Shetland
Islands Council

REPORT

To: **Audit and Scrutiny Committee**　　　　　　　**17 June 2009**
　　　Shetland Islands Council　　　　　　　　　**1 July 2009**

From: **Performance Management Co-ordinator**

CE-29-F

Annual Audit and Scrutiny Committee activity report

1　Introduction

1.1　When the original Scrutiny Committee was established back in 2006, a requirement was established for an annual report to be produced, outlining the areas that the Committee had covered during the past 12 months. This report fulfils that requirement.

2　Links to Corporate Priorities

2.1　This report does not directly contribute to the priority areas set out in the Council's Corporate Plan 2008-11. However, the audit and scrutiny function is an important part of ensuring that the Council is challenging itself and delivering continuous improvement.

3　Work carried out

3.1　The following section lists all items from the Committee's agendas, and highlights a few to show the impact of Audit and Scrutiny involvement.

August 2008
- Risk Health Checks;
- Environmental Management System: Update on Baseline Audit of Council Services;
- Audit and Scrutiny Committee Work Programme 2008/09;
- Annual Efficiency Statement;

- Housing Voids Investigation - Update Report;
  The report showed that, since this item was last considered at the Audit and Scrutiny Committee in 2006, the Housing Service had doubled its performance in terms of high demand houses being re-let in 4 weeks, to 47%.

October 2008
- Strategic Risk Register - Economic Risks;
- Costs of the Islesburgh Complex;
- Statutory Performance Indicators - 2007/08;
- Capital Project Management;

- Private Use of Council Vehicles;
  Following on from the Committee's investigation into Council vehicle usage, the following recommendations were endorsed by Council:

  - Internal Audit to include verification of vehicle usage data, as part of their ongoing Audit Plan. This would allow more detailed sampling to verify the data gathered from services and assist managers in the efficient management of their vehicle fleet.

  - The Fleet Management Unit to ensure that the Council is not increasing the overall size of its vehicle fleet and seeks to reduce this, wherever possible, during procurement exercises.

  - A target of 5% be set for reducing Council vehicle derv usage each year for the next 3 years.

  - A vehicle derv usage indicator to be added to service performance management reports. This will allow Members the chance to monitor progress against the 5% target at the quarterly performance review sessions. (starting in January 2009).

  - 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.

November 2008
- Abstract of Accounts 2007/08 and report by the Auditor;
- Internal Audit - Six-monthly Internal Audit Progress Report 2008/09;
- Capital Project Management: The Way Forward;

- Audit and Scrutiny Committee Investigation - Gender Balance May 2008;
  Following on from the discussion of this report, the HR Service have confirmed that employee exit interviews are now taking place on a more systematic basis across Council services.

February 2009
- Study into the efficient use of Council Buildings;
- 2007-08 Statutory Performance Indicators - Comparative Analysis;
- Capital Project Management Best Practice: First Progress Report;

- Sickness Absence Data;

According to 2007-08 Statutory Performance data, the Council had the worst overall sickness absence record of any Scottish local authority. The Committee endorsed the action being taken by Human Resources to address this (having earlier discussed this at the April 2008 meeting). As at the end of March 2009, the Council's overall sickness rate had reduced from 6.4% to 5.8%.

March 2009
- Asset Management - Performance Indicators;

May 2009
- Scottish Government Audit of Shetland Islands Council's Building Standards Service on 23 and 24 February 2009;
- Overtime Expenditure 2008/09;
- Abstract of Accounts and International Financial Reporting Standards;
- Audit Scotland Annual Audit Plan;
- Discussion Paper on "Governance" and Shetland Islands Council;
- Corporate Plan Progress Report 2008/09;
- Shetland's Single Outcome Agreement – 2009;
- The Impact of the Race Equality Duty on Councils;

- Capital Project Management: Best Practice Methodology;
  Following the consideration of three reports from the Head of Finance and a special meeting with the Convener and senior management, the Committee endorsed a report from the Head of Finance Services outlining a best practice approach to future capital project management.

3.2   Members may wish to reflect on the performance of the Audit and Scrutiny Committee over the past year and make comment on any of the items listed above.

5.   Financial Implications

5.1   There are no financial implications arising from this report.

6.   Policy and Delegated Authority

6.1   As described in Section 10 of the Council's Scheme of Delegations, the remit of the Audit and Scrutiny Committee includes reviewing Council performance information. However, as this report is reviewing the performance of the Audit and Scrutiny Committee, it is being referred to the Council for consideration.

7.   Conclusion

7.1   This report has summarised the key areas of Audit and Scrutiny Committee activity during the past year.

8.   Recommendations

8.1   I recommend that the Committee discuss the information in this report before it is then passed on to the full Council for further consideration.

June 2009   CE-29-F

Shetland
Islands Council

REPORT

To: **Audit & Scrutiny Committee**   **17 June 2009**

From: **Service Manager – Internal Audit**

INTERNAL AUDIT – Annual Report 2008/09 and Operational Plan 2009/10
Report No: F-022-F

1.   Introduction and Key Decisions

1.1   This report is being presented to the Audit & Scrutiny Committee, as one of the Committee's roles is to act as the Audit Committee of Shetland Islands Council.

1.2   This report presents Members with an Annual Report (Appendix 1) of the activity of the Internal Audit Section for 2008/09. It also presents the Operational Plan (Appendix 2) for 2009/10. The Operational Plan is derived from the 6 Year Strategic Audit Plan initially approved by Executive Committee on 24 June 2003 and reviewed annually by Internal Audit.

1.3   The Annual Report is for noting. Members are also asked to note the planned coverage for 2009/10 as set out in the Operational Plan. This plan was presented to Executive Management Team. A six monthly report will be presented to the Audit & Scrutiny Committee to monitor progress against the Operational Plan.

2.   Link to Council Priorities

2.1   Although not directly contributing to a specific corporate priority, this report, which provides Members with an update on audit activity, contributes to improving the arrangements for Member engagement in monitoring Council performance.

3. Background

3.1 The following are extracts from the CIPFA Code of Practice for Internal Audit in Local Government:

3.1.1 The Head of Internal Audit must produce an audit strategy. The strategy should be approved, but not directed, by the audit committee.

3.1.2 The Head of Internal Audit should prepare a risk-based audit plan designed to implement the audit strategy.

3.2 The purpose of Internal Audit, as defined in the Audit Charter attached as Appendix 3, is to reassure Council Members that:

- there is adequate monitoring of the internal control environment throughout Council operations so that serious breakdowns are avoided, and

- the Council's system of internal control is both sound and effective so that its assets are safeguarded and its performance reporting can be accepted with confidence.

3.3 The role of the Audit Committee was approved by Audit & Scrutiny Committee on 31 August 2007.

4. Annual Report 2008/09

4.1 Appendix 1 details the Internal Audit activity for 2008/09, with a brief description of key audit issues identified since the six monthly progress report to Audit & Scrutiny Committee on 19 November 2008. Full copies of Internal Audit reports, the strategic plan and the annual plan can be found on Internal Audit's site on the Council Intranet. (http://www.shetland.gov.uk/internalaudit/)

4.2 Managers have generally undertaken to rectify issues through the agreed Action Plans to a satisfactory degree. From time to time the Audit & Scrutiny Committee may be asked for support when management are slow to respond to reports. It should be noted that tardy responses are the exception rather than the rule and will no longer be accepted.

4.3 Within service areas subject to Internal Audit review, and assuming implementation of the recommendations made, reasonable assurance can be placed upon the controls in operation. Follow up audits will be performed during this financial year to ascertain whether recommendations have indeed been implemented in accordance with action plans.

4.4 The follow up audit of Schools noted a number of issues remain outstanding or are not fully addressed including the three key audit issues identified. In particular concerns still exist in relation to

disclosures. Existing employees are ignoring requests to complete disclosure applications. This requires to be addressed by senior management.

4.5 Transport's audit has also highlighted a significant number of key and other audit issues including contractual, disclosure, financial and procedural matters.

4.6 Pervasive issues include back to work interviews which are not routinely performed. Given that the Council's sickness statistics are currently among the worst in Scotland this is a cause for concern. Performance reviews are also not being routinely done in many areas. The appropriate Retention and Destruction of Records is also not routinely performed within many of those areas audited.

4.7 Internal Audit understands that Risk Registers throughout the Council are nearing completion. Completion of these is imperative for Internal Audit to fully assess risks faced by the Council. At present our Risk Based strategic plan is based upon our knowledge and experience, as up to date Risk Registers have not been available. A confirmed completion date is not yet known.

4.8 In the 2007/08 report concerns were voiced by Internal Audit in relation to Register of Interests. Executive Management Team (EMT) have provided guidance as to how this should be approached in future. Internal Audit will undertake a Council wide audit in 2010 to gauge progress.

4.9 Internal Audit also work closely with the Council's External Auditors providing them with copies of all reports issued. This arrangement is reciprocated and is working satisfactorily.

4.10 Notwithstanding the issues highlighted in Appendix 1 from the work performed as part of the annual audit plan for 2007/08, Internal Audit concluded that the Council's system of internal control was generally adequate and effective to provide reasonable assurance that the assets were safeguarded, waste or inefficiency was avoided, reliable financial information was produced and that value for money was continuously sought. This assumes that issues identified and agreed are or have been addressed.

4.11 Any system of internal control can only provide reasonable, but not absolute, assurance against loss. Internal Audit can only provide reasonable comment that there are no major weaknesses in the systems they have reviewed.

5. Audit Planning

5.1 All Internal Audit assignments are performed in accordance with the annual audit plan. The plan is a prioritised schedule of assignments to be performed during the course of the financial year within the framework of the risk based Strategic Audit Plan. This can be

located on Internal Audit's site on the Council Intranet. The annual audit plan for 2009/10 is attached as Appendix 2.

5.2 The Strategic Audit Plan was drawn up using a formal risk assessment model. However refer to commentary at 4.7. The following risk factors were considered:

Risk Assessment for Strategic Audit Plan

Risk Category	Brief Description
Corporate Importance	Measures the potential effect on the organisation should the system catastrophically fail
Corporate Sensitivity	Measures the day to day sensitivity of the information processed, or the service delivered by the system
Inherent Risk	Measures the risk of the system or assets to error, loss, irregularity, illegality, inefficiency, etc
Control Risk	Measures the risk that weaknesses or errors will not be prevented or spotted by management's internal controls

5.3 The Strategic Audit Plan intends to complete audit coverage of all Council activities within a 6-year timeframe.

5.4 The nature of audit work is such that there needs to be a degree of flexibility built into the planning process. Audit assignments may highlight areas which require more investigation to be undertaken than was originally planned, or special investigations may be requested as a result of the identification of an area of concern. For those reasons, the audit plan may change if staff are required to reprioritise their work plan to undertake other duties. The Committee is asked to note that there may be amendments to the Operational Plan for 2009/10 in order to prioritise staff resources as required during the year.

5.5 It is intended to review the 6-year plan during 2009/10 taking account of the anticipated risk registers and other potential methods of undertaking audit work. This will be presented to Audit & Scrutiny prior to 2010/11. Consideration is being given to crosscutting areas across the Council to give a corporate picture as opposed to a more narrow service perspective. e.g. Absence Management and Performance Reviews.

5.6 The Council's Section 95 Officer (Head of Finance), statutorily responsible for ensuring proper financial administration in the Council, and the Executive Management Team are in agreement with the content of the plan.

6. Internal Audit Resourcing

6.1 The Internal Audit Service is fully resourced with staff progressing their individual training plans. It is therefore hoped that the full audit plan should be achieved in 2009/10.

6.2 The Audit & Finance Assistant, Emma Cripps, has passed all exams towards her AAT qualification (Association of Accounting Technicians) and now has some skill modules to progress. The Technical Assistant, Ryan McNeillie, is progressing well in his first year of study towards an HNC Business.

7. Strategic Audit Plan

7.1 The Audit Plan for 2009/10 has been prepared taking due cognisance of the 6-year plan and staffing resource which will be available within the service.

7.2 It should be noted that this plan will be kept under regular review.

8. Corporate Review

8.1 For 2007/08 and 2008/09 it was intended that a Corporate Review of the Single Status process be undertaken. However, as this process was still ongoing this review will be undertaken in 2009/10.

9. Internal Audit Performance

9.1 For 2008/09 Internal Audit has performed 88% of their Audit Plan. This compares to 94% completion in 07/08. This reduction can be attributed to the absence of a key member of staff during the last 2 months of the financial year, 3 audits taking longer than estimated due to the number of issues identified and in one case an underestimation in the allocation of days for a first time audit. In addition the Single Status review could not be undertaken. The achievement of 88% completion is directly attributable to the hard work of Internal Audit staff.

9.2 The performance target of issuing final reports within 14 days of audit testing completion was achieved in 100% of cases.

9.3 Internal questionnaires completed and returned by auditees indicate a high level of satisfaction with the service received. A recent independent survey of Executive Services undertaken by Organisational Development indicated 100% of respondents were fairly or very satisfied with the service Internal Audit provided.

9.4 During 2008/09 Internal Audit once again attained ISO 9001:2000 quality accreditation standard.

10. Financial Implications

10.1 There are no financial implications arising from this report.

11. Policy and Delegated Authority

11.1 As described in Section 10.0 of the Council's Scheme of Delegations the Audit & Scrutiny Committee remit includes consideration of audit matters and one of its roles is to serve as the Council's Audit Committee.

12. Recommendations

12.1 I recommend that the Audit & Scrutiny Committee:

(a) note with concern the issues identified in the Annual Report 2008/09, set out at paragraph 4 and Appendix 1, particularly in relation to Transport and the outstanding issues within the Schools Service.

(b) note the annual Operational Plan for 2009/10 (Appendix 2) taking note that it may be necessary to amend this plan as required during the year in response to changing priorities.

Date: 8 June 2009

Our Ref: CMcI/DS

Report No: F- 022-F

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Audit	Auditee	Progress Report / Key Audit Issues
Capital Programme Service	Capital Programme Service Manager	Reported to Audit & Scrutiny Nov 08.
Roads – Network & Design	Roads Network & Design Manager	Reported to Audit & Scrutiny Nov 08.
Library	Library & Information Services Manager	Reported to Audit & Scrutiny Nov 08.
Legal & Administration - Legal	Acting Divisional manager - Legal	Reported to Audit & Scrutiny Nov 08.
Youth Work	Youth Services Manager	Reported to Audit & Scrutiny Nov 08.
Ferries	Ferry Operations Manager	Five key audit issues were identified: Contract Standing Orders and the Public Contracts (Scotland) Regulations were not being observed. Contracts must always be in place and contractors financially vetted. Contract documentation should also be effectively administered. Maintenance concerns voiced by a senior member of staff required to be investigated and conclusions drawn. Master deck log-books and DDS Ferry ticketing reports do not reconcile. Accordingly there is no comfort that all money due to the authority is being collected.

		Vehicle usage and a number of issues surrounding this area such as private use, on call issues, personal taxable benefits, servicing and logbook completion require radical overview to ensure best value is being achieved in this area. The Charging for Council Services policy must be observed. Officials do not have discretion to deviate from policy and up to date charging structures must be applied. A number of other issues were identified and commitment to address matters has been received.
Ports & Harbours	Harbourmaster – Ports & Harbours Operations	Two key audit issues were identified: Whilst it was apparent efforts are made to obtain competitive quotations this was not always done in accordance with Council Standing Orders. Safe retention of actual contracts and destruction of contract documentation requires to be addressed. Vehicle usage and a number of issues surrounding this area such as private use, on call issues, personal taxable benefits, insurance cover and logbook completion requires radical overview to ensure best value is being achieved in this area. A number of other issues were identified and commitment to address matters has been received.
Finance – Income & Recovery / Cashiers	Income & Recovery Manager	No key audit issues were identified. The issues identified were acknowledged and commitment to resolve given.
Finance – Benefits & Rents	Revenue Services Manager	No key audit issues were identified. The issues identified were acknowledged and commitment to resolve given.

Transport	Head of Transport	Eight key audit issues were identified: The administration and controls surrounding bus contracts require reviewed to ensure the following: ▪ Standing Orders and contract compliance requirements are adhered to. ▪ All local scheduled bus service arrangements should be formalised and appropriate contracts in place. There should be signed Conditions of Contract and signed Tender documentation for each service provided. ▪ All school and ASN related contractor drivers must have enhanced disclosure that should be renewed at 3 yearly intervals. ▪ Vehicle certification and public liability insurance should always be evidenced ▪ Changes to contract conditions or rates must be documented. ▪ A transparent and fair process must be developed and advertised in order to maintain and utilise a small contractor select list. Procurement of professional services and any other services for ZetTrans undertaken by Council officers must undergo the same rigorous processes as applied by the Council's Standing Orders and Procurement Rules. Current year service requirements for Education, ASN and Social Care and associated budget under estimates must be clarified and appropriate virements sought and found to address the situation. Service provision to other services and associated budget

		responsibilities must be determined and laid down in Service Level Agreements covering all eventualities. Employed drivers and escorts must have enhanced Disclosure Scotland checks. Actual working costs incurred at the Garage require to be reviewed to determine accurate hourly charge rates in order to ensure that charges to third parties and other services accurately reflect the costs incurred. Clear policies, procedures and guidance notes for the various Transport functions should be developed and communicated to staff. Corporate policies should be communicated to staff and adequate training provided. In addition a significant number of other matters were identified.
Environment Waste Services	Waste Services Manager	Audit commenced May 2009.
Environment – Burial Grounds	Burial Grounds – Service Manager	Audit commenced May 2009.
Environment – Cleansing Services	Cleansing Service Manager	One key audit issue was identified whereby All charges for refuse collection must be invoiced and the invoices issued timeously. A number of other matters were identified. .

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Follow up Audit	Auditee	Progress Report
ASN Investigation	Head of Schools	Reported to Audit & Scrutiny Nov 08
Charitable Trust	General Manager	Reported to Audit & Scrutiny Nov 08
Executive Office / Policy Unit	Administration Officer – Executive Office	Reported to Audit & Scrutiny Nov 08
Legal & Admin - Admin	Service Manager - Administration	Reported to Audit & Scrutiny Nov 08
Roads Maintenance	Roads maintenance Manager	Reported to Audit & Scrutiny Nov 08
Emergency Planning	Emergency Planning & Resilience Manager	Reported to Audit & Scrutiny Nov 08
Human Resource Management	Human Resource Manager	The vast majority of issues have been addressed or are being addressed. Commitment has been given to resolve outstanding issues once single status is finalised. Internal audit are to undertake an investigation into Honorariums within the Council commencing in May.
Grants	Grants Officer	Whilst no significant issues were identified during the original audit a follow up was undertaken to review controls surrounding the recently introduced Grants Benefactor System. These were found to be satisfactory. However a number of departments are not entering the necessary information required onto the system. This will be subject to detailed audit as part of the scheduled audit plan.
Adult Learning	Adult Learning Manager	The majority of issues had been addressed or were being addressed. Commitment has been given to resolve outstanding issues Internal Audit acknowledges that there have been problems appointing an Administration Assistant. The post has only been filled since November 2008. This appointment should ensure outstanding issues can now be resolved.

Contract Compliance	Contract Compliance Manager	All issues are resolved or are progressing towards resolution.
Schools Service	Head of Schools	All three key audit issues were not fully resolved with many other issues not finalised or unresolved. Whilst this is disappointing, Internal Audit acknowledges that progress has been made in a number of areas. In addition, some issues require input, assistance and co-operation from other Departments. Notwithstanding this senior management within the Schools Service and in other areas of the Council require to take the initiative to ensure matters progress particularly in relation to disclosures and school funds.

