running of the service, although</p>	
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Single Status would have an impact on the staffing costs. The Executive Director advised that the Economic Development Unit were looking into the wider provision of cafe services and their impact.

Mrs C Miller said she thought the Council should not be seen to be subsidising services that could be done by the private sector. She said she would like to see a report on whether this particular service could break even, or go out to tender to the private sector. The Executive Director agreed to discuss the matter with the Head of Economic Development, and bring back a report to the appropriate forum. She added it was important not to duplicate any work that was already in progress.

Mr A Duncan said he understood the profitability of the cafe was an important issue, and in many cases the Council should not be subsidising services that could be carried out by the private sector. However, Mr Duncan said that the cafe provided a very valuable service to the community, particularly young people, and said he would rather see this provision being subsidised as opposed to the adverse alternatives available to young people. Mr Duncan congratulated the Islesburgh Manager and his staff on reducing overall expenditure in many other ways.

Dr J Wills agreed with Mr Duncan, and said that it was clear from the report that Islesburgh was used by a wide variety of community groups, and there were also some others who were not listed in the appendix. Dr Wills said that the cafe was also used by a lot of visitors to Shetland, and he agreed that it was an investment worth making. He added his congratulations to management.

Mr G Robinson said that if operation of the cafe was put out to tender, anybody taking it on would still have to try and claw back the £60k deficit, as well as trying to make a profit, and it was unlikely anyone would be able to succeed in making such a profit.

Mr Robinson went on to ask for an explanation as to the high operating costs relating to general operation of the complex, such as the increase over budget in relation to computer licensing. The Islesburgh Manager advised that that particular overspend had arisen due to the timing of two payments taking place in one financial year. The Executive Director added that a change of management structure had also resulted in budget variances, although these budgets were now being reviewed year on year.

Mrs C Miller said that there was no doubt Islesburgh was an exceptionally well-run facility. She asked what the reason was for the scaffolding, and what was being decided in relation to the squash courts. The Islesburgh Manager confirmed that the

	<p>scaffolding was being used for the painting of window frames, to touch up some of the pointing, and to make some repairs. It had been agreed with Building Services that all these maintenance requirements would be carried out at the same time to avoid any disruption. Regarding the squash courts, the Executive Director confirmed that some ideas about its future use was being considered, and would form part of a report to the next Services Committee.</p> <p>The Committee noted the information contained in the report, on the motion of Mr G Robinson, seconded by Mr A Duncan.</p>	
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34/08	<p><b><u>Statutory Performance Indicators 2007/08</u></b></p> <p>The Committee noted a report by the Head of Organisational Development (Appendix 4).</p> <p>After hearing the Head of Organisational Development summarise the terms of the report, Mr A Duncan asked if more detail could be provided on the indicators for Civil Liability Claims, which appeared to indicate a dramatic rise in comparison to previous years. The Safety and Risk Manager confirmed that there had not been a dramatic rise in claims but the rise was due to problems associated with data collection. She confirmed that ALARM (Assoc. of Local Authority Risk Managers) was taking this matter up with Audit Scotland, as it was a national problem. She added that the Service Performance Report would provide the correct figures. In response to a further question from Dr J Wills, the Safety and Risk Manager confirmed that the outturn figure for the value of claims was also incomplete, but that the actual amount had been contained in an earlier report to the Committee.</p> <p>The Committee noted that more detailed information would be available at the six-month performance review. It was agreed that the indicators as to whether performance was better, worse, or stayed the same would be double-checked before re-publication. The Head of Organisational Development agreed that many of the indicators were obscure and were not good indicators, but that better information would be available at the performance review sessions.</p>	
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35/08	<p><b><u>Capital Project Management</u></b></p> <p>The Committee considered a report by the Head of Finance (Appendix 5).</p> <p>The Head of Finance said the purpose of his report was to stimulate discussion of what he saw as being the weaknesses in the Council in terms of its policy framework, and relating to project choice, monitoring and decision making. He said the report was offering Members and officers the chance to discuss these matters and, if there was an agreed analysis, to consider</p>	
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how to move forward, perhaps with the help of a further report if the Committee were of that view.

Mr A Duncan said that this report should have been presented many years ago. He said that, in his view, fault lay with the previous councillors. He said this Council was trying to grasp things and it felt as though they were taking over a dead weight. Mr Duncan said it was councillors that had been gutless and had not taken decisions where it was necessary.

Mrs F B Grains said she totally disagreed with Mr Duncan. She said that Council frequently disregarded its own decisions and kept changing them. She said this Council was no better than previous Councils at sticking to decisions, and in particular she referred to the new Anderson High School project which was still going on after 20 years. Mrs Grains said that numerous decisions had been made with regard to designs and sites. She said the Council were now faced with an expensive design that appeared to have been cobbled together, crammed into a corner of the current site, and was a credit to nobody. Mrs Grains said this project was not the only project which had gone on for years, and referred to the Haggersta Road project which had also been going on for over 20 years. She said it seemed to her that Councillors just could not make decisions and stick to them.