Investigations / Reviews	Requested by:	Progress Report
Corporate Review – Single Status	Strategic Audit Plan	Unable to progress until process is finalised
ICT	Strategic Audit Plan	A review of ICT back up systems was undertaken and controls surrounding data transfer. Issues identified have now been resolved.
SUMS College	Director – Shetland College	Reported to Audit & Scrutiny Nov 08.
Performance Indicators	Audit Scotland	Reported to Audit & Scrutiny Nov 08.
Software Review	Strategic Audit Plan	Issues identified have been accepted and are being progressed.
Remote Working Review	Strategic Audit Plan	C/fwd to 09/10

Appendix10809annualreport

INTERNAL AUDIT - 2009/10 PLAN

A. INTERNAL AUDIT ASSIGNMENTS

New Assignments (Service)	Risk	Est. Staffing Days	Comments
Audits			
ICT	H	50	1st Quarter – Risk based audit
Community Work	M	20	1st Quarter – Risk based audit
Payroll & Pensions	H	50	2nd Quarter – Risk based audit
Payments	H	35	2nd Quarter – Risk based audit
Development Management	M	20	2nd Quarter – Risk based audit
Sport & Leisure / Islesburgh	M	50	2nd Quarter – Risk based audit
Asset & Properties	M	20	3rd Quarter – Risk based audit
Members Allowances	M	25	3rd Quarter – Risk based audit
Economic Development	M	80	3rd Quarter – Risk based audit
Trading Standards	M	10	4th Quarter – Risk based audit
Environmental Health	M	40	4th Quarter – Risk based audit
Shetland College	M	30	4th Quarter – Risk based audit
(Environment Waste Services)	M	C/fwd 08/09	1st Quarter – Risk based audit
(Environment – Burial Grounds)	M	C/fwd 08/09	1st Quarter – Risk based audit
(Environment – Cleansing Services)	M	C/fwd 08/09	1st Quarter – Risk based audit
		430	
Reviews			
SUMS		10	Annual review on behalf of SFEFC – 3rd Quarter
Performance Indicators		10	Review in conjunction with External audit 2nd Quarter
ICT Network Review		20	Corporate Review 2nd / 3rd Quarter
Remote Working ICT Review		C/fwd 08/09	Corporate Review 2nd / 3rd Quarter

		40	
Follow – Up Audits			
Capital Programme Service		6	1st Quarter
Roads – Network & Design		5	1st Quarter
Library		4	1st Quarter
Legal & Admin - Legal		5	3rd Quarter
Ferries		20	3rd Quarter
Finance – Financial Accountancy		2	4th Quarter
Ports & Harbours		20	3rd Quarter
Transport		20	4th Quarter
Finance – Income & Recovery / Cashiers		3	4th Quarter
Finance – Benefits & Rents		5	4th Quarter
Youth Work		5	1st Quarter
		95	

B. INVESTIGATIONS ADMINISTRATION & MANAGEMENT

Subject	R/Order	Staffing Days	Comments
Service Management (est)		100	
Administrative Duties (est)		50	
Investigations (est)		60	
ICT Projects		20	
Estimate		**230**	

TOTAL STAFFING DAYS REQUIRED   795
TOTAL STAFFING DAYS AVAILABLE   801.5

	C/fwd Audit Plan 08/09		
1st quarter – Risk based audit	Waste Services		26
1st quarter – Risk based audit	Burial Grounds		4
1st quarter – Risk based audit	Cleansing Services		25
1st quarter – Risk based audit	Transport		18
1st quarter - Review	Software Review		2
To undertake after single status is implemented.	Single Status Review		20
	ICT Remote Working		10
			105

SUPPORTING NOTES

Criteria used for Staffing Day Availability

                                                                                        Staff Days

Total Staffing Days   (52 x 5)   =   260 x 4.5   1170

Less:
Holiday Entitlement   (32 x 3.5) + (27 x 1)   (139)
Training / Study (est.)/   35 + 30 + 10   (75)
Policy Familiarisation
Public Holidays   (6 x 4.5)   (27)
Sickness (est.)   (5 x 4.5)   (22.5)
C/fwd last years plan (est)   (105)

                                                                         368.5

Staffing Days available   (per annum)   801.5

N.B. Training incorporates 15 days travel time

Shetland
Islands Council

REPORT

To: **Audit and Scrutiny Committee**   **17 June 2009**

From: **Head of Finance**

Internal Key Financial Controls 2008/09: External Audit Assurance Report
Report No: F-023-F

1. INTRODUCTION

1.1   Audit Scotland completed their external audit of the Council's internal key financial controls for 2008/09 in April 2009, and have asked for their report to be presented to the Audit and Scrutiny Committee at the earliest opportunity. This covering report complies with their request.

2. LINKS TO THE CORPORATE PLAN

2.1   Good Council governance is an important theme in the Council's Corporate Plan, and adequate systems of internal financial controls are an important component of good governance.

3. BACKGROUND

3.1   Attached as Appendix 1 is the Audit Scotland document "Shetland Islands Council: Internal Key Financial Controls Assurance Report 2008/09", published in April 2009.

3.2   The main findings of their report may be summarised as follows:

3.2.1   Key controls over the Council's main financial systems are generally operating satisfactorily.

3.3   The main exception is in respect of the Council's capital accounting system, where major weaknesses have been found which arise from failures in the externally provided asset register software.

4. ACTION PLAN

4.1   The detailed findings in the Audit Scotland report give rise to the agreed Action Plan attached as Appendix B to their report. Below is a summary of the action points and our responses:

4.1.1   A review of the nine Local Government Pension Funds in Scotland is being undertaken, with a view to looking at possible mergers and the achievements of economies of scale. This will be monitored with a

view to protecting the quality of service to pension scheme members and to ensure best value for the employing authorities.

4.1.2   Revenue budget monitoring reports will be presented to the Council on a quarterly basis in 2009/10. This wasn't achieved in 2008/09 due to staff turnover and absences in the Management Accounting section.

4.1.3   Problems with the Logotech Capital Accounting software have caused all their customers, including Shetland Islands Council, grave difficulties in meeting the demanding requirements of a revised capital accounting regime. Council staff are working hard to ensure that these problems are overcome and that the capital accounting requirements are met in respect of 2008/09.

4.1.4   The need to comply with the requirements of International Financial Reporting Standards was reported to the Audit and Scrutiny Committee in May 2009. The Head of Finance will ensure that the necessary action is taken to ensure compliance.

4.1.5   The Chief Executive plans to carry out an asset strategy review including the register software used.

5. POLICY AND DELEGATED AUTHORITY

5.1   Responsibility for scrutiny of Council policy, implementation, practices and processes stands referred to the Audit and Scrutiny Committee. The Head of Finance is statutorily responsible for proper financial administration in the Council, including the creation and maintenance of systems of internal control. It is appropriate for the Audit and Scrutiny Committee to hear the views of the external auditor on the adequacy of those controls.

6. CONCLUSIONS

6.1   The Council's internal key financial controls were judged generally satisfactory by Audit Scotland, the exception being the capital accounting system, where major weaknesses in the externally acquired software are being tackled with the supplier by the relevant Council staff.

7. RECOMMENDATIONS

7.1   I recommend that the Audit and Scrutiny Committee should note the contents of this report and the attached detailed report from Audit Scotland.

Date: 8 June 2009   Report No: F-023-F
Ref: GJ/DS/F/1/1

Shetland Islands Council

Internal key financial controls assurance report 2008/09

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AUDIT SCOTLAND

Shetland Islands Council

Internal key financial controls assurance report 2008/09

April 2009

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Summary

1. The Annual Audit Plan, issued to the council in January 2009, outlines our approach to the 2008/09 audit of the accounts. Our approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of the council, and identification of the key audit risks and challenges in the local government sector generally. This approach includes assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements.

2. It is the responsibility of management to decide on the extent of the internal control systems appropriate to the council and these are detailed for each system in appendix A.

3. A significant number of the council's key internal controls have been subjected to testing by internal and external audit to ensure that they are operating satisfactorily. Where individual controls have not been tested or where the evidence of control's effective operation does not exist, we have adjusted our planned coverage of the financial statements in order to provide sufficient evidence that they are not materially misstated.

4. With the exception of capital accounting, we have concluded that the key controls operating over the council's main financial systems are operating satisfactorily. Major weaknesses have been identified within the capital accounting system due to ongoing technical difficulties.

5. System weaknesses which require to be addressed by management are detailed below and are included in the action plan at appendix B. The weaknesses identified represent those that have come to external audit's attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist.

6. The co-operation and assistance afforded to audit staff during the course of the audit is gratefully acknowledged.

1

Findings

Internal audit

7. Internal audit supports management in maintaining sound corporate governance and internal controls through the independent examination and evaluation of control systems and the reporting of any weaknesses in internal control to management for action.

8. Our ongoing review has identified that the council's internal audit service continues to operate in accordance with the CIPFA *Code of Practice for Internal Audit in Local Government*. The 2008/09 internal audit plan is substantially complete and our review has found that internal audit work is of a good quality.

9. The conclusion of Internal Audit, reporting to the Audit & Scrutiny Committee, on 2007/08 was that the council's system of internal control was adequate and effective to provide reasonable assurance that the assets were safeguarded, waste or inefficiency was avoided, reliable financial information was produced and that value for money was continuously sought.

Systems of internal control

10. Auditing standards require that external auditors obtain an understanding of the accounting and internal control systems that exist within the council to allow us to plan the audit and develop an effective financial statements audit approach.

11. Our Annual Audit Plan, issued in January 2009, explains that auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. Where it can be demonstrated that the means of achieving internal audit objectives are similar to those of external audit, the findings and results of internal audit exercises can be considered when determining the nature and extent of planned external audit coverage. This ensures that audit resources are used in the most efficient way and work is not unnecessarily duplicated.

12. Appendix A identifies the key council systems and controls over transactions which support the preparation of the council's financial statements. As part of the development of our closer working with the council's internal auditor we sought to identify the proposed coverage of these key controls to avoid overlap and duplication.

13. Following testing of these controls by either the council's internal auditor or ourselves, we have drawn conclusions on the adequacy of each control and where appropriate noted the action that we will be taking in response. In some cases the absence of an effective key control or the lack of clear coverage/ evidence of operation will lead to changes in the focus and extent of coverage of substantive testing undertaken as part of our financial statements audit.

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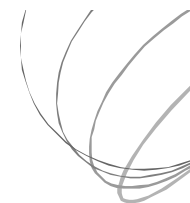
14. I would draw your attention to the key controls which are detailed in appendix A and the system weaknesses which require to be addressed by management in appendix B.

Pensions

15. A review of pension payroll and contributions was undertaken as part of our 2008/09 work on the key financial systems. A few minor issues were identified; however, these have been discussed with council officers and due to their nature do not feature as part of this report. Overall we concluded that the system can be relied upon to provide assurances for the 2008/09 financial statements.

16. The Local Authority (Scotland) Accounts Advisory Committee issued a consultation paper covering the "support for separate LGPS pension fund accounts" in December 2008. This consultation was prompted by a requirement introduced in England and Wales for local authorities to produce a 'pension fund annual report' in 2008/09. The development of separate pension fund reporting and possibly audit arrangements could lead to changes in existing arrangements that will need to be considered and managed by the council.

**Action Plan Point 1**

Budgetary Control

17. Our review of council minutes highlighted that only one revenue budget monitoring report, covering the period 1 April 2008 to 31 August 2008, has been presented to council members for 2008/09. The financial regulations state that it is the duty of the head of finance to make suitable reports and recommendations to the council as is deemed necessary. Discussions with officers have highlighted that this should be done on a quarterly basis.

Action Plan Point 2

Capital Accounting

18. Due to the number of fixed assets errors that were identified during the 2006/07 financial statements audit, capital accounting was selected as a system where a full review of the controls would be performed during the 2007/08 audit. Due to ongoing technical problems within the system, we were unable to perform this work and it was deferred until the 2008/09 audit.

19. Discussions with officers have confirmed that there are still a number of unresolved issues with the system, preventing us once more from undertaking our planned work during 2008/09. As a result we have concluded that no reliance can be placed on the system and that assurances will be obtained from a fully substantive approach as part of our audit of the financial statements.
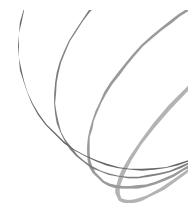
Action Plan Point 3

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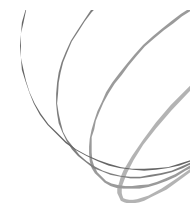
Other Financial Systems

20. With the exception of the above, all of the council's financial systems have now been subjected to a full review by external audit. Any weaknesses have been reported in previous year systems reports and have been followed up throughout the course of the audit.
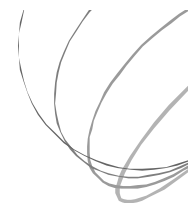
International Financial Reporting Standards (IFRS)

21. The introduction of IFRS to the local government is expected in 2010/11, although elements of this, for example PFI accounting and completion of whole of government accounts, could be introduced earlier. Audit Scotland's recent experience in other sectors indicates that implementation has been problematic. The council should identify a lead officer within finance for IFRS implementation and identify its plan for introducing key elements. This will include increasing awareness and training, establishing a corporate record of untaken leave and flexitime and examining the impact on lease accounting.

22. LAAP Bulletin 80, *Implementation of IFRS – Outline Project Plan (March 2000)*, provides a basic project plan identifying the major milestones for the implementation of IFRS by 2010/11. This is intended to be the starting point for local authorities looking to develop their own project plans. The key dates in the plan are the latest dates that CIPFA would recommend for the implementation of that particular step.

23. The council should discuss their project plan with those responsible for the governance arrangements including the executive management team, the audit and scrutiny committee and internal audit. Senior management throughout the organisation should also be aware of the project plan, as the implementation will require input from staff outside finance. LAAP expects these groups to be kept informed throughout the implementation process, and that IFRS implementation would be part of the internal audit programme.

24. A recent meeting with the chief executive and the head of finance has confirmed that as yet no work has been undertaken by the council in respect of IFRS. As a result, the May deadlines recommended by the outline project plan will not be met. There is a risk that if key deadlines are not met the authority will be unable to achieve the introduction of IFRS by 2010/11.
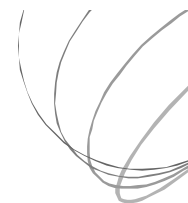
Action Plan Point 4
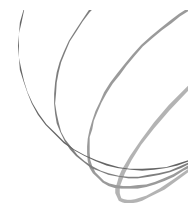
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Appendix A – Key Control Summary

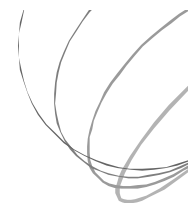| Control System	Controls	Coverage	Further Action
Budgetary Control	The council has been designated as being responsible for regulating and controlling the body's finances.	Key controls verified by walkthrough test.	Budgetary Control will be monitored throughout the audit.
	The annual budget is formally approved by the council.	System looked at on an ongoing basis by Internal Audit.	**Minute Review**
	The Head of Finance is responsible for maintaining a system of budgetary control.	**Conclusion**: Satisfactory	
	There are clear budget and virement limits for each relevant officer.	**Issues identified:**	
	There is evidence of budget holders review of budget to actual and identification of all significant variances.	To date only one revenue monitoring report, covering the period 1 April to 31 August 2008, has been presented to members.	
	There is evidence of summary budget monitoring reports to members.		
	Budgetary control procedures include a year end review of late expenditure activity.		

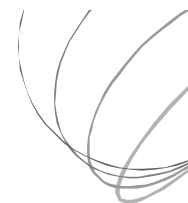| Control System	Controls	Coverage	Further Action
Main Accounting	Procedures exist to ensure that individual opening balances are for the correct amounts and are posted to the correct accounts.	Key controls verified by walkthrough test. System looked at on an ongoing basis by Internal Audit. **Conclusion:** Satisfactory **Issues Identified:** No significant issues identified.	Testing to be undertaken at year end. **Substantive Testing**
	Accounting codes can only be established or deleted by nominated senior officers.		
	Checks exist to ensure that the debits and credits posted to the main accounting system net to zero.		
	Control totals are prepared of transactions to be transferred from feeder systems and are agreed to the values posted to the main accounting system.		
	Exception reports are promptly investigated and appropriate action taken where necessary.		
	Procedures for the closure of final accounts are adequate and clearly defined.		
Payroll	New starts are confirmed, prior to payroll processing, as relating to posts contained within the approved staffing establishment.	Key controls verified by walkthrough test. Full systems review undertaken in 2007/08 by External Audit. System looked at on an ongoing basis by Internal Audit. **Conclusion:** Satisfactory **Issues Identified:** No significant issues identified.	Testing to be undertaken at year end. **Substantive Testing**
	Personnel and payroll functions are adequately segregated		
	Pay staff or employing departments confirm that leavers have been timeously removed from the payroll		
	Adequate control totals are established prior to payroll processing and reconciled to output control totals.		
	Employing departments periodically confirm the validity of the employees listed on the payroll.		

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Control System	Controls	Coverage - 32 -	Further Action
	Checks exist to ensure that increases in salaries or rates of pay, following national settlements or increment dates, have been correctly effected.		
	All payroll suspense accounts are regularly reconciled, scrutinised and cleared.		
Creditor Payment System (including ordering & certification)	Standing orders and financial regulations clearly set out the scheme of delegation and authorised limits.	Key controls verified by walkthrough test. Full systems review undertaken in 2007/08 by External Audit. System looked at on an ongoing basis by Internal Audit. **Conclusion:** Satisfactory **Issues Identified:** No significant issues identified.	Testing to be undertaken at year end. **Substantive Testing**
	Orders have been approved by an appropriately authorised officer.		
	The purchase of goods and services are coded to an appropriate account code.		
	Invoices are matched against the purchase order and receipt of goods is checked to ensure validity and correctness of order.		
	Payments are made timeously to the suppliers.		

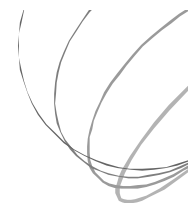| Control System	Controls	Coverage	Further Action
Debtor Billing System	Written procedural instructions have been issued to all staff involved in debtors and related operations.	Key controls verified by walkthrough test. Full systems review undertaken in 2007/08 by External Audit. System looked at on an ongoing basis by Internal Audit. **Conclusion:** Satisfactory **Issues Identified:** No significant issues identified.	Testing to be undertaken at year end. **Substantive Testing**
	Exception reports are promptly investigated and action taken where necessary.		
	The outstanding balance recorded on the debtors system is regularly reconciled with the debtors control account in the financial ledger.		
	Receipts credited to the debtors control accounts are checked (via collection summaries) to the amounts debited to the bank account.		
	Write-offs are reported to the appropriate committee for authorisation and/or subject to an appropriate scheme of delegation.		
	All outstanding accounts are promptly and systematically pursued in accordance with a prescribed timetable.		
	The debtor section advises service departments when significant unpaid balances remain outstanding beyond a prescribed period in order that, where appropriate, further goods and services can be withheld.		
Cash & Banking	Mail is opened by two members of staff, who record and total the cash received on a daily basis. The records are initialled by both officers and passed with remittances to the cashier, who subsequently signs the records to confirm receipt.	Key controls verified by walkthrough test. Due to the nature of cash and bank, a fully substantive approach will be taken at year end.	Testing to be undertaken at year end. **Substantive Testing**

8

Control System	Controls	Coverage - 34 -	Further Action
	Daily control totals of cash collected are established and reconciled to the total of receipts posted in the cash receipting system (for each cashier). The control totals are checked by another officer and reconciled with pay in slips.	**Conclusion:** Satisfactory **Issues Identified:** No significant issues identified.	
	Regular reconciliations are undertaken between mail room records, cash receipting, bank statements and the financial ledger. Reconciliations are signed off by the preparing officer who countersigns the reconciliation. All potential errors and omissions are investigated and prompt corrective action is taken.		
	Each day's takings are banked intact. Cash received during the day is not used to make payments.		
	Unidentified receipts are posted to a dedicated suspense account which is regularly examined and cleared.		
	An adequate safe, suitably alarmed, is available to hold overnight cash for which there are approved key holders. There are adequate arrangements in place for the issue and storage of safe keys.		
	Secure arrangements exist for the uplift of cash from the collection office and transfer to the bank for paying in. The arrangements should consider routes to the bank and number of 'carriers' or the use of external security agencies.		

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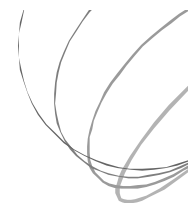| Control System	Controls	Coverage	Further Action
HB/CTB	Awards are processed only on receipt of a properly completed claim form signed by the claimant.	Key controls verified by walkthrough test.	Testing to be undertaken at year end / Subsidy Claim.
	Sufficient evidence is sought in support of the information in claims.	Full systems review undertaken in 2006/07 by External Audit.	
	Decisions on back-dating awards are made by nominated senior staff in order to ensure consistency of treatment.	Review of benefits and rents undertaken by internal audit in 2008/09. Some key controls covered by the review.	**Substantive Testing**
	All applications are registered on the day of receipt and allocated to specific staff for processing. Subsequent key dates are also properly recorded to demonstrate, accurately, the proportion of claims that are processed, determined, notified and paid within 14 days of a validated return.	Benefits are substantively tested annually for the HB/CTB subsidy claim. **Conclusion:** Satisfactory	
	Exception reports are promptly investigated and action taken where appropriate.	**Issues Identified:** No significant issues identified.	
	The council has a corporate counter-fraud strategy which encompasses, or refers to, its policy on the approach to HB/CTB fraud.		
	The authority takes part in data matching exercises e.g. NFI.		
	The council has a formal policy in regard to its approach to recoverable overpayments and has instituted procedures for its implementation.		
	The authority has tested its benefit software and is aware of the extent to which it classifies payments correctly for subsidy purposes.		
	Procedures ensure that overpayments are only classed as fraudulent where there is sufficient evidence of fraudulent intent and other conditions prescribed by DWP have been met.		

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Control System	Controls	Coverage	Further Action
Capital Accounting	No reliance can be placed on the system due to ongoing technical difficulties. Assurance will be obtained from a fully substantive approach at year end.	Capital accounting is looked at on an ongoing basis as part of the internal audit's work. Reliance will be placed on this work to reduce our testing at year end.	**Fully substantive approach at year end. Internal audit's work to be considered to reduce sample sizes.**
Housing Rents	Regular reconciliations are undertaken between the number of properties on the rent roll and another independent source. All potential errors or omissions are investigated and prompt corrective action taken.	Key controls verified by walkthrough test. Full systems review undertaken in 2006/07 by External Audit. Review of benefits and rents undertaken by internal audit in 2008/09. Some key controls covered by the review. **Conclusion:** Satisfactory **Issues Identified:** No significant issues identified.	Testing to be undertaken at year end. **Substantive Testing**
	All input submitted to the system requires to be authorised by nominated officers.		
	Details of council house additions and disposals are formally and timeously notified from the housing department and are supported by documentary evidence.		
	Rent increases are correctly applied in line with a decision taken by the Council. Staff check a sample of amended records to ensure that the relevant agreed increase is properly applied to all properties on the rent roll.		
	Regular reconciliations are undertaken between accumulated values on the rent roll and the gross annual debit in the ledger to the sum of the net charges on tenants' individual accounts.		

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Control System	Controls	Coverage	Further Action
	Employee duties are segregated between control of the rent roll/master file and collection functions.		
	Receipts credited to the rent control account are checked (via collection summaries) to the amounts debited to the bank.		
	Refunds and voids are correctly calculated and processed only on the authority of nominated senior officers.		
	Regular reconciliations are undertaken between the housing benefit system totals and rebate totals from the rent accounting system.		
	Reports are regularly produced, and independently reviewed, which list recovery action taken to date on individual tenant's accounts, including reasons where recovery action has been suspended.		
	Regular reconciliations are undertaken between the rent accounting system and the financial ledger.		
	Unidentified charges posted to an incorrect code are entered into a dedicated suspense account which is regularly examined and cleared.		

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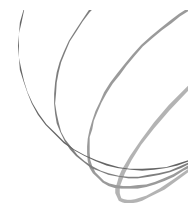| Control System	Controls	Coverage	Further Action
Local Taxation Billing and Collection **(Council Tax and NDR)**	**CT Billing & Collection only:** Regular reconciliations are undertaken between the council tax system and the total rebates on the benefit system.	Key controls verified by walkthrough test. Full systems review undertaken in 2006/07 by External Audit. **Conclusion:** Satisfactory **Issues Identified:** No significant issues identified.	Testing to be undertaken at year end. **Substantive Testing**
	NDR Billing & Collection only: Vacant properties are subject to regular physical inspection.		
	System parameters entered at the start of each year (rate poundage) are independently checked.		
	The number of bills produced at annual billing is reconciled to the number of properties on the assessment roll. The value of bills produced is reconciled to the net debit on the assessment roll.		
	Receipts credited to the NDR debtors control account are checked (via collection summaries) to the amounts debited to the bank account.		
	Write offs are reported to the appropriate committee for authorisation and/or subject to an appropriate scheme of delegation.		
	Cancellations and refunds are processed only on the authority of nominated senior officers.		

13

Control System	Controls	Coverage	Further Action
Pension Contributions	Criteria and procedures have been established to validate the eligibility of bodies requesting admission to the scheme.	Key controls verified by walkthrough test. Full systems review undertaken in 2008/09 by External Audit. **Conclusion:** Satisfactory **Issues Identified:** No significant issues identified.	Testing to be undertaken at year end. **Substantive Testing**
	There is a regular actuarial valuation of the fund to determine a rate of employers' contribution which will maintain fund adequacy.		
	Employee and employer contributions are checked to ensure that they are fully and promptly brought to account.		
	Controls are in place to investigate and chase up late or missing contribution from admitted bodies.		
	Contribution from fund members will be allocated to the AXISe record.		
	Previous contributing service for all new employees and the transfer values due/paid are verified to appropriate notifications. Transfer values not received within a set time limit are promptly followed up.		
Pensions Payroll	Pension fund officers manually calculate pension amounts which are then checked by a senior office.	Key controls verified by walkthrough test. Full systems review undertaken in 2008/09. **Conclusion:** Satisfactory **Issues Identified:** No significant issues identified.	Testing to be undertaken at year end. **Substantive Testing**
	Fund members are informed of the different financial options (i.e. increase their lump sum amount by decreasing their yearly pension). Fund members will then notify the fund with their response.		
	Fund members pension increases will be calculated by a pensions officer and counter checked by another officer.		
	No one within the pensions department has cradle to grave access.		

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Control System	Controls	Coverage	Further Action
	Once receipt of the fund members intensions are received a final check of the calculations is performed, before adding the member to the payroll.		
	On death of fund members payments will stop and any overpayments will be investigated		
	The pension payroll run values which are reconciled with those posted to the ledger.		
Pension Fund Investments	Investment policies are determined by a properly appointed Investment Committee who are aware of the requirements and limitations of pension fund investment regulations.	Key controls verified by walkthrough test. Due to the nature of pension investments, a fully substantive approach will be taken at year end. **Conclusion:** Satisfactory **Issues Identified:** No significant issues identified.	Testing to be undertaken at year end. **Substantive Testing**
	External fund managers are appointed with the assistance of specialists (e.g. the actuary) following a formal tendering and selection exercise.		
	A formal fund management agreement detailing the terms of the appointment is agreed between the external fund manager and the Council (Investment Committee).		
	All acquisitions and disposals are supported by authorised documentary evidence (e.g. for in-house managed funds - contract notes, rights issues and scrip issue notifications; and for externally managed funds – summary reports).		
	The system records due dates for receipt of dividend, interest and rental income. Procedures exist to ensure any delays in receipt of income are pursued.		
	The Investment Committee, with the advice of specialists, agrees performance benchmarks with fund managers.		

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Control System	Controls	Coverage - 41 -	Further Action
	Investment performance is regularly monitored by an appropriately qualified officer who reports to the Investment Committee. In addition fund managers make formal presentations to the Investment Committee, at least, on a six monthly basis.		

Appendix B – Action Plan

No.	Page / Para Ref	Issue, Risk & Recommendation	Responsible Officer	Response & Agreed Action	Action Date
1.	3/16	**Pensions** **Issue:** The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a consultation paper covering the "support for separate LGPS pension fund accounts" in December 2008. **Risk:** There is a risk that reporting and audit arrangements change over the medium term. **Recommendation:** The council should monitor progress in this area and respond to any changes as required.	Head of Finance	The council will monitor progress in this area and respond to changes as required.	Ongoing

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No.	Page / Para Ref	Issue, Risk & Recommendation	Responsible Officer	Response & Agreed Action	Action Date
2.	3/17	**Budgetary Control** **Issue:** To date only one revenue monitoring report, covering the period 1 April to 31 August 2008, has been presented to members. **Risk:** There is a risk that members are not being provided with appropriate information on a regular basis to allow them to fully carry out their role. **Recommendation:** Revenue budget monitoring reports should be presented to the council on a regular basis to ensure that members have sufficient information to fulfil their role.	Head of Finance	Revenue budget monitoring reports will be presented to the full council on a quarterly basis.	July 2009 and quarterly thereafter.

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No.	Page / Para Ref	Issue, Risk & Recommendation	Responsible Officer	Response & Agreed Action	Action Date
3.	3/19	***Capital Accounting*** **Issue:** Due to ongoing technical issues, we have been unable to place any reliance on the capital accounting system for the financial statements.	P/T Senior Assistant Accountant / Asset Registrar	Work is currently underway to ensure that all transactions are processed in sufficient time for the 2008/09 financial statements.	May 2009
		Risk: There is a risk that the fixed asset transactions will be incomplete and inaccurate.		The council will have ongoing discussions with **Logotech** to resolve the technical problems as soon as possible.	October 2009
		Recommendation: Year end transactions should be processed in sufficient time for inclusion in the 2008/09 financial statements and the technical problems should be resolved as soon as possible to prevent further problems in 2009/10.		Early substantive work to be carried out by external audit in May 2009 to gain assurances for the financial statements.	May 2009

No.	Page / Para Ref	Issue, Risk & Recommendation	Responsible Officer	Response & Agreed Action	Action Date
4.	4/24	**International Financial Reporting Standards** **Issue:** Discussions with senior officers have highlighted that no work has been undertaken on IFRS to date. As a result, the May deadlines recommended by CIPFA's outline project plan will not be met. **Risk:** There is a risk that if key deadlines are not met the authority will be unable to achieve the introduction of IFRS by 2010/11. **Recommendation:** The council should identify a lead officer responsible for the implementation of IFRS and agree an outline project plan to ensure implementation by 2010/11.	Head of Finance	The council will identify a lead officer within finance for IFRS implementation. Key deadlines will be agreed to enable the smooth implementation of IFRS by 2010/11. Finance staff will be provided with the appropriate training.	May 2009

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13 May 2009

Graham Johnston
Head of Finance
Shetland Islands Council
Montfield
Burgh Road
LERWICK
ZE1 0TY

Dear Graham
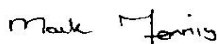
Review of Internal Key Financial Controls 2008/09

Following completion of our planned review of selected financial systems, I now enclose a copy of our finalised audit report.

In accordance with normal practice a copy of this final report goes to the Chief Executive, the Internal Audit Manager and the Controller of Audit, Audit Scotland.

Finally, I would like to take the opportunity to thank your staff for the co-operation we received during the review.

Yours sincerely

**Mark Ferris
Audit Manager**

Enc

cc   Morgan Goodlad, Chief Executive
      Crawford McIntyre, Internal Audit Manager
      Controller of Audit's office, Audit Scotland

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Shetland
Islands Council

REPORT

To: **Audit and Scrutiny Committee**   **17 June 2009**

From: **Service Manager – Safety & Risk**
           Legal & Administration
           Executive Services

REPORT NO: LA-11-F

Risk Management Strategy 2009-2014

1 Introduction and Background

1.1 The purpose of this report is to obtain approval from Shetland Islands Council for the appended Risk Management Strategy which will replace the, now out of date, Risk Management Policy. The latter has served the Council well over recent years but it is no longer able to adequately support the requirements of modern government.

1.2 The Strategy document lays out the various elements across departments and Partner Agencies, pulling the strands together to create an effective Risk Management framework, which will fully embed the process within everyday working practices, across all levels, and build on the Risk Management culture and ethos that already exists within Shetland Islands Council.

2 Links to Corporate Priorities

2.1 This report supports Corporate Priorities in relation to the following sections of the Corporate Plan 2008:

- Section 3 – Sustainable Organisation – Ensuring we are being efficient in everything we do.

3 Current Position

3.1 It is essential that Risk Management is fully embedded throughout all parts of the Organisation in order to reduce or eliminate the negative impact of risk thereby assisting with the effective delivery of services and the ultimate achievement of priorities and targets.

3.2 Audit Scotland, in their recent SARA report (see Strategy appendix 2), supported the need for a review of the Risk Management arrangements within

Shetland Islands Council. The attached Strategy takes account of the issues contained within their report.

3.3 This Strategy document is an item for discussion on the Agenda of the Risk Management Board, which comprises all Heads of Service, with specialist officers as required.

3.4 The timing of Audit & Scrutiny Committee requires reports to be cleared by the 8th of June, whilst the Risk Management Board does not meet until the 11th of June. However, the views of Board members will be known ahead of Committee and, in the event that there are any minor amendments, an updated version of the Strategy can be emailed to Audit & Scrutiny Committee Members no later than Monday 15th June 2009, for onward progression to full Council.

4 Financial Implications

4.1 There are no financial implications that are not already accounted for within existing budgetary provision.

5. Policy and Delegated Authority

5.1 The role of Audit and Scrutiny Committee is to carry out a corporate scrutiny role to evaluate the effectiveness of the Council as an organisation and ensure that effectiveness is actively monitored and measured, as detailed in Section 10 of the Scheme of Delegation.

6 Recommendations

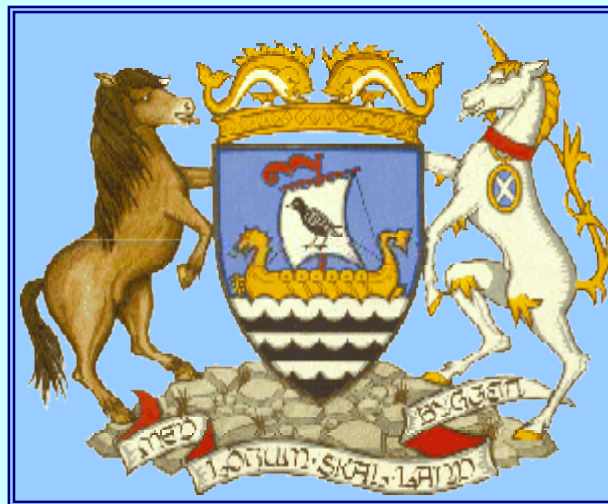6.1 I recommend that the Audit and Scrutiny Committee:
i) recommend that the Council endorse the appended Risk Management Strategy.

Report no: LA-11-F   3 June 2009
Our Ref: SP/A&S

SHETLAND ISLANDS COUNCIL

RISK MANAGEMENT STRATEGY

Operational Date: 1st July 2009

Review Date: 1st April 2014

Applies to: All staff & Members
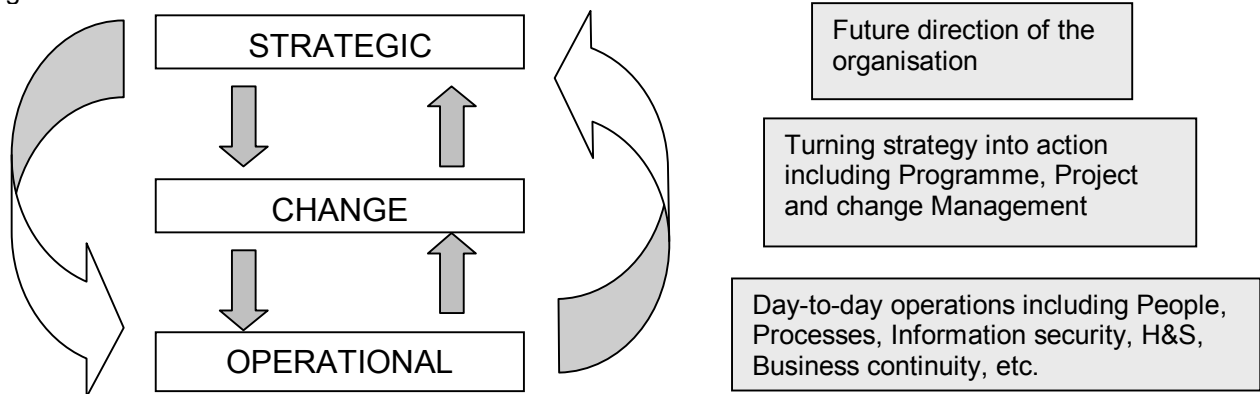
RISK MANAGEMENT STRATEGY

Index

1. INTRODUCTION

"To fail to prepare is to prepare to fail"

1.1 Risk Management concerns itself with the identification and management of those uncertain future events that could adversely influence the achievement of an organisation's strategic, operational and financial objectives. These events can result from factors both external and internal to the organisation.

1.2 In order to better identify and manage those uncertain future events, the Risk Management **strategy objectives** exist to ensure that **the risk management framework and processes** continuously:

- Establish objectives, infrastructure, tolerances and limits
- Assess all service volatilities (including new uncertainties)
- Formulate cost effective risk management strategies
- Design risk management tools techniques and training initiatives.
- Monitor and reports on performance
- Seek continuous improvement in cross-departmental risk management processes

1.3 Risk Management as a philosophy and working function has evolved within Shetland Islands Council, supporting the organisation in its delivery of services and achievement of targets, since 1997. Modern Government clearly recognises the necessity for Risk Management to be a fully embedded and integral part of every day business, both at Strategic and Operational levels.

1.4 Effective Risk Management will minimise and/or eliminate the risk of:

- lost working time

- duplication of effort

- injury and death

- financial loss

- damage to reputation

- lost opportunity

- wasted resources

- adverse outcomes

- poor service delivery

- civil legal action

- criminal prosecution

1.5 This Strategy document replaces the previous Risk Management Policy and establishes solid processes at a more sophisticated level, thereby better equipping the Authority to meet its current and future priorities and long term goals, and meeting the expectations laid down in the British Standard for Risk

Management – code of Practice BS31100, the requirements of CiPFA's self Assessment Checklist (see appendix 1) and taking account of the conclusions in Audit Scotland's SARA report (see appendix 2), as well as being in keeping with the Single Shared Outcome Agreement.