Mrs C Miller said she believed that the responsibility for the current situation starts and stops with Councillors. She said this was an excellent report and said that it should be regarded as a starting point and hoped that the Head of Finance would come forward with more reports and get other officers' input in to this and find a way forward. She said that there was a lack of clear policy and guidelines for officers, and in particular the corporate plan was not budgeted for. Mrs Miller said that this particular Council was now a year wiser, and it should take on this advice and consider how to move forward.

Mr G Robinson said that he disagreed with Mr Duncan in that he did not think that this Council was entirely blameless. Regarding the AHS project, Mr Robinson said that he had taken a motion to the Council last year about this matter, because he was not happy with the direction it was taking. He said it was not a decision of this Council to move the AHS proposal away from the site, but the contractor's. Since that time, Mr Robinson said there had been another two tries to move the site. He said that the Convener had assured him earlier that to move to another site would set back the project by another 18 months, but if the site had been agreed at the earlier date, the School would be 18 months away from being finished. Mr Robinson reiterated his view that this Council was not entirely blameless, and said he fully supported another report from the Head of Finance on the way forward.

Dr J Wills referred to paragraph 3.1 of the report, and to the statement that almost two thirds of Scottish projects were late or over budget. He said that this report from the Head of Finance was a devastating report, although the analysis within it was sound, and he could not disagree with its findings and the recommendations were sensible. Dr Wills went on to say that there was nothing within the conclusions that was not already best practice in public sector capital project management, and asked why the Council was not already following this best practice model. He said the reason was clearly political. He added that many of the savings already made were negated by abortive projects. Dr Wills said he was not criticising officers, but the leadership of this Council.

Regarding the Bressay Bridge project, Dr Wills said this had cost the Council £1.9m in addition to the claim by Lerwick Port Authority which would be at least £4.5m. He said that claim was due to the unwise use of emergency powers to take legal action against Lerwick Port Authority. Moving on to the AHS project, Dr Wills said that £2m had been wasted on going back to the drawing board on this project for the fourth time. Regarding the Mareel, Dr Wills said the cost of this to the Council had also risen from £3.9m up to £8.4m and this was due to a serial incompetence. He added that at this Committee's cross examination of head officials, Dr Wills said that provided, to a degree, helped Members and the public to understand what was going on. However, he said that elected office bearers had to make themselves more accountable. In this regard, Dr Wills proposed that the Convener should be invited to the Audit and Scrutiny Committee to discuss this report with Members and officers.

Dr Wills went on to say that the financial losses caused by these scenarios should be drawn to the attention of the external auditors, and in this regard he would be writing to Audit Scotland. He added that he would also be inviting them to recommend what would be best practice and in this regard Dr Wills said that he felt that best practice in the future for capital project management should ensure the following principles:

1. The project will be already defined in the brief.
2. All options will be examined in light of factual evidence and best available expert advice.
3. Councillors should choose one option and stick to it.
4. Early decision should be made on the site (if a site is part of the project).
5. An indicative budget and spending cap must be set at

this stage.

6. A detailed brief is agreed before Councillors authorise implementation.
7. Committees monitor projects at each stage and as problems arise.
8. Committees review all projects once complete, and make recommendations for future project management.

Mrs Grains said she was interested in the monitoring side, and said that at Committee she would like to see more details of the financial implications as projects progressed, such as the budget, the contract price, and the outturn figures. She said that projects used to report on these matters regularly, and every month a monitoring report on every project was provided to Members, and she was of the view that this practice should be re-introduced.

*(Mr A Hughson left the meeting.)*

Referring to the conclusions in the report, and in particular to paragraph 6.2 and the Education blueprint, Mrs C Miller said that this would only be reported in March, but already the Council was being asked to set its capital programme and prioritise spending, without yet having formulated the process yet. She said she felt that the current process was the wrong way round, and asked for the Head of Finance to provide direction on that.

The Head of Finance said that no-one would want to be starting off from this point, but it had to be looked at, and it could not be stopped until there was a policy framework in place and that would lead to a necessary review of the programme. In this regard, the Head of Finance said decisions would have to be taken on the various education matters that would be decided on the basis of the blueprint for Education, unless the Council decided otherwise. He said that this would proceed, and if necessary the Council would have to cut resources to other areas. The Head of Finance said there was no complete and perfect answer as to how the review should be done, but a start had to be made. He said he was aware that the report was only his own expressions of what needed to happen, and suggested that other officers' views should be sought.

After further discussion, Mr G Robinson moved that the Committee approve the recommendations in the report, plus a special meeting of the Committee be called with senior officers to reconsider the report, and to take account of comments by Dr Wills. He added that the Convener should be invited to this special meeting. Regarding the AHS project, Mr G Robinson said this project was the most expensive and in this regard he

	<p>also moved that the AHS Project Team be called in to attend the next scheduled meeting of the Committee.</p> <p>Mr A Duncan seconded, and the Committee agreed.</p>	
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The meeting concluded at 12.20 p.m.

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F B Grains  
Chairperson