1.6 Risk Management Perspectives can be defined as shown in figure 1 below:

Fig. 1

2. **VISION STATEMENT**

2.1 Shetland Islands Council is committed to the implementation of the Risk Management strategy, and the embedding of an effective Corporate Governance culture.

2.2 Risk Management will be fundamentally rooted within all operations of the Council through the various mechanisms and structures detailed in this Strategy document, and will be driven by Executive Management Team through both the Risk Management Board and Safety & Risk Services.

2.3 Departmental Risk Registers will be actively maintained across all Services and will directly relate to Service Plans and the achievement of departmental targets.

2.4 A Strategic Risk Register will be owned and actively maintained by Executive Management Team with appropriate input from the Risk Management Board and Safety & Risk Services, as well as the Risk Owner in each category of risk. The Strategic Risk Register will contain all reasonably identifiable risks and opportunities which may impact on, and/or threaten achievement of, the strategic Aims and Priorities set by Shetland Islands Council and its partner agencies, being mindful of new risks and opportunities that will ultimately emerge through successful achievement of those Aims and Priorities.

2.5 Shetland Islands Council will strive to become an exemplar in the field of local government Risk Management, continuously reviewing and seeking to improve performance and maximise efficiency.

2.6   Risk will be formally considered prior to the commencement/implementation of, and reflected in, all organisational changes, service plans, committee reports, as well as capital programmes and projects.

2.7   The Council regards the implementation of risk management strategies and the general management and subsequent reduction of risk as a way of ensuring high quality and efficient services in safe working environments.

3   STRATEGY OBJECTIVES

3.1   To reduce unnecessary expenditure and improve on performance through robust Risk Management activity which is evidenced at all levels of the establishment and across all Services via:

- Service Plans
- Programmes of work and projects
- Committee Reports
- Organisational changes

3.2   To ensure the provision of appropriate training for, and the consequent understanding of, Risk Management principles and concepts by staff and Members alike.

3.3   To fundamentally embed the Risk Management philosophy within everyday operations and measure performance against accepted industry standards and local expectations.

3.4   To continually increase efficiency and maximise on opportunities through the Strategic and Operational management of risk.

4   RISK MANAGEMENT FRAMEWORK

4.1   The Risk Management Framework exists to support the Council in delivering on its objectives. The Strategic Priorities set by the Council and its partner agencies are broken down into operational targets and service delivery, therefore the Framework to support that needs to ensure the existence of "top-down bottom-up" reconciliation.

4.2   Executive Management Team will drive the Risk Management effort through the Risk Management Board, which will be comprised of all Heads of Service, with other specialist officers as necessary. The specific purpose of the Risk Management Board is explained in detail in section 6 of this strategy document

4.3   The Council recognises that staff and Members have individual and collective responsibility for the efficient and effective management of risk within their own areas, and will assist and support by providing the appropriate training, knowledge, information, instruction, assistance, supervision, equipment, systems and structures

4.4.1   The Council uses accepted industry standard categories of risk, as follows:

STRATEGIC	**OPERATIONAL**
Competitive	Contractual
Customer/Citizen	Physical (people/property)
Political	Political
Economic	Financial
Social	Social
Technological	Technological
Legal (compliance)	Legal (statutory)
Environmental	Environmental

4.5   The Framework chart (below) depicts the structure required to achieve the necessary multi-directional flow of the Risk Management process.

Fig. 2

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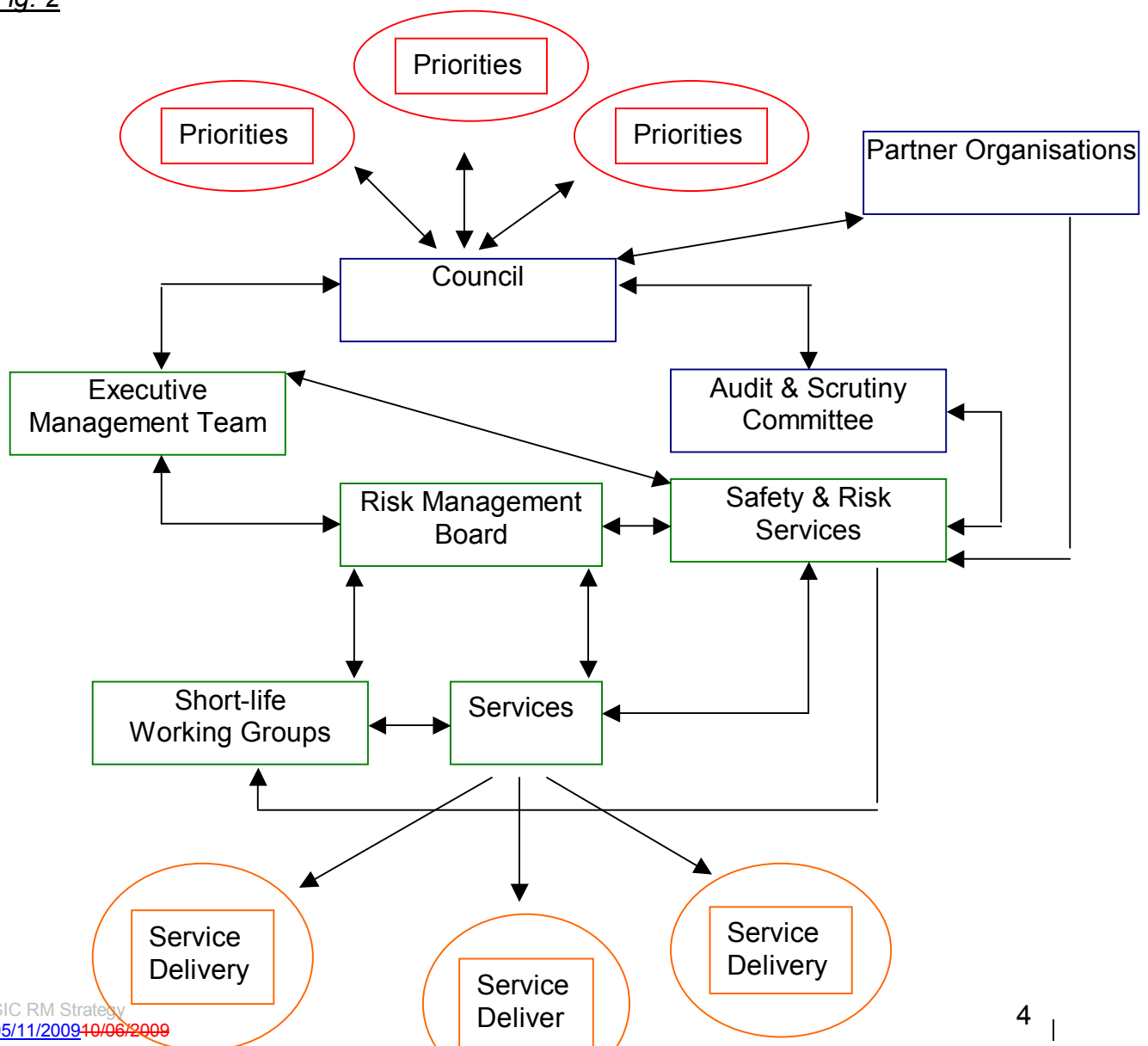
6   Effects of Risk controls

       There are 7 basic elements involved in controlling risk. These are:

       Identify……..This is the starting point as a risk cannot be actively and effectively controlled if it has not been identified.

       Seek………..Taking an opportunity that has degrees of risk that are outweighed by the perceived benefits

       Modify………Manipulating the likelihood and severity of a risk to reduce it to an acceptable level

       Avoid……….Sometimes the only option where the other types of control are not possible

       Retain……..   A conscious decision that the risk is acceptable and within tolerable limits

       Transfer……Offloading the risk to another body via contract, outsourcing, insurance, etc.

       Monitor……..Monitoring the ongoing effectiveness of systems & procedures ensures risks are controlled and not permitted to grow unnoticed.

5.   STRATEGIC AND OPERATIONAL PROCESSES

5.1   Strategic Process

5.1.1 At a Strategic level, identified risks will be entered onto the Strategic Risk Register, with their impacts graded and prioritised for further action where necessary. The elements of Risk Control are detailed in section 4.5 (above) and within each stage lies a range of specific risks, all of which have the potential to impact negatively on performance and delivery.

5.1.2 Strategic Risks will predominantly be those risks that threaten the achievement of the Council's 8 key priorities but will also include those risks that will naturally arise from realisation of these priorities, for example, achievement of an increase in the population may lead to an increase in crime and anti-social behaviour or an increase in the demand on care services beyond planned capacity. These are all risks that need to be anticipated and controls measures identified to ensure that realisation of the key priorities brings the benefits anticipated without an equally strong but negative flip-side.

5.1.3 Clear links therefore need to be evident both in Council activities and those of our Partner Agencies in order that positive efforts towards these priorities can be demonstrated, whilst also being mindful of the need to forward plan for the negative impact that achievement of these priorities may naturally produce.

5.1.4 The Strategic Risk Register will be held electronically on the Risk system within Safety & Risk Services. Heads of Service and Service Managers will have access to the system in order that they can oversee the risks in their respective areas.

5.1.5 Short-life working groups, comprising relevant officers, may be set up and directed through the Risk Management Board to find risk control mechanisms to further reduce the residual grading of a particular risk. The Risk Management Board will report to Executive Management Team via the Safety and Risk Services Manager, who will also report to Audit and Scrutiny Committee, and other Committees as appropriate.

5.2 Operational Process

5.2.1 Risk Registers are essentially the flipside of Service Plans, in that the latter details the aspirations of the Service whilst the former documents all those uncertain issues that may step into the path of activity and derail achievement. It is therefore essential that there are clear links between the service plans and the corresponding Risk Registers. See fig 3, below:

Fig 3.

Aims and Objectives
Corporate and Community Priorities set the overall aims and objectives of the council. Realisation is through the various Services within the organisation. In other words, the "raison d'être" of each service is to deliver on their respective remits in order to collectively achieve the strategic aims and objectives of Shetland Islands Council.

Service Plans
The purpose of these plans is to detail the activities that will take place within each service in order to achieve the respective aims and objectives.

Risk Registers
Risk Registers are essentially the flip side to Service Plans and serve to identify all those uncertain events that have the ability to threaten the achievement of those aims and objectives.

Risk Assessments
The purpose of risk assessments is to identify *activity-based* hazards, risks and controls to minimise the frequency and severity of those hazards and risks and should feature as an existing control in the risk registers.

Policies, Procedures, Systems
Policies, procedures and systems exist to manage a variety of risks, all of which should be identified in the Risk Registers and which, unmanaged, would otherwise threaten the achievement of the aims and objectives.

Training Plans
Training plans exist primarily to manage skills shortages within the organisation that could lead to a failure or inadequacy in service delivery that, in turn, threatens achievement of the activities and targets. Gaps in training should be listed, where appropriate, as a 'cause of risk' in the risk registers.

5.2.2 All service areas are required to have a Risk Register to document the main risks to which the specific Service area is exposed. Risks will fall into the main categories listed in section 4.4.1. Within each category of risk lie the specific risks themselves, for example:

| Risk Type	Risk Category	Risk

Strategic	Economic	Insurance Cover Inadequate
Strategic	Social	Crime & Disorder
Strategic	Political	Failure to meet Community Plan priorities/objectives
Operational	Physical	Health & Safety – own systems
Operational	Physical	Terrorism/Activists
Operational	Professional	Loss of Key Staff

5.2.3 Each risk identified will be assigned to a Risk Owner who will have access to the Council's computer system in order that they can actively manage the risk and demonstrate reduction to a level acceptable to the Organisation.

5.2.4 Safety and Risk Services staff will carry out a rolling programme of Risk Health Checks across Service Areas which will both assist with the identification of pertinent risk and test the robustness of existing risk management control measures.

5.2.5 Risks can have long tails, meaning that their impact many not be realised for decades into the future. This can be true also of control measures in that whilst they may well address the primary risk, they can cause new risks in other areas of the organisation, which is not known to the original Service. The effective identification and management of such a wide range of risks across a variety of disciplines makes the ongoing involvement and support of Safety & Risk staff imperative.

5.2.6 Operational risks will be managed by the Risk Owner with guidance and support from Safety and Risk Services and will not ordinarily come before the Risk Management Board, which will concentrate on Strategic and Corporate risk only.

5.3   Collective Process

5.3.1 Effective Risk Management will be embedded at the core, and needs to communicate with the context within which the organisation operates, the organisation itself, and the culture which exists within it, as shown in fig. 4 below:

Fig 4

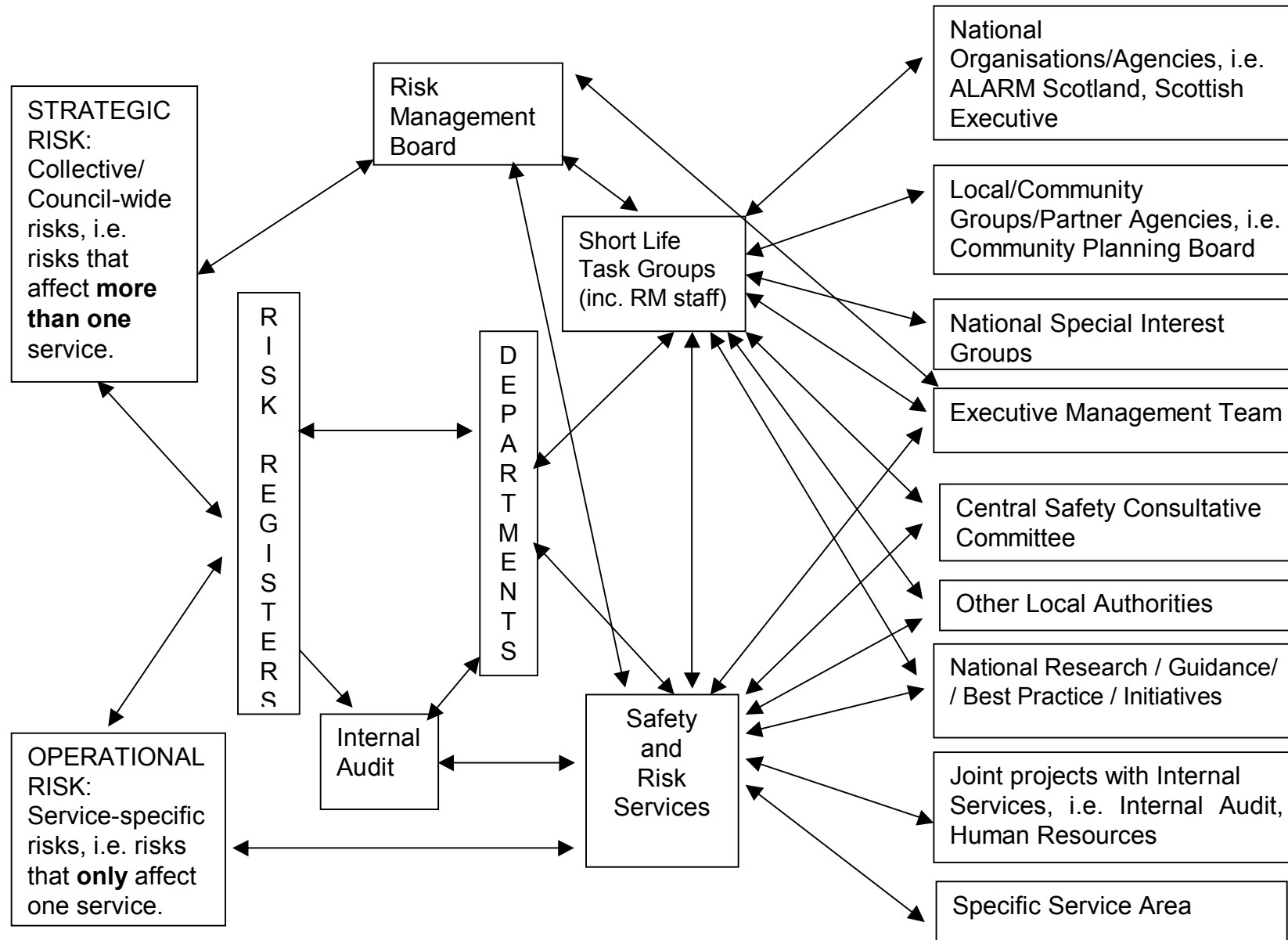CONTEXT

ORGANISATION

CULTURE

RISK MANAGEMENT FRAMEWORK
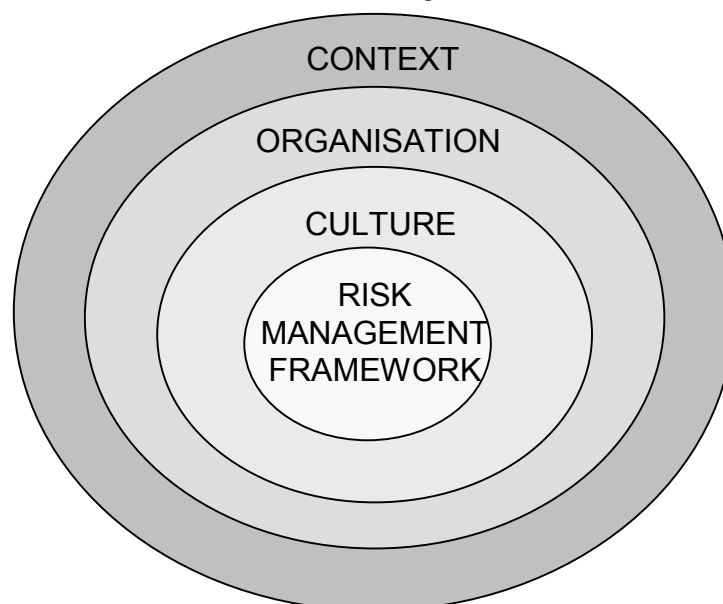
5.3.2 The management of risk differs slightly depending on whether it is strategic or operational in nature but in each case there is a wealth of internal and external influence, knowledge and experience from which solutions can be constructed. In the case of strategic risk, many of the solutions identified will require some form of input

from external agencies as well as from the Council itself, whereas operational risk will almost always have its solutions rooted within the establishment.

5.3.3   There are a variety of internal Services and external bodies/agencies that have input towards the collective control of risk impacting on the Council and the Shetland Community as a whole. Figure 5, below, demonstrates the paths through which both operational and strategic risk is managed within Shetland Islands council.

Paths to Managing Risks

STRATEGIC RISK: Collective/ Council-wide risks, i.e. risks that affect **more than one** service.

Risk Management Board

National Organisations/Agencies, i.e. ALARM Scotland, Scottish Executive

RISK REGISTERS

DEPARTMENTS

Short Life Task Groups (inc. RM staff)

Local/Community Groups/Partner Agencies, i.e. Community Planning Board

National Special Interest Groups

Executive Management Team

Central Safety Consultative Committee

Other Local Authorities

National Research / Guidance/ / Best Practice / Initiatives

Internal Audit

Safety and Risk Services

Joint projects with Internal Services, i.e. Internal Audit, Human Resources

OPERATIONAL RISK: Service-specific risks, i.e. risks that **only** affect one service.

Specific Service Area

6   Risk Control Mechanisms

6.1   Stress Management (Risk Modification)

6.1.1 A Stress Management programme exists within Shetland Islands Council and will form part of the Risk Health Check, however Service areas demonstrating unacceptable levels of stress will receive a Stress Focus Group outwith their scheduled Risk Health Check.

6.1.2 The Stress Management Programme satisfies HSE requirements and is fully supported by the Chief Executive and EMT, and involves a group of employees coming together to identify stressors in their workplace and potential solutions which should then be implemented by Management provided they are reasonable, practical, sustainable, manageable and legal

Controls Risk Register Entry:

Risk Type	Risk Category	Risk
Operational (corporate)	Professional	Stress

6.2   Incident Reporting (Risk Identification)

6.2.1 A key part of the risk management process is the effective reporting of incidents and near misses. The most effective route to the identification and control of our risks depends on all staff reporting incidents and near misses. This structure is fairly well embedded within Shetland Islands Council but there are still some areas where improvements could be made.

6.2.2 It is often internal or local systems and procedures that are the root cause of incidents, rather than the incident being wholly the fault of the member of staff. In order to improve levels of incident reporting the Council will adopt a "just philosophy" in the investigation and management of reported incidents. Within this, staff can expect that the reporting of an incident will not lead to disciplinary action unless there is clear evidence of professional malpractice, negligence or malice.

Controls Risk Register Entry:

Risk Type	Risk Category	Risk
Operational	Physical	Various including Accidents & injuries
Operational	Legal (compliance)	Various including Breach of legislation, and motor 3rd party

6.3   Risk Health Checks (Risk Identification & Modification)

6.3.1 This is a structured approach culminating in a Risk Health Check report to the Service Manager and/or Head of Service, and copied to the Chief Executive. The report covers all identified risks and hazards, identifies appropriate

control measures, time scales, and risk owners, and specifies dates for review and monitoring of progress. The report will inform departmental and unit service planning, and effective implementation of the recommended actions are monitored by Internal Audit as part of their audit plan.

6.1.3   General areas covered within the Risk Health Check include:

- Service Targets
- Risk Register Entries
- PIN Forms
- Stress
- Contingency/Business Continuity
- Staff Issues
- Client/customer Issues
- Sickness Statistics
- Training Issues
- Disclosure Checks (where applicable)
- Registration (where applicable)
- Premises Inspection
- ICT issues
- Baseline Indicators
- Conclusions & Recommendations

Controls Risk Register Entry:

Risk Type	Risk Category	Risk
All	Various	Various

6.4   Emergency Planning/Civil Contingencies (Risk Modification)

6.4.1   Despite the best Risk Management processes in place, disasters can happen from time to time and when they do, their impact is often major. Emergency Planning and Civil Contingencies are risks of a significant enough size as to have a section dedicated to controlling those particular risks.

6.4.2   The Emergency Planning & Resilience Service within the Council is responsible for ensuring the Organisations readiness to respond to any emergency alongside the Emergency Services, as dictated by the Civil Contingencies Act 2004 (Contingency Planning) (Scotland) Regulations 2005 (The Act).

6.4.3   The aim is to improve the resilience of communities to respond to disruptive events of any size. This means that there are obligations upon individuals, families and businesses to be prepared for an emergency. The Act places statutory duties upon Local Authorities, Health Boards, Voluntary

Organisations, Emergency Services, various companies and wider Government Authorities.

Controls Risk Register Entry:

Risk Type	Risk Category	Risk
Strategic	Environmental	Contaminated land/air/water/sea/structures
Operational	Economic (financial)	Closure by Authorities
Operational	Environmental	Terrorism/Activists
Operational	Environmental	Denial of Access

6.5 Business Continuity Management (Risk Retention)

6.5.1 Business Continuity Management (BCM) is a risk control process that assists in getting a Service up and running again with minimum disruption following a serious and/or unexpected event.

6.5.2 BCM involves thinking ahead and planning for any crisis in order to ensure that business can recover quickly, and resume normal service, following a crisis. All Council Services must have Business Continuity Plans and these will be regularly tested to ensure they are fit for purpose.

Controls Risk Register Entry:

Risk Type	Risk Category	Risk
Operational	Economic	Various, including Business Continuity Plan Inadequate

6.6 Risk Registers (Risk Identification & Retention)

6.6.2 The Risk Register is one of the main risk management tools that is used in the rolling programme, and holds information on all of the risks that threaten a Service or Unit's ability to achieve its aims and objectives.

6.6.3 The Risk Register contains details on both the operational and strategic risks that a Service or Unit is exposed to, with the operational risks forming part of the Departmental Risk Register. It is essentially the flipside to the Service Plan and should reconcile with the activities listed within the Service Plan. Risk Register content and status will be reported to Members at appropriate intervals.

Controls Risk Register Entry:

Risk Type	Risk Category	Risk
All	All	All

6.7 Internal Audit (Risk Monitoring)

6.7.1 Internal Audit provide the independent assurances required to determine that identified risk controls are being applied and maintained as intended, and monitor the Council's compliance with various legislative requirements.

6.7.2 Internal Audit is authorised to examine all activities throughout the Council for the purpose of evaluating internal control, with specific responsibilities:

1. Performing audit assignments at appropriate intervals to reassure management that controls are adequate, efficient and operating as designed.

2. To identify and report to management any weakness in control and any unsound procedures.

3. To offer feasible recommendations for improving performance and preventing future shortcomings.

4. Investigating fraud, conflict of interest and other irregularities.

6.7.3 Internal Audit is concerned to preserve their independence from the operations they examine. They are not empowered to make changes in systems, methods or staffing, and may not undertake to do so. Their role is to act as agents for change by making recommendations to management from an impartial viewpoint. The auditee is responsible for managing risks identified.

Controls Risk Register Entry:

Risk Type	Risk Category	Risk
All	Various	Various

6.8   Health & Safety (Risk Modification/Avoidance/Retention)

6.8.1 Health and Safety risks are wide ranging and varied and therefore warrant a dedicated section within Safety & Risk Services to address these risks effectively.

6.8.2 The Health & Safety Section are responsible for overseeing, directing, encouraging and training, Officers and Members alike in delivering their respective duties as detailed under Health & Safety Legislation. Health & Safety controls are largely prescribed by legislation, of which failure to comply constitutes a criminal offence. However, the Council strives to be exemplars in this area, and not simply comply with minimum legislative requirements.

6.8.3 Health & Safety controls are implemented by Service areas, and are monitored by Health & Safety Section by a variety of means, including premises inspections, accident reporting and investigation, scrutiny of risk assessments and attendance at Safety Forums.

Controls Risk Register Entry:

Risk Type	Risk Category	Risk
Operational	Legal (compliance)	Various including Breach of legislation
Strategic	Physical	Various, including medically/clinically related, Industrial disease control, etc
Operational	Physical	Health & Safety – own systems
Operational	Physical	Various, including Health & Safety – own systems, Accidents & injuries, Assault, etc

6.9   Insurance (Risk Transfer & Retention)

6.9.1   Insurance risks are wide ranging and varied and are therefore handled by a dedicated Section within Safety & Risk Services which determines whether risks can be transferred to a Third Party such as an insurer or need to be retained by the Council. All claims are handled through Insurance to ensure liability issues are adhered to.

6.9.2   The Insurance Section also administer the insurance arrangements for a number of our partner agencies such as:

- Community Councils (x18)
- KIMO International
- Orkney & Shetland Valuation Joint Board
- Shetland Heat Energy and Power Ltd
- Shetland Fisheries Training Centre Trust
- Shetland Fisheries Centre Ltd
- Shetland Leasing and Property Development Ltd
- Shetland Seafood Quality Control Ltd
- Shetland Charitable Trust

Controls Risk Register Entry:

Risk Type	Risk Category	Risk
Strategic	Economic	Insurance Cover Inadequate
Operational	Legal (compliance)	Various including Property of Others for which responsible, Motor 3rd party, Professional Errors & Omissions,
Operational	Economic	Loss of Money

7   ROLES AND RESPONSIBILITIES

7.1   Partner Agencies via Community Planning Board

7.1.1   The effect of our Partner Agencies activities can have significant impact on the Council's abilities to deliver on its Key Priorities. It is essential that our Partner Agencies take an equally thorough approach to the management of risk within their respective organisations, and that this is readily evidenced.

7.1.2   The Service Manager – Safety & Risk will liaise with the Community Planning Board to establish the extent to which Risk Management processes are embedded within our Partner Agencies (as per Audit Scotland's SARA report) and, where/if necessary will make appropriate recommendations as to where improvements could be made.

7.1.3   The Service Manager – Safety & Risk will also report at regular intervals to the Community Planning Board on the existence and status of any relevant risks identified.

7.2   Elected Members

7.2.1   It is vital that the decision making process takes account of risk in all its guises, i.e. short term (near future) and long term (decades into the future), but there is no dedicated section within committee reports to advise Elected Members of the risk parameters & management as it relates to each committee report.

7.2.2   Under this Strategy, a clear mechanism will be developed to ensure that the decision-making process takes account of pertinent areas of risk, and demonstrates in the political arena that Members have been apprised, and therefore able to take account, of all relevant information during their deliberations.

7.3   EMT

7.3.1   Executive Management Team will be responsible for setting the direction of the Risk Management effort across the Council via the Risk Management Board which will, in turn, feedback through the Service Manager – Safety & Risk, on progress, etc.

7.4   Risk Management Board

7.4.1   The purpose of the Risk Management Board is to provide an informed forum at which a wide range of officials, having the common interest of Strategic Risk Management, can bring together their various specialisms to develop a sound understanding of the strategic, operational and financial objectives of the organisation, including factors critical to its success and the threats and opportunities related to the achievement of the Council's Key priorities and objectives.

7.4.2 The Risk Management Board is responsible for assisting Shetland Islands Council, to achieve its strategic, operational and financial objectives through the strategic management of risk across all service areas of the Council, both from external and internal factors.

7.4.3 The Board will be chaired by the Chief Executive (or his nominee in his absence) and will comprise all Heads of Service, and Risk Management staff, with specialist officers in attendance when required. The Board will have a strategic role with regard to achieving its overall aims and objectives, as well as overall responsibility for ensuring the effective Corporate Governance of the Council and for creating the environment and structures for Risk Management to operate effectively on a council-wide basis.

7.5 Service Manager – Safety & Risk

The Service Manager – Safety & Risk is responsible in general terms for the overall output of the various sections within Safety & Risk Services, but in addition is specifically responsible for the co-ordination and progress of Strategic Risk Management. The Service manager will report to both EMT and Council on relevant issues.

7.6 Risk Management Officers

7.6.1 The Risk Management Officers are responsible for the day-to-day delivery of Operational Risk Management, giving guidance, instruction, assistance, etc. to Services throughout the Council in their respective efforts to embed and deliver Risk Management within their own Service areas.

7.7 Heads of Service

7.7.1 All Heads of Service are members of the Risk Management Board and are required to drive the Risk Management effort within their departments, tabling relevant issues arising within their Services as well as directing the delivery of Risk Management through their Service Managers.

7.8 Service Managers

7.8.1 Service Managers are responsible for ensuring Operational Risk Management is practised on a day-to-day basis within their Services areas, and for bringing to the attention of the Head of Service any risks that are Strategic in nature. The solutions to Operational Risk Management will generally lie within the Service Manager's ability to implement, whereas Strategic Risks are usually corporate and will be beyond a particular Service Manager's remit.

7.9 Nominated Persons & Authorised Assistants

7.9.1 Nominated Persons & Authorised Assistants, and DSMOs in schools, are the conduits through which incidents and claims are handled across departments. They have access to the computerised system and have been trained in what details are required to be reported to Safety & Risk Services. They handle all the administrative work connected with incidents and claims on behalf of the Service concerned.

7.10 Internal Audit

7.10.1 Internal Audit provide the monitoring leg of the Risk Management process and their schedule is detailed in the Audit Plan. They will have access to both Operational and Strategic Risk Registers, and will test the compliance, and on occasion the robustness, of risk control application within Service Areas.

7.11 Central Safety Consultative Committee

7.11.1 The Safety Representatives and Safety Committees Regulations 1977 require that employers make provision for Trades Union safety representatives and safety committees. The Health and Safety (Consultation with Employees) Regulations 1996 require that employers consult with all employees not represented by a recognised trade union.

7.11.2 The 'Revitalising Health and Safety' strategy launched in June 2000 emphasises the need for effective engagement of the workforce by way of safety committees, and further communication from the Health & Safety Commission reiterates the expectations of the Government for Local Authorities to be exemplars in health & safety management.

7.11.3 The committee, which will be chaired by the Chief Executive (or his nominee in his absence), will act as the authority's main forum for consultation on health, safety and welfare implications arising from proposed policies, legislation and other matters of a corporate nature. The committee is a non-decision making body.

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7.12 All other Staff and Volunteers

7.12.1 All other Staff and Volunteers are required to buy into the Risk Management philosophy on a day-to-day basis and adhere to accepted policy and procedure

8 Monitoring and Reporting Mechanisms

8.1 The Safety & Risk Services Manager will report relevant information to Audit & Scrutiny Committee at each cycle and to other committees as required.

8.2   On an annual basis, the Safety & Risk Services Manager will deliver a statistical report to full Council covering the financial year that has just elapsed.

8.3   Following each Risk Management Board meeting, the Safety & Risk Services Manager will attend Executive Management Team and deliver an overview report of the issues tabled and take Strategic direction back to the group from EMT.

Appendices:

1   CiPFA Self Assessment checklist
2   Audit Scotland – SARA report

IPF

THE RISK MANAGEMENT JOURNEY

How far down the road are you?
A self assessment and audit checklist

AT THE HEART OF
PUBLIC SERVICES

CIPFA

Supported by:

RMP
Risk Management Partners

RISK MANAGEMENT IN EFFECTIVE ORGANISATIONS

In its report entitled *Chance or Choice?* , the Society of Local Authority Chief Executives said, *"If a Council doesn't have effective risk management then it doesn't have effective management".* Whilst, in the context of the report, this challenging statement applied specifically to local Councils, it can be applied equally to all other organisations in the public sector.

High performing organisations consistently demonstrate strengths in leadership, financial management, performance management and risk management. This document attempts to identify the contribution risk management makes to a successful public service organisation. Its aim is to present the components of risk management in a structured framework, to serve as a practical tool for improving organisational effectiveness.

The requirements of risk management in modern organisations have developed beyond the traditional areas of asset protection and controlling insurable risk to dealing with business risk in its widest sense; looking at all the threats to the successful achievement of corporate, strategic and operational objectives and using risk management to identify opportunities whilst pursing those objectives.

A number of pressures are being brought on public service bodies such as: -

- Calls for greater transparency in their business
- The need for early warning systems
- The call for increased partnership working
- Demands for higher quality services
- New leadership structures
- New legislation
- E-government
- The best value regime and Comprehensive Performance Assessment in local Councils

Public sector risk, in general, is receiving a higher profile in areas such as: -

- Asylum seekers
- Social services child abuse cases
- NHS fraud and waiting list statistical manipulation
- Clinical risk failures
- Failure to educate claims
- Failing schools and tampering with SAT test results
- Ethics of elected Councillors in local authorities

Effective risk management is now acknowledged to be an essential and integral part of effective corporate governance. It is not a "bolt on" and, at its most effective, should be an integral part of the organisation's business processes and culture.

The model of good risk management in this document is therefore about the operation of risk management in the bloodstream of the organisation.

The checklist invites organisations to test themselves on the effectiveness of their own

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risk management arrangements in supporting their business objectives, and to consider whether the style and contribution of risk management aligns with the organisation's strategic direction.

PURPOSES

The following checklist is a tool. It can be used

- for self-assessment
- for peer assessment
- by external or internal assessors such as auditors.

The results can be used

- to support the production of a statement of internal control
- to enable the organisation to establish a profile of its risk management system
- to compare this with where it wants risk management to be positioned, in order to maximise organisational effectiveness in the short or longer term
- to identify areas of strength and areas where improvement is needed
- to help prioritise any improvement action required
- to develop an action plan for improvement
- to review and track its progress over time.

This checklist is aimed at managers and risk management staff in the public services

USING THE CHECKLIST

Users of the checklist are asked to judge the performance of risk management against the good practice statements, looking at whether groundwork policies and practices are in place, their deployment and their influence or impact on the organisation's behaviour and results.

The judgement is expressed as statement of compliance based on how far the statement of good practice which heads each section and the supplementary questions can be answered **in the affirmative**. Users are encouraged to exercise objectiveness when they make their score. The more supplementary questions that can be answered in the affirmative, the closer that organisation is to achieving best practice. Users are, however, encouraged to take off any "rose tinted glasses" and look at what really happens, rather than what should be happening.

USING THE CHECKLIST IN SMALLER PUBLIC BODIES

It is recognised that not all sections of the model will apply to every organisation. For smaller local authorities, for example, it may not be possible to employ a corporate risk officer who has no responsibilities other than risk management. Similarly, smaller organisations may not have the resources (or desire) to set up a corporate and/or service level risk management groups.

Nevertheless, most of the principles espoused by the model are as applicable (albeit on a smaller scale) to smaller public bodies as they are to the larger bodies in the public

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sector.

TERMINOLOGY

Like many professions, the risk management profession uses terminology which may be unfamiliar to some or may mean one thing to one person and something else to another. In order to avoid confusion a glossary of the risk management terms, and their meaning, used within this model is attached as Appendix One.

THE WIDER CONTEXT

The role of risk management in enhancing the overall performance of an organisation is undeniable. The SOLACE definition of risk management, in its publication *Chance or Choice* is

> *Risk management is the management of integrated or holistic business risk in a manner consistent with the virtues of economy, efficiency and effectiveness. In essence it is about making the most of opportunities (making the right decisions) and about achieving objectives once those decisions are made. This is achieved through:*
> - *Controlling risks*
> - *Transferring risks*
> - *Living with risks*

In the joint CIPFA/SOLACE report *Corporate Governance in Local Government – A Keystone for Community Governance (*2001) risk management and internal control were specifically referred to as one of the five main dimensions of effective governance.

In respect of risk management and internal control the CIPFA/SOLACE guidance CIPFA said that each organisation needs to: -

- Develop and maintain robust systems for identifying and evaluating all significant risks which involve the proactive participation of all those associated with planning and delivering services
- Put in place effective risk management systems, including systems of internal control and an internal audit function
- Ensure that services are delivered by trained and experienced people
- Put in place effective arrangements for an objective review of risk management and internal control, including internal audit
- Maintain an objective and professional relationship with external auditors and statutory inspectors
- Publish on a timely basis within the annual report an objective, balanced and understandable statement and assessment of the authority's risk management and internal control mechanisms and their effectiveness in practice.

A similar theme informs the agenda for corporate governance and risk management in the health, education sectors and central government departments. It is echoed, for example, in the Treasury "Orange Book" and in the NHS Controls Assurance Standards.

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THE CHECKLIST

RISK MANAGEMENT STRATEGIES

STATEMENT OF BEST PRACTICE
There is a written strategy and policy in place for managing risk

	YES	NO
• Has a formal, written risk management strategy document been drawn up?		
• Does the strategy document make it clear that "risk" is not just something that will impact negatively on objectives but includes risk as an opportunity as well as a threat?		
• Does the strategy define who within the organisation is responsible for ensuring that it is effectively implemented?		
• Does the strategy make it clear that risk will be managed at both a strategic and operational level?		
• Does the strategy outline the organisation's choice of risk categories to be used?		
• Does the strategy define the corporately adopted risk identification process?		
• Does the strategy contain the organisation's definitions of risk measurement (risk criteria) for both probability and consequences?		
• Does the strategy contain an undertaking that the organisation will identify key risk indicators and how these are to be tracked?		
• Does the strategy document contain an undertaking to report on risk?		
• Does the strategy make it clear that risk should be formally considered at the commencement of any major organisational change or project?		
• Does the strategy make it clear that risk assessment should become an integral part of the annual planning process?		
• Does the strategy outline realistic and achievable milestones and deadlines?		
• Is the strategy specific about the outcomes and benefits the organisation expects to achieve from risk management?		
• Has the strategy been reviewed and updated systematically and regularly and within the last 12 months?		
• Has the strategy been reported on and endorsed at political and management board level?		
• Has the strategy been widely publicised and distributed amongst staff?		
• Has a risk management policy statement been prepared?		
• Has the policy been endorsed at political and management board level?		
• Has the policy been widely publicised and distributed amongst staff?		
• In defining the strategy and policy were the views of stakeholders such as trade union representatives, employees at all levels, internal experts such as auditors taken into account?		
• Have the views of the organisation's external auditors on the policy and strategy been obtained and taken into account?		

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RISK MANAGEMENT STRUCTURES & PROCESSES

STATEMENT OF BEST PRACTICE
The organisation has clear structures and processes for risk management which are successfully implemented

	YES	NO
• Is risk management seen as a key priority at senior management board level?		
• Is risk management seen as a key priority at elected Member/non executive board member/board member level?		
• Is there evidence that elected Member/non executive board member/board members consider risk in making decisions?		
• Has a senior manager been formally nominated to "champion" risk management?		
• Does the organisation have a corporate risk officer with no responsibilities except for risk management?		
• Have the resource requirements been defined and have sufficient resources been applied to the implementation of the risk management system throughout the organisation?		
• Are there any risk groups, risk panels or forums to ensure the co-ordination of the risk management system?		
• Are any risk groups, risk panels or forums also used as a platform for sharing risk experiences?		
• Have the roles and responsibilities for risk management been defined at all levels in the organisation?		
• Have risk management responsibilities been written into the job descriptions for operational managers and above?		
• Is risk management performance included within personal targets for operational managers and above?		
• Does the senior management board carry out periodic reviews of the risk management system to ensure its continued suitability and effectiveness?		
• Does the senior management board agree any inputs required to support risk management work corporately?		
• Do the organisation's internal auditors carry out periodic reviews of the risk management system and report on its continued suitability and effectiveness?		
• Is risk management considered in the annual business planning process?		
• Is risk management embedded in change programmes?		
• Does internal audit have a role in and provide advice about risk management?		
• Is the organisation active in terms of sharing information, networking and has membership of relevant organisations such as Alarm?		

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RISK IDENTIFICATION AND EVALUATION

STATEMENT OF BEST PRACTICE
The organisation has developed a corporate approach to the identification and evaluation of risk which is understood by all staff

	YES	NO
• Have systematic procedures for risk identification been agreed?		
• Have these been communicated to all staff involved in the risk identification process?		
• Have systematic procedures for risk evaluation been agreed?		
• Have these been communicated to all staff involved in the risk identification process?		
• Have the number of probability and consequence measures on the risk matrix been agreed?		
• Have these been communicated to all staff involved in the risk identification process?		
• Has the organisation's risk appetite been defined?		
• Are both internal and external experiences also used to inform risk identification?		
• Does the organisation make use of other internal statistical information such as health and safety statistical analyses, analyses of liability insurance claims to inform the risk identification process?		
• Does the organisation make use of other internal sources of information such as budgetary statements, annual reports and best value performance plans to identify		
• Does the organisation make use of benchmarks and good practice guidance in the identification of areas where risk management may need to be strengthened?		
• Does the organisation have an incident recording and reporting arrangement that is used to inform the risk identification process?		
• Are group sessions such as workshops used to determine high-risk areas and evaluate their impact?		
• Does the organisation carry out on site inspections where appropriate to enhance the process of risk identification?		
• Does the organisation make use of feedback from tenants/citizens forums to identify the public perception and attitude to risk and help identify risks that may not be		
• Does the organisation involve functional specialists (e.g. internal auditors, health and safety officers) in the risk identification process where appropriate?		

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RISK RECORDING, TRACKING AND REPORTING

STATEMENT OF BEST PRACTICE
The organisation has well defined procedures for recording and reporting risk

	YES	NO
Is a risk register maintained to record all the identified risks?		
Does the register contain a description of the risk?		
Does the risk register link risks to organisational objectives?		
Does the register contain measures of the probability and consequences of gross risk (i.e. the level of risk, assuming no controls or risk mitigation is in place)?		
Does the risk register contain measures of the likelihood and severity of residual risk (i.e. the level of risk remaining after existing controls and risk mitigation is taken into account)?		
Does the risk register contain action plans for further risk mitigation work?		
Does the register contain dates by which risk mitigation action should be taken?		
Does the register record the risk owner?		
Is there evidence that there is a follow up to check that risk mitigation action is delivered by the due date?		
Are operational managers responsible for maintaining their part of the risk register?		
Have key risk indicators been identified?		
Are steps taken to monitor key risks on a regular basis?		
Are there arrangements in place for the regular reporting of key risks to senior management board?		
Are there arrangements in place for the regular reporting of key risks to elected Member/non-executive board members/board members?		
Does the annual internal audit plan flow from the risk register?		
Is there a procedure in place for immediately reporting any serious emerging risks to the senior management board?		

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RISK FINANCING

STATEMENT OF BEST PRACTICE
There are well-established and clear arrangements for financing risk.

	YES	NO
• Is there evidence that the organisation's arrangements for risk financing are monitored and reviewed?		
• Does the organisation have a policy to self-insure some or all of its risk?		
• Are the limited legal requirements for external insurance being met?		
• If self-insurance funds are maintained are they subject to a regular actuarial valuation?		
• Has external advice been sought in relation to the organisation's risk financing strategy?		
• Are insurance claims managed in accordance with 'Woolfe' principles?		

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RISK MANAGEMENT COMMUNICATION AND TRAINING

STATEMENT OF BEST PRACTICE
The organisation has developed a programme of risk management training for relevant staff.

	YES	NO
• Is risk management training included as part of induction training for new employees?		
• Is risk management training offered to existing employees with risk management responsibilities?		
• Is the quality of training well regarded and does feedback inform content and style?		
• Are there facilities for self-training and reference, e.g. learning on-line?		
• Is training part of the response when things go wrong?		
• Does the organisation have a regular risk management newsletter or other means of communicating risk management issues to staff?		
• Are individuals' risk management training needs reviewed regularly?		
• Has there been a corporate risk management training needs assessment?		
• Are the risk management strategy, policy, systems and processes communicated, followed and understood by all relevant staff?		
• Can advice and guidance be sought on line e.g. the Intranet?		
• Is there guidance on the issues (e.g. risk identification techniques) where advice is required?		
• Do reports for decision contain risk management implications written /or approved by the corporate risk officer?		
• Are risk management staff roles and contact details accessible and up to date?		
• Do staff know how to access risk management guidance?		
• Are staff aware of when and whom to consult?		
• Are there formally defined levels of generic risk management competencies for managers and staff?		
• Are these reviewed and tested through performance appraisal?		
• Are there forums to enable staff within business groups who are responsible for managing risk to network and exchange good practice?		

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THE CORPORATE RISK MANAGEMEN T GROUP

STATEMENT OF BEST PRACTICE
The corporate risk management group adds value to the risk management process

	YES	NO
• Does the organisation have a risk management group(s) operating at either a corporate or service level?		
• Does the group provide advice and support to the corporate management team on risk management strategies, policy and processes?		
• Does the group identify areas of overlapping risk?		
• Does the group drive new risk management initiatives within the organisation?		
• Does the group communicate risk management and share good practice?		
• Does the group drive the process of risk identification and assessment?		
• Does the group provide, review and monitor risk management training?		
• Does the group undertake a regular review of the risk register?		
• Does the group co-ordinate the results for reporting on risk to the corporate management team and elected Members/non executive directors/board members?		
• Does the group provide advice and support on prioritising risk treatment action based on the organisation's risk appetite?		

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THE CORPORATE RISK OFFICER

STATEMENT OF BEST PRACTICE
The corporate risk officer has the skills to analyse issues and offer options and advice.

	YES	NO
• Does the corporate risk officer support decision-making and policy formulation?		
• Does the corporate risk officer provide advice and support in the identification, analysis and evaluation of risk?		
• Does the corporate risk officer provide advice and support in prioritising action based on the organisation's risk appetite?		
• Does the corporate risk officer provide advice and support on determining risk treatment and mitigation action?		
• Does the corporate risk officer provide advice and support on risk control techniques?		
• Does the corporate risk officer co-ordinate the results of risk monitoring and reporting to the management board and elected Members/non-executive directors/board members?		
• Does the corporate risk officer prepare draft reports for the corporate management team to issue to stakeholders on the organisation's risk management strategy, policy and processes?		
• Can the corporate risk officer call on skills in communication, presentation, diplomacy and mediation?		
• Is the corporate risk officer professionally qualified in risk management?		
• Is the corporate risk officer welcome in project development because he or she can take a broad view?		
• Do managers have confidence in the advice of the corporate risk officer and is this evidenced?		
• Does the corporate risk officer have unlimited access to the organisation's records or scope of activities?		

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MANAGERS' ACCOUNTABILITY FOR RISK MANAGEMENT

STATEMENT OF BEST PRACTICE
Managers are accountable for managing their risks

	YES	NO
• Are managers involved in the risk identification and assessment process?		
• Do they take ownership of the risk in their service area?		
• Are managers' responsibilities for risk management clearly documented?		
• Are managers held accountable for any significant risk management failures in their area?		
• Is there guidance for service managers (for example a risk management manual, timetable for risk identification)?		
• Is their risk management performance included as part of their performance assessment?		
• Are managers able to explain how they manage their risks?		
• Are risks identified, assessed and documented in accordance with the timetable?		
• Do managers review their risks at least annually?		
• Is evidence of this annual re-assessment of risk collated?		
• Are risks presented in sufficient, but not excessive, detail?		

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TESTING THE EMBEDDEDNESS OF RISK MANAGEMENT WITHIN THE ORGANISATION

STATEMENT OF BEST PRACTICE
Risk management literacy is diffused throughout the organisation

	YES	NO
• Are the managing board and elected Members/non executive directors/board members sincere about their beliefs that effective risk management can enhance organisational performance?		
• Do managers understand and take responsibility for managing risk in their service areas?		
• Is there a general culture of risk management, at all levels?		
• Do managers understand the risk management performance of their own area of work and have a general appreciation of those in the wider organisation?		
• Are risk management accountabilities and performance embedded in managers' recruitment and in performance appraisal?		
• Is competency in managing risk recognised and important for career progression?		
• Is training and development in risk management, including background briefing, provided for Board members?		
• Is a culture of risk awareness sustained by regularly involving managers in the risk management aspects of business planning?		
• Are managers over-dependent on the corporate risk officer in managing their risks?		
• Are service managers attuned to the risk management implications of their decisions?		
• Do managers think about the risk management implications of the way they do business?		
• Has consideration been given to whether control strategies are appropriate?		
• Is the subject of risk management a regular part of team meeting agendas?		
• Is the subject of risk management incorporated into quality measures e.g. Investors in People programme, quality arrangements under ISO?		
• Are departmental managers required to self certify the performance of risk management and internal control in their department?		
• Do departmental management teams agree budgets for risk control projects?		
• Does the organisation have a fully developed business/service continuity plan covering all its service areas?		
• Does the organisation have an IT recovery plan?		
• Are cost benefit analyses carried out on proposed risk control measures?		
• Are early warning mechanisms adequate?		

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PROJECTS AND PARTNERSHIPS

STATEMENT OF BEST PRACTICE
Risk management is fully considered in projects and partnership working?

	YES	NO
• Is a risk assessment carried out before the commencement of every major project?		
• Is the risk assessment fully documented?		
• Is the risk assessment reviewed at regular intervals during the life of the project to determine changes to risk and identify new and emerging risks?		
• Is a risk assessment carried out before entering into new partnership arrangements?		
• Is the risk assessment fully documented?		
• Are potential partners required to produce and submit risk assessments?		
• Is the risk management performance of the partnership regularly reviewed?		
• Are partnership arrangements regularly reviewed?		
• Are there effective arrangements on risk sharing?		
• Have existing contracts been reviewed to highlight areas of risk retained by the organisation?		
• Is a risk assessment carried out when entering into new contractual arrangements?		
• Is the risk assessment fully documented?		

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RISK MANAGEMENT INFORMATION SYSTEMS (RISK REGISTERS ETC)

STATEMENT OF BEST PRACTICE
Risk management information systems meet users' needs.

	YES	NO
• Does the risk management system provide reliable outputs?		
• Is risk information updated promptly?		
• Are risk management information systems documented?		
• Are the risk management information systems appropriately supported and maintained?		
• Is the system adequate for risk reporting?		
• Are managers equipped with the tools and skills to use risk information systems effectively and to access the information they need?		
• Does the risk management information system used by the organisation meet users' needs?		
• Are users' needs regularly reviewed to ensure that risk management systems remain 'fit for purpose'?		
• Are users consulted on developments?		
• Are managers able to update risk information held the system online?		
• Are there flexible reporting tools so specialist reports can be designed ?		

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APPENDIX ONE

<u>A glossary of terms</u>

The following glossary is based on *Risk Management – Vocabulary – Guidelines for use in standards ISO/IEC Guide 73.* Paragraph references given are those in the guidelines. Where no paragraph reference is used the definition given is an IPF definition.

Reference	*Basic Term*	*Definition*
3.1 Basic Terms		
3.1.1	**Risk**	Combination of the **probability** of an **event** and its **consequence**
		Note 1: The term "risk" is generally used only when there is at least the possibility of negative consequences
		Note 2: In some situations risk arises from the possibility of deviation from the expected outcome or event
		Note 3: See ISO/IEC Guide 51 for issues related to safety
3.1.2	**Consequence**	Outcome of an **event**
		Note 1: There can be more than one consequence from one event
		Note 2: Consequences range from positive to negative. However, consequences are always negative for safety aspects
		Note 3: Consequences can be expressed qualitatively or quantitatively
3.1.3	**Probability**	Extent to which the **event** is likely to occur
		Note 1: Frequency rather than probability may be used in describing risk
		Note 2: Degrees of belief about probability can be chosen as classes or ranks, such as rare/unlikely/moderate/likely/almost certain, or incredible/improbable/remote/occasional/probable/frequent
3.1.4	**Event**	Occurrence of a particular set of circumstances
		Note 1: The even can be certain or uncertain
		Note 2: The event can be a single occurrence or a series of occurrences
		Note 3: The **probability** associated with the event can be estimated for a given period of time.
3.1.5	**Source**	Item or activity having a potential for a **consequence**

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3.1.6	**Risk criteria**	Terms of reference by which the significance of **risk** is assessed
		Note: risk criteria can include associated cost and benefits, legal and statutory requirements, socio economic and environmental aspects, the concern of stakeholders, priorities and other inputs to the assessment
3.1.7	**Risk management**	Set of elements of an organisation's management system concerned with managing **risk**
		Note 1: management system elements can include strategic planning, decision making and other processes for dealing with risks
		Note 2: The culture of an organisation is reflected in its risk management system

3.2. Terms related to people or organisations affected by risk

3.2.1	**Stakeholder**	Any individual, group or organisation that can affect, be affected by, or perceive itself to be affected by a **risk**
		Note 1: The decision maker is also a stakeholder
		Note 2: The term "stakeholder" includes but has a broader meaning than interested party (which is defined in ISO 9000:2000)
3.2.2.	**Interested party**	Person or group having an interest in the performance or success of an organisation. Example: Customers, owners, people in an organisation, suppliers, bankers, unions, partners or society
		Note: A group can comprise an organisation, a part thereof, or more than one organisation (ISO 9000:2000, definition 3.3.7)
3.2.3	**Risk perception**	Way in which a stakeholder (3.2.1.) views a risk (3.1.1) based on a set of values or concerns.
		Note 1: Risk perception depends on the **stakeholder's** needs, issues and knowledge.
		Note 2: Risk perception can differ from objective data
3.2.4	**Risk communication**	Exchange or sharing of information about **risk** (3.1.1) between the decision-maker and other **stakeholders** (3.2.1)
		Note: The information can relate to the existence, nature, form, probability, severity, acceptability, treatment or other aspects of risk.

3.3. Terms related to risk assessment

| 3.3.1 | **Risk assessment** | Overall process of **risk analysis** (3.3.2) and **risk evaluation** (3.3.6) |

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3.3.2	**Risk analysis**	Systematic use of information to identify **sources** (3.1.5) and to estimate the r**isk** (3.1.1)
		Note 1: Risk analysis provides a basis for **risk evaluation, risk treatment** and **risk acceptance.** Note 2: Information can include historical data, theoretical analysis, informed opinions, and the concerns of **stakeholders.** Note 3: See ISO/IEC Guide 51 for risk analysis in the context of safety.
3.3.3.	**Risk identification**	Process to find, list and characterize elements of risk (3.1.1)
		Note 1: Elements can include **source** or hazard, **event, consequence and probability.** Note 2: Risk identification can also reflect the concerns of **stakeholders.**
3.3.4	**Source identification**	Process to find, list and characterize **sources** (3.1.5)
		Note: In the context of safety, source identification is called hazard identification (see ISO/IEC Guide 51).
3.3.5	**Risk estimation**	Process used to assign values to the **probability** (3.1.3) and **consequences** (3.1.2) of a **risk** (3.1.1)
		Note: Risk estimation can consider cost, benefits, the concerns of **stakeholders** and other variables, as appropriate for **risk evaluation.**
3.3.6	**Risk evaluation**	Process of comparing the estimated **risk** (3.1.1) against given **risk criteria** (3.1.6) to determine the significance of the risk
		Note 1: Risk evaluation may be used to assist in the decision to accept or to treat a risk. Note 2: See ISO/IEC Guide 51 for risk evaluation in the context of safety.

3.4 Terms related to risk treatment and control

3.4.1	**Risk treatment**	Process of selection and implementation of measures to modify **risk** (3.1.1)
		Note 1: The term "risk treatment" is sometimes used for the measures themselves. Note 2: Risk treatment measures can include avoiding, optimizing, transferring or retaining risk.
3.4.2	**Risk control**	Actions implementing **risk management** (3.1.7) decisions
		Note: Risk control may involve monitoring, re-evaluation, and compliance with decisions.
3.4.3	**Risk optimization**	Process, related to a **risk** (3.1.1), to minimize the negative and to maximize the positive **consequences** (3.1.2) and their respective **probabilities** (3.1.3) Note 1: In the context of safety, risk optimization is focused on reducing the risk. Note 2: Risk optimization depends upon **risk criteria,** including costs and legal requirements. Note 3: Risks associated with **risk control** can be considered.

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3.4.4	**Risk reduction**	Actions taken to lessen the **probability** (3.1.3), negative **consequences** (3.1.2) or both, associated with a **risk** (3.1.1)
3.4.5	**Mitigation**	Limitation of any negative **consequence** (3.1.2) of a particular **event** (3.1.4)
3.4.6	**Risk avoidance**	Decision not to become involved in, or action to withdraw from, a risk situation Note: The decision may be taken based on the result of **risk evaluation.**
3.4.7	**Risk transfer**	Sharing with another party the burden of loss or benefit of gain, for a **risk** (3.1.1) Note 1: Legal or statutory requirements can limit, prohibit or mandate the transfer of certain risk. Note 2: Risk transfer can be carried out through insurance or other agreements. Note 3: Risk transfer can create new risks or modify existing risk. Note 4: Relocation of the **source** is not risk transfer.
3.4.8	**Risk financing**	Provision of funds to meet the cost of implementing **risk treatment** (3.4.1) and related costs Note: In some industries, risk financing refers to funding only the financial consequences related to the **risk.**
3.4.9	**Risk retention**	Acceptance of the burden of loss, or benefit of gain, from a particular **risk** (3.1.1) Note 1: Risk retention includes the acceptance of risks that have not been identified. Note 2: Risk retention does not include treatments involving insurance, or transfer by other means. Note 3: There can be variability in the degree of acceptance and dependence on **risk criteria.**
3.4.10	**Risk acceptance**	Decision to accept a **risk** (3.1.1) Note 1: The verb "to accept" is chosen to convey the idea that acceptance has its basic dictionary meaning. Note 2: Risk acceptance depends on **risk criteria**
3.4.11	**Residual risk**	The level of **Risk** (3.1.1) remaining after **risk treatment** (3.4.1) Note: See *ISO/IEC* Guide 51 for safety-related applications
	Gross risk	The level of **Risk** (3.1.1) before any risk treatment (3.4.1) or mitigation (3.4.5)

Corporate Risk Officer	A paid official of the public body who has no *other* responsibilities except for advising on, formulating, overseeing and managing all aspects of an organisation's **risk management system** **OR** may have other duties/responsibilities for which he/she is responsible but is also *primarily* responsible for advising on, formulating, overseeing and managing all aspects of an organisation's **risk management system**
Risk Matrix	The numbers of levels of probability and consequences chosen against which to measure risk. Note: some organisations will use five measures of each, others three measures, others seven measures etc.
Risk appetite	The level of **residual risk** that the organisation is prepared to accept without further **mitigation** action being put in place. Note: An organisation's risk appetite will vary from risk to risk.
Risk Register	A formal listing of risks identified, together with the results of the **risk analysis, risk evaluation** procedures together with details of **risk treatment, risk control, risk reduction** plans
Key Risks	Risks which the organisation perceives to be its most significant risks
Key risk Indicators	Indicators by which key risks can be easily identified.
Risk tracking	The monitoring of key risks over time to determine whether the level of risk is changing.

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AUDIT SCOTLAND

Shetland Islands Council Priorities and Risks Framework

Risk Management

Date: 1 December 2009

Present: Sandra Pearson, Safety and Risk Manager, Shetland Islands Council
Lynn Brown, Senior Auditor, Audit Scotland
Carole Grant, Senior Auditor, Audit Scotland

Background

1. Local authorities in Scotland operate in a dynamic environment and face an increasing demand for more diverse and higher quality services, within an overall context of tighter financial settlements. As expectations increase and methods of delivering services become more wide-ranging, local authorities inevitably face more risks. Good risk management is necessary to address these risks, and is important for ensuring public services are delivered effectively and that councils are well run. Risk management involves the systematic identification and management of risks affecting the organisation, highlighting where action is required and where performance needs to improve.

2. Councils that are too risk averse are unlikely to achieve best value and deliver excellent performance. Effective risk management requires leadership and innovation across the organisation, together with an ability to take risks and manage them effectively to optimise outcomes and impact for citizens and service users.

3. Members are ultimately responsible for risk management within local government because of the link to the achievement of policy objectives. Members must understand risk management and exercise leadership to set the right tone to ensure it is effective. Members must ensure that risk awareness and management are part of the culture of local government and embedded within existing management processes.

4. The priorities and risks framework (PRF) is a planning tool designed to focus the local audit. The key issues outlined in this position statement will, where appropriate, be taken forward to the Strategic Audit Risk Analysis (SARA). The SARA will be issued to the council by 31 March 2009, and will detail the planned audit activity to cover each area.

Policy, strategy and procedures

5. The council's risk management policy is currently being re-written and will be presented to the Audit Committee for approval on 6 May 2009. The current risk management policy is out-of-date due to the continued development of risk management arrangements within the council.

Key Risk Area 1

6. As part of the overall risk management effort the council have recently introduced risk health checks for service departments. The purpose of the risk health check is to work with the manager and staff to identify key areas of risk affecting their specific service. Following this an action plan is developed containing sustainable solutions for implementation, with the fundamental aim of minimising the level of risk to a manageable degree.

7. Specific risk management training has not been provided. Training packages are organised and delivered on an ad hoc basis to address specific risk management issues. Although a training course for managers and elected members has been developed, the council are still considering whether this should be incorporated and delivered within a planned training programme.

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Corporate risk management

8.   The Risk Management Board is responsible through the Executive Management Team for monitoring and directing the control of strategic and corporate risks across the council.

9.   The council's strategic risk register focuses on those areas of risk that can disrupt the strategic planning of the council and/or would have a long-term impact on the Shetland community. The board is currently in the process of reviewing the strategic risk register. The initial deadline for the review has now passed due to resource issues and a revised timescale for completion is yet to be established.

Key Risk Area 2

Departmental risk management

10.   The departmental risk registers address service-specific and/or corporate operational risks. Whilst the corporate operational risks are referred to the risk management board, departmental risks are addressed through safety and risk services working with the service concerned.

11.   Where departmental risk registers identify issues which impact on a corporate theme the risks are escalated to ensure they are appropriately mitigated. An example of this is stress related risks which feature in a number of departmental risk registers.

Partnership risk management

12.   There is no formal process in place for reviewing key partners risk management arrangements or established risk registers. The Safety and Risk Manager is aware of risk registers in place for some partners, e.g. Shetland Charitable Trust.

13.   The council's risk management arrangements will be updated to align corporate and community risks alongside the single outcome agreement arrangements. Community planning partners will be invited to share and participate in those activities. However there is no process to report identified risks to the community planning board which would strengthen arrangements.

Key Risk Area 3

Project risk management

14.   In October 2008 a report was presented to the audit and scrutiny committee which considered the handling of a number of proposed key capital projects within the council. This highlighted that unclear project briefs and delays in approving capital projects had resulted in building projects being deferred. There has also been additional expenditure incurred on these projects because no clear scope was reached at an early stage.

Key Risk Area 4

Risk management in key decisions

15.   There are a range of techniques that can be applied to ensure that risk assessment and management is embedded within the decision making process. While the council has committed resources to the development of risk management arrangements there is no formal "trigger" which ensures that risk identification, assessment and management are an integral part of the decision making process.

Key Risk Area 5

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Officer and member understanding and ownership

16.   Through the risk health check rolling programme, managers are involved throughout the process ensuring harmony in the outcome. The risk management board and central safety consultative committee provide a corporate means for issues from areas throughout the council to be raised and addressed at a corporate level.

Risk management resourcing

17.   Within the council, Safety and Risk Services provides a corporate approach to the management of risk across all services, both at strategic and operational levels. Each year a service plan is produced to identify the required resources, analyse and plan for future requirements, monitor service delivery and provide an action plan for service improvements.

Integration with corporate processes

18.   The council needs to ensure that it effectively links risk management with other corporate processes such as financial management. There are a number of potential financial risks facing the council in the short to medium term such as

- The sustainability of the future capital programme

- The ongoing pressures on the revenue budget

- The potential fall in investment income in the current economic climate

- Ineffective system in place to measure asset management performance.

Business Continuity Management

19.   The Council has contracted with an external provider to achieve an in-depth process to work with all Services to ensure business continuity plans are created, tested and kept up to date. The methodology incorporates the relevant British Standards and builds on the understanding of BC across the Council Services in order that it the future management of this risk will be internalised.   These plans will be entered into the Risk Management database and will become a regular item on the Risk Management Board agenda.

Key Risk Area 6

Audit Services Group
Local Government Team

Key Risk Areas

	Risks Identified	Management Action to Address Key Risks
1	**Risk management policy** The council's risk management policy is out-of-date and is currently being re-written. *Risk: there is a risk that the process and procedures for risk management are not being consistently applied.*	o The revised risk management policy will be presented to the Audit Committee for approval on 6 May 2009.
2	**Risk registers** The council is in the process of reviewing and updating the strategic and departmental risk registers to reflect the council's eight priorities identified within the corporate plan and service-specific issues respectively. *Risk: there is a risk that until the registers are updated the council may not identify an imminent risk facing the council.*	o Work is ongoing in both of these areas and it is anticipated that all Risk Registers will be updated and entered onto the database by September 2009.
3	**Partnership risk management arrangements** There is no process in place to allow the council to report identified risks to the community planning board. *Risk: there is a risk that the community planning board is unaware of risks facing partners resulting in appropriate action not being taken.*	o The Safety and Risk Manager will liaise with the Community Planning Board/partner organisations to determine, and subsequently pull together, Risk Management arrangements across all partner agencies in keeping with the aim of the Single Outcome Agreement.
4	**Capital project management** The council needs to ensure that capital projects are well managed and provide value for money. *Risk: there is a risk that without a clear project brief additional expenditure will be incurred and projects will be deferred.*	o Whilst responsibility for clear project briefs lie elsewhere in the Council, this issue will be added to the Strategic Risk Register to allow the Risk Management Board, and therefore EMT, to keep a watchful eye on progress.
5	**Risk management identification** There is no formal "trigger" which ensures that risk identification, assessment and management are an integral part of the decision making process. *Risk: there is a risk that the decision making process does not consider risk identification, assessment and management.*	o The Risk Management Board will consider introducing a new element to the Council's report template incorporating of a 'Risk Management Implications' section which will require authors to detail upside and downside risk thereby leading to a more informed decision making process.

4

	Risks Identified	Management Action to Address Key Risks
6	**Business Continuity Management** There is little evidence of Business Continuity plans across council departments. *Risk: there is a risk that business disruption extends beyond tolerable limits and recovery costs are greater than necessary.*	o The Council has contracted with an external provider to achieve an in-depth process to work with all Services to ensure BC plans are created, tested and kept up to date. The methodology incorporates the relevant British Standards and builds on the understanding of BC across the Council Services in order that it the future management of this risk will be internalised. These plans will be entered into the Risk Management database and will become a regular item on the Risk Management Board agenda.

5

Shetland
Islands Council

REPORT

Asset Management in Local Government

Report No. LA-15-F

1.   **Introduction**

   1.1   Audit Scotland has carried out a study into asset management by Local Authorities in Scotland. Their report from this study is provided at Appendix 1 for consideration by the Audit & Scrutiny Committee.

2.   **Link to Corporate Priorities**

   2.1   Consideration of the Audit Scotland report will contribute to the Council's Corporate Plan aim of "being efficient in everything we do".

3.   **Extracts for Shetland Islands Council**

   3.1   Exhibits 5 and 11 of Appendix 1 shows that the Council performs reasonably well in the assessment of "building condition" and in the "percentage of buildings reported in poor condition and with poor suitability". This, however, comes at the cost of the highest figure for property costs as a percentage of gross revenue budget (Exhibit 19) and higher than average maintenance costs per square metre (Exhibit 13, note that the Council's costs of £16.16 per sq m were not available at the time of this Council's return to Audit Scotland but would place the Council towards the higher end of this graph)

   3.2   The high maintenance costs not only reflect the better than average condition of the Council's buildings but also the additional costs resulting from location.

   3.3   Exhibit 8 reflects the suitability of the Council's buildings. Suitability ratings are now available for all of the Council's operational buildings and would result in 66% being either good or satisfactory. This would retain the Council's position on the graph. As previously indicated to

this Committee, the overall suitability of the Council's buildings is affected by the large number of rural public toilets, which are considered as unsuitable due only to the lack of disabled access. If public toilets were disregarded from the suitability calculation then the rating for good or satisfactory buildings would increase to 89%, which would be towards the top of the graph.

3.4   Exhibit 12 excludes the Shetland Islands Council as this Council's data is not held in this format. Efforts are being made to recalculate the data to provide a comparison figure.

3.5   The fact that Shetland Islands Council has the lowest income from commercial property (Key factor 6 – paragraph 96 of the appendix) should be expected due to the small number of commercial properties and the low values in this location.

4.   **Financial Implications**

4.1   There are no direct financial implications arising from this Report

5.   **Policy and Delegated Authority**

5.1   The remit of the Audit and Scrutiny Committee includes reviewing Council performance information.

6.   **Conclusion**

6.1   The document at appendix 1 results from Audit Scotland's study into asset management by Local Authorities and includes comparative performance by Shetland Islands Council.

7.   **Recommendation**

7.1   I recommend that the Audit and Scrutiny Committee note the contents of the attached study by Audit Scotland.

Asset management in local government

AUDIT SCOTLAND

The Accounts Commission

The Accounts Commission is a statutory, independent body which, through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

• securing the external audit, including the audit of Best Value and Community Planning

• following up issues of concern identified through the audit, to ensure satisfactory resolutions

• carrying out national performance studies to improve economy, efficiency and effectiveness in local government

• issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

The Commission secures the audit of 32 councils and 41 joint boards (including police and fire and rescue services). Local authorities spend over £19 billion of public funds a year.

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Summary

Good asset management can make council buildings work better for the people using them – but this needs active participation from all council departments and partner agencies.

About the study

1. Assets are anything owned by an organisation that have a monetary value. Councils' fixed assets include property assets (buildings and the land they occupy), vacant land, infrastructure assets (mainly roads and bridges), vehicles, plant and machinery, and Information Technology (IT) hardware.

2. After employee costs, the largest cost to public sector bodies is what they spend on their fixed assets – councils spent around £1.1 billion on property running costs in 2007/08. Good asset management is therefore critical to a council being able to demonstrate that it is providing Best Value.

3. The overall aim of our study was to evaluate the extent to which councils manage their assets to ensure effective service provision and achieve value for money, and to make recommendations for improvement. Our report includes an overview of councils' arrangements for corporate asset management and a detailed examination of how councils manage property assets.

4. We focus on property assets in particular because they make up the majority (81 per cent) of councils' asset value (50 per cent if council housing is excluded). Property assets are important for effective service delivery, for example, by providing a welcoming, safe and secure environment for delivering services. Councils also have an opportunity to actively manage their property assets by acquisition, disposal and change of use to make improvements. Best Value audits and local audit work have shown that there is room for improvement in asset management in many councils. We did not examine council housing or roads and infrastructure because:

- councils' housing asset management is currently subject to scrutiny by the Scottish Housing Regulator

- the Accounts Commission published a report on roads asset management (*Maintaining Scotland's roads*)[1] in 2004 and follow-up work will be conducted later this year.

The principles of good asset management can be applied to all fixed assets. Our study focuses on property for the reasons outlined above. Although we draw comparisons with the management of roads and other assets at appropriate points, the main messages included in the report refer to property assets.

5. This report was prepared on behalf of the Accounts Commission and seeks to answer the following questions:

- What assets do councils own, what is their value and what information do councils hold about their condition and suitability?

- How well are councils organised to ensure that service needs drive their asset management strategies?

- Do councils' asset management arrangements lead to increased efficiency?

- Do councils have effective arrangements for managing the performance of their assets?

6. A range of methods was used to obtain evidence, including:

- desk research and analysis – drawing on existing data sources and previously published research

- questionnaires to gather information from councils about their asset management arrangements

- fieldwork visits to five councils (Clackmannanshire, City of Edinburgh, Fife, Highland and Renfrewshire) and interviews with elected members, senior managers and practitioners, and site visits to find out the views of people who use council buildings.

7. The report also draws on material available from previous Audit Scotland work, such as national performance studies on improving the Scottish school estate, maintaining Scotland's roads, asset management in the NHS and energy efficiency in the public sector, as well as council Best Value audits and local external audit work.

8. We also make use of the work of other relevant organisations, for example, the Improvement Service,[2] the Audit Commission[3] and the work of York Consulting on behalf of the UK government.[4]

9. In addition to this report and key messages document, we have produced:

- a checklist for elected members (Appendix 1)

- technical information for practitioners about the more detailed data we collected, such as the variation in condition and suitability of different types of council properties.

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1   *Maintaining Scotland's roads*, Auditor General and Accounts Commission, November 2004.
2   *Property Asset Management in Scotland's Councils: Moving Forward*, Improvement Service, March 2008.
3   *Hot Property; getting the best from local authority assets*, Audit Commission, 2000.
4   *Evaluation of Corporate Capital and Asset Planning in Local Authorities*, York Consulting, November 2007.

Key messages

- Overall, councils own around 12,400 property assets. Councils report that 27 per cent are in a poor or bad condition, 23 per cent are not sufficiently suitable for the services delivered from them, and 14 per cent fail in both respects.

- The people we surveyed consider access to buildings to be their most important feature, highlighting disabled access and facilities for people with disabilities as being highly important.

- Councils have good information on how accessible their buildings are for people with disabilities, but not all are acting on that information by producing access plans for their buildings quickly enough.

- Almost two-thirds of all councils report that their property maintenance backlogs are increasing. Only 23 councils were able to report the size of their backlog; this totalled £1.4 billion, and £376 million of this is described as maintenance that is urgently required. Unless councils manage this backlog, there is a risk that buildings currently in satisfactory condition will deteriorate.

- More than half of councils do not have an approved corporate asset management strategy, although many councils are in the process of developing individual strategies and plans for their fixed assets. Almost two-thirds of councils have an approved IT asset management strategy in place, but less than half have asset management strategies for roads, property and vehicle fleets.

- The majority of councils report good arrangements for collecting data about assets, and for working across services to ensure a corporate approach to asset management; but they need to improve their performance management arrangements and ensure strategies, policies and plans are up to date and coordinated, and property asset management is implemented systematically.

- There are large variations in the cost of holding property among councils. In most councils, property costs are between five per cent and 12 per cent of councils' gross revenue budget, but in some councils costs are higher.

- Although councils are reducing energy use in their buildings, environmental sustainability is not a key factor in building design. Most councils are missing opportunities for incorporating environmentally friendly features into the design of new buildings.

- Some councils gave examples of savings from rationalising office space, but few were able to provide details of significant efficiencies arising from property review and rationalisation.

- Many councils find rationalising property assets difficult to manage well. The role of elected members is of crucial importance; however, many councils do not have effective elected member scrutiny of property assets and only half provide regular information to elected members on property performance.

- Councils and health boards have a high-level commitment to joint working on property asset management. However, joint working does not appear to be widely embedded across services at a planning or operational level.

- There has been some well-planned joint working reported between social work and primary care services. Many joint property projects are developed in an opportunistic way, rather than as part of a long-term joint strategy.

- In three out of the five councils we visited, national policies on the sale of assets are seen as a barrier to joint working. For example, a health board may wish to use surplus council land for a community facility, but is not able to meet the market price which the council is required to achieve.

- Although there have been a number of national initiatives to facilitate joint working between councils, the NHS, and other partners, the impact to date on asset management has been limited.

Key recommendations

Councils should:

- work together to implement a consistent methodology for measuring building suitability

- ensure they have effective asset management plans and strategies for their property, IT, vehicles, roads and associated infrastructure. These should:

  – set out how each type of asset will contribute to council objectives and service aims

  – set targets for assessing progress, including the condition and suitability of each asset

  – describe an overall plan for achieving this

- ensure that asset information is up-to-date, complete, and held in a form which allows the production of appropriate management reports

- establish robust monitoring and reporting procedures for asset performance, to assess progress against their strategies

- formulate a long-term capital strategy, linked to achieving the aims of their asset management strategies; this should include a formal corporate approach to options appraisal for proposed capital projects

- ensure that whole-life costs are taken into account in capital and revenue planning

- consider issues of sustainability, such as CO_2 emissions, in their whole-life costing model for proposed capital projects

- ensure that elected members and council officers have transparent mechanisms for scrutinising property use and the cost of holding property; elected members should regularly consider reports on the condition, suitability and use of assets, property costs, and estimates of the maintenance backlog

- where significant changes are planned to assets in an area, or to a particular type of asset, for example school buildings, ensure consultation with residents is open about the issues the council is facing and provides clear information about the options for change

- agree with community planning partners arrangements for joint planning, management and property sharing. This should include identifying and tackling the barriers to strategic joint working around public assets and developing shared property databases to facilitate joint working.

Councils, Community Planning Partnerships and the Scottish Government should:

- make use of legislation which allows councils to sell assets at below market value if it is for public benefit, where this is consistent with a published policy objective, and would achieve Best Value for the public sector overall.

Part 1. Introduction

Well-designed buildings can support good service delivery by providing staff and the people using services with a safe, secure and comfortable environment.

10. In 2007/08, councils held fixed assets valued at £26 billion (Exhibit 1); of which property assets make up £21 billion (81 per cent), or £13 billion (50 per cent) excluding council housing. After employee costs, the largest cost to public sector bodies is what they spend on their assets – councils spent around £1.1 billion on property running costs in 2007/08.[5] However, because of the different ways assets are valued (for example, community assets are valued at their historical cost), the value of community assets and infrastructure assets is difficult to compare to land and buildings, which are assessed at market value. Although roads and other infrastructure assets have a reported value of £3.2 billion based on historical cost, the cost of rebuilding them at today's prices would be many times greater.

11. Good asset management is a vital part of an organisation being able to demonstrate that it is providing Best Value. It can generate resources through income from the sale of surplus assets, which will also generate long-term revenue savings because those assets are no longer consuming resources. Improved management of assets can also lead to service improvements and lower long-term revenue costs.

12. The current economic environment is likely to result in reduced capital income from the sale of assets, and councils may decide to retain properties until market conditions improve. This can result in continued maintenance and running costs, which may add additional pressures to budgets. Capital projects relying on income from the sale of assets are also likely to face difficulties. However, increased competition among developers may result in opportunities for councils in taking forward some capital build programmes.

Exhibit 1
The value of assets held by Scottish councils (000's)

Fixed assets (total = £26 billion)

- Other land & buildings £11.7bn
- Council dwellings £8.0bn
- Infrastructure, roads, bridges & street lighting £3.2bn
- Investment properties £1.2bn
- Assets under construction £0.8bn
- Vehicles, plant & equipment £0.5bn
- Surplus assets £0.5bn
- Community assets £0.1bn
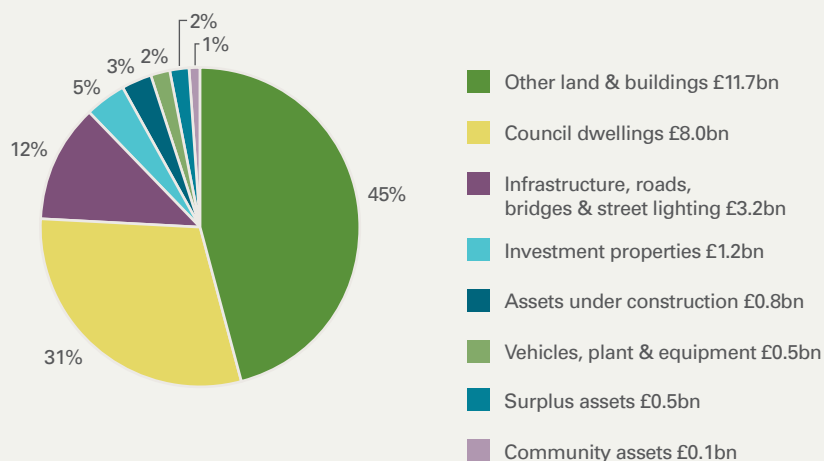
Property assets (total = £13 billion)

- Schools £7.1bn
- Libraries £0.3bn
- Residential homes & day care centres £0.5bn
- Depots & workshops £0.2bn
- Sport centres & pools £0.9bn
- Office & administrative buildings £0.7bn
- Museums & galleries £0.3bn
- Other £3.4bn
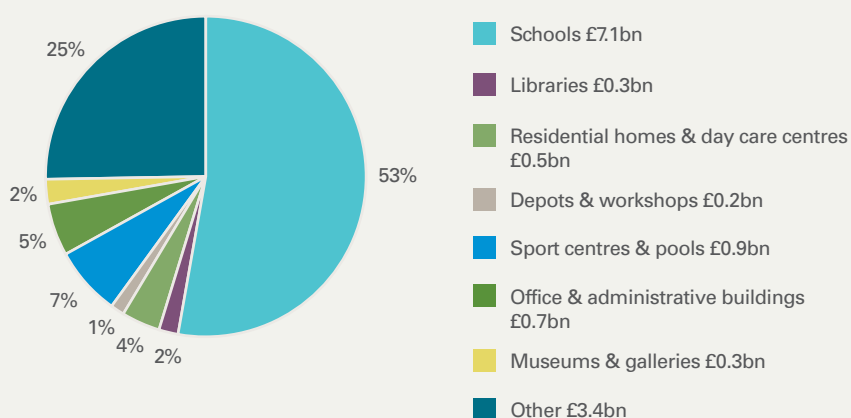
Notes: 1. Other property assets will include commercial properties, economic development units, resource centres, advice shops, etc.
2. Percentages do not always total 100 due to rounding.
Source: Audit Scotland survey of councils

13. Asset management is high on central and local government agendas. COSLA has set up a strategic group to promote improvement in councils' asset management arrangements, with subgroups looking at particular aspects of asset management. The Cabinet Secretary for Finance and Sustainable Growth published a review of asset management in the central government sector in January 2008. This included eight recommendations for improvement, five of which are relevant for local government:

'All bodies are to…

- have an asset management plan in place

- maintain a mandatory, single, comprehensive database of property information

- agree a set of roles, responsibilities and expectations regarding the management of assets

5   *Overview of the local authority audits 2008*, Audit Scotland, February 2009.

- ensure that the mandatory procedures in place for disposals of surplus or vacant property, and for acquisitions, are known and adhered to

- promote the use of financial asset management incentives…'[6]

14. In May 2008, the Scottish Government published *Taking Forward the Scottish Futures Trust,* which aims to support the effective planning, funding and delivery of investment in public assets. The Scottish Government has also announced funding for a 'hub' initiative to bring together councils, NHS boards and other community planning partners to acquire assets for delivering local services.

15. Before The Local Government in Scotland Act 2003, local authority capital expenditure required the consent of the Scottish Government, which set overall capital-spending limits. This control has been removed and councils can now invest whatever amounts they choose in capital schemes so long as they can demonstrate that their capital spending plans are affordable, prudent and sustainable (known as the prudential regime).

16. The Scottish Parliament Finance Committee undertook an inquiry into the methods of funding capital investment projects and published its findings in December 2008.[7] It called for comparable and transparent information to be available on the whole-life costs of all types of projects.

17. One of the areas of asset management that generates considerable local interest is that of 'Common Good' property. This is £154 million of property transferred to local authorities from the former burghs of Scotland under the terms of the Local Government (Scotland) Act 1973; it includes items such as town halls, parks and works of art. Our survey shows that councils manage around 1,400 common good property assets.

18. Councils are responsible for the stewardship of common good assets within their area[8] and they should manage common good assets as part of their asset management strategies, and in accordance with the principles of Best Value. Councils are required to maintain asset registers, which identify common good assets as distinct from the general body of assets under council control. Despite their relatively small value, these assets often assume particular importance because of their special status and complex legal conditions around their use and sale.

Good asset management can contribute to high-quality services

19. Effective management of council assets is important to people who use council services. The appearance and suitability of assets influence people's perception of the council. Well-designed buildings support good service delivery by providing staff and people using services with a safe, secure and comfortable environment; high-quality infrastructure assets can also support the economic and social development of a council area. Effective management of council assets brings a number of benefits including:

- supporting service delivery by making council buildings work better for staff and people using services

- ensuring buildings support current and future service requirements

- improving sustainability by reducing energy use

- providing a way to target investment

- providing clear evidence of asset performance and progress towards goals

- providing an opportunity to obtain Best Value, including ensuring that buildings are accessible to the people who use them, in terms of their location, design and the facilities provided.

20. Guidelines issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) state that it is important for councils to understand the current and future service needs of the local population, so they can develop an appropriate asset management strategy (a 'service led' asset management strategy). Similar criteria can be set out for other infrastructure assets, described in detail in *A guide to asset management and capital planning in local authorities*.[9] Exhibit 2 illustrates key stages in the asset management process. Extensive advice and guidance is available to councils on developing their approach to asset management; a list of some of the most relevant good practice guidance is included at Appendix 3.

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6   Scottish Government Asset Management Review – Report to the Cabinet Secretary for Finance and Sustainable Growth, January 2008.
7   *Inquiry into methods of funding capital investment projects*, Finance Committee 8th Report, 2008 (Session 3).
8   Common good assets date from the early Burghs of Scotland, which largely met running costs from the revenues of their properties. These assets are still reserved for purposes that promote the dignity of the former Burgh or the general good of the inhabitants and are audited as part of the councils' accounts, taking account of the nature and value of assets held.
9   *A guide to asset management and capital planning in local authorities*, CIPFA, October 2008.

Exhibit 2
Key stages in the asset management process

Capital planning

Community planning

Strategic planning

Options appraisal

Whole-life costing

Service planning

Workforce planning

Public and staff engagement

Needs assessment

Planning

Risk assessment

Capital programme

PPP or prudential borrowing?

Scottish Futures Trust

Partnerships with other organisations

Alternatives, eg leasing

Acquisition

Performance management & monitoring

Valuation of assets

Sale of assets

Replacement

Alternative uses

Redeployment

Community purchase

Disposal

Condition monitoring

Optimise asset use

Rent review

Structural maintenance

Routine maintenance

Valuation of assets

Suitability assessment

Asset usage

Operation & maintenance

Source: Audit Scotland, adapted from *Sustaining our assets: Government Asset Management Policy Statement*, Department of Treasury and Finance, State Government Victoria, Australia, 2000

Part 2. A significant number of council buildings do not meet service needs

Over a quarter of council buildings are in poor or bad condition.

Key messages

- Overall, councils own around 12,400 property assets. Councils report that 27 per cent are in a poor or bad condition, 23 per cent are not sufficiently suitable for the services delivered from them, and 14 per cent fail in both respects.

- The people we surveyed consider access to buildings to be their most important feature, highlighting disabled access and facilities for people with disabilities as being highly important.

- Councils have good information on how accessible their buildings are for people with disabilities, but not all are acting on that information by producing access plans for their buildings quickly enough.

- Almost two-thirds of all councils report that their property maintenance backlogs are increasing. Only 23 councils were able to report the size of their backlog. This totalled £1.4 billion, and £376 million of this is described as maintenance that is urgently required. Unless councils manage this backlog, there is a risk that buildings currently in satisfactory condition will deteriorate.

Scottish councils own a large amount of property…

21. Overall Scottish councils own around 12,400 properties,[10] including 2,700 schools, 1,400 office and administrative buildings, 800 depots and workshops, 690 residential homes and day care centres and 480 libraries (Exhibit 3). Councils also own small numbers of a wide range of other properties, not shown in Exhibit 3; these total 2,975 properties and

Exhibit 3
Range of properties owned by Scottish councils
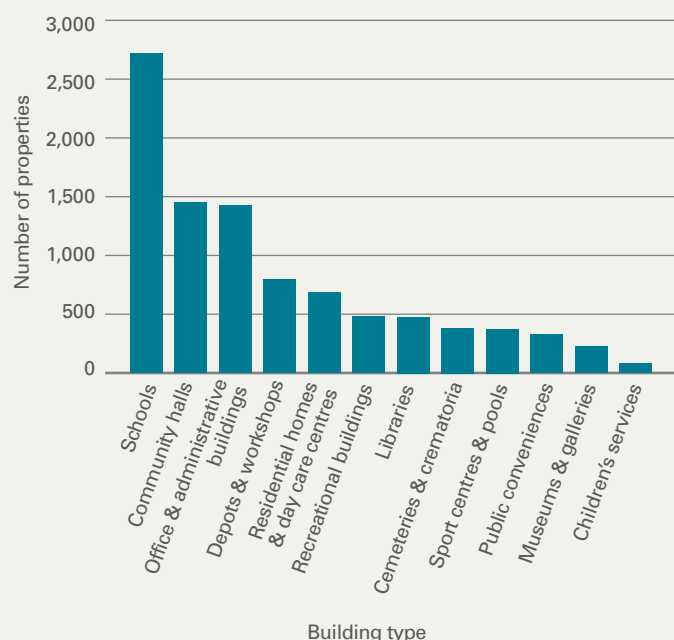
Source: Audit Scotland survey of councils

include buildings such as economic development units, commercial properties, resource centres, advice shops and mortuaries. Although councils vary greatly in the size and nature of their estate, all face the challenge of achieving efficiencies and delivering Best Value. A major part of achieving this is ensuring that their properties are in good condition and fit for purpose.

… but a significant proportion is in poor condition

22. It is important that councils assess the condition of their buildings regularly. It helps councils to set their maintenance budget, and plan and target maintenance work. It also allows councils to monitor the condition of their estate and provides valuable information to assist elected members' decision-making.

23. Although all councils have some information available on the condition

of the buildings they own, the extent of their information and the methodology they use for assessing condition varies. Some councils assess the condition of the whole building while others produce an assessment of individual building elements, for example the roof, windows and heating systems.

24. Both approaches to measuring condition have their uses. Whole building information is useful at a strategic level for reporting to elected members and senior management, while information on the condition of building elements is a useful operational tool for planning maintenance work.

25. The coverage and age of the condition information varies. Examples of the approaches used include:

- conducting complete structural surveys on an ongoing basis (every three to five years) using council staff

10   A property (or establishment) may include more than one building, for example, a school may have several buildings on a campus.

- employing external contractors to measure building condition

- estimating the condition using buildings of similar age and type.

26. Although councils take different approaches to assessing the condition of their buildings, the information generated is sufficient to allow some comparison across the four broad categories CIPFA recommends for classifying building condition:[11]

- Condition A: Good – performing as intended and operating efficiently.

- Condition B: Satisfactory – performing as intended but showing minor deterioration.

- Condition C: Poor – showing major defects and/or not operating as intended.

- Condition D: Bad – life expired and/or at serious risk of imminent failure.

27. We asked councils to produce an overall assessment of each building's condition using CIPFA's classification: Exhibit 4 shows councils' responses to our survey. Overall, councils report 68 per cent of buildings as in good or satisfactory condition and 27 per cent in poor or bad condition. The condition of the remaining five per cent is unknown.

28. Exhibit 5 shows the condition of the buildings, as reported by each council. The percentage rated as good or satisfactory varies from over 90 per cent in East Ayrshire and Angus, to less than half in Aberdeenshire and Inverclyde. Five councils (East Dunbartonshire, Eilean Siar, Highland, North Lanarkshire and Scottish Borders) did not know the condition of over ten per cent of their buildings.

Exhibit 4

Councils' assessments of building condition
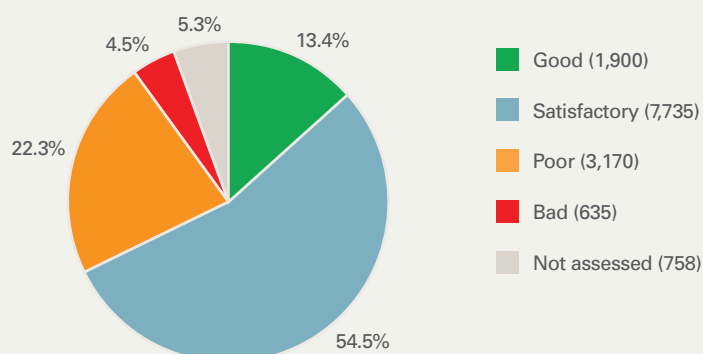
Good (1,900)

Satisfactory (7,735)

Poor (3,170)

Bad (635)

Not assessed (758)

Note: Where a property is made up of several buildings, for example a school, councils may conduct separate assessments of each building. Therefore the total number of building assessments exceed the total number of properties.
Source: Audit Scotland survey of councils' building condition assessments

Exhibit 5

Variation in councils' assessments of building condition

Good   Poor   Not assessed

Satisfactory   Bad

Source: Audit Scotland survey of councils' building condition assessments

11   *A guide to asset management and capital planning in local authorities*, CIPFA, October 2008.

29. Some types of buildings are often assessed as in poorer condition (Exhibit 6). Buildings associated with cemeteries and crematoria are likely to be reported as being in particularly poor condition, while residential homes and day care centres are most likely to be reported as in good or satisfactory condition.

Councils report over a fifth of council buildings as not sufficiently suitable for the services being delivered from them

30. Suitable well-designed buildings can support good service delivery by providing staff and people using services with a safe, secure and comfortable environment. Achieving Best Value requires that buildings are accessible to users, in terms of their physical features, facilities and location.

31. The Federation of Property Societies (FPS) has recently published a report *Measuring Suitability in Local Authority Buildings*,[12] which sets out the criteria councils should consider in assessing the suitability of buildings. Most councils use these categories and criteria in assessing the suitability of their buildings:

- Good suitability – performing well and operating efficiently (supports the needs of staff and delivery of services).

- Satisfactory suitability – performing well but with minor problems (generally supports the needs of staff and delivery of services).

- Poor suitability – showing major problems and/or not operating optimally (impedes the performance of staff and/or service delivery).

- Unsuitable – does not support the delivery of services (or seriously impedes the delivery of services).

Exhibit 6
Variation in the condition of types of council buildings

Source: Audit Scotland survey of councils' building condition assessments

32. We found that councils vary in how they assess building suitability just as they do in measuring building conditions. Some councils employ trained assessors while others use a mixture of property staff and building users. Where building users do the assessments, for example a head teacher assessing their school, a process is required to ensure consistency in judgements, as different head teachers can have widely differing ideas as to what makes a suitable school design.

33. Although the assessments support comparison across the four basic categories described above, adopting a more consistent way of measuring building suitability would help councils to compare building performance more systematically, and help improve the design and operation of buildings in the future. Good processes for measuring suitability are in place in some councils, for example Perth & Kinross Council has been publishing suitability information as part of its asset management

plans for a number of years; however, in others practice is less advanced. Councils could work together to develop the criteria set out by the FPS, into models for particular building types for general use across Scotland.

34. Exhibit 7 (overleaf) shows that councils assessed over a fifth (23 per cent) of their buildings as of poor suitability or unsuitable, that is, impeding or not supporting the delivery of the services they house.

35. Exhibit 8 (overleaf) shows the suitability of buildings as reported by each council. Overall, Glasgow City and the City of Edinburgh had the highest percentage of buildings assessed as having good or satisfactory building suitability, with Aberdeenshire having the lowest among those with complete information. However, the picture is more complex because a number of councils have not yet assessed the suitability of all of their buildings. Five councils (Dumfries & Galloway, East Dunbartonshire, Eilean Siar, Shetland

12   *Measuring Suitability in Local Authority Buildings*, Federation of Property Societies, December 2008.

Exhibit 7
Councils' assessment of building suitability

- Good (2,707) — 20.7%
- Satisfactory (5,926) — 45.3%
- Poor (2,353) — 18.0%
- Unsuitable (633) — 4.8%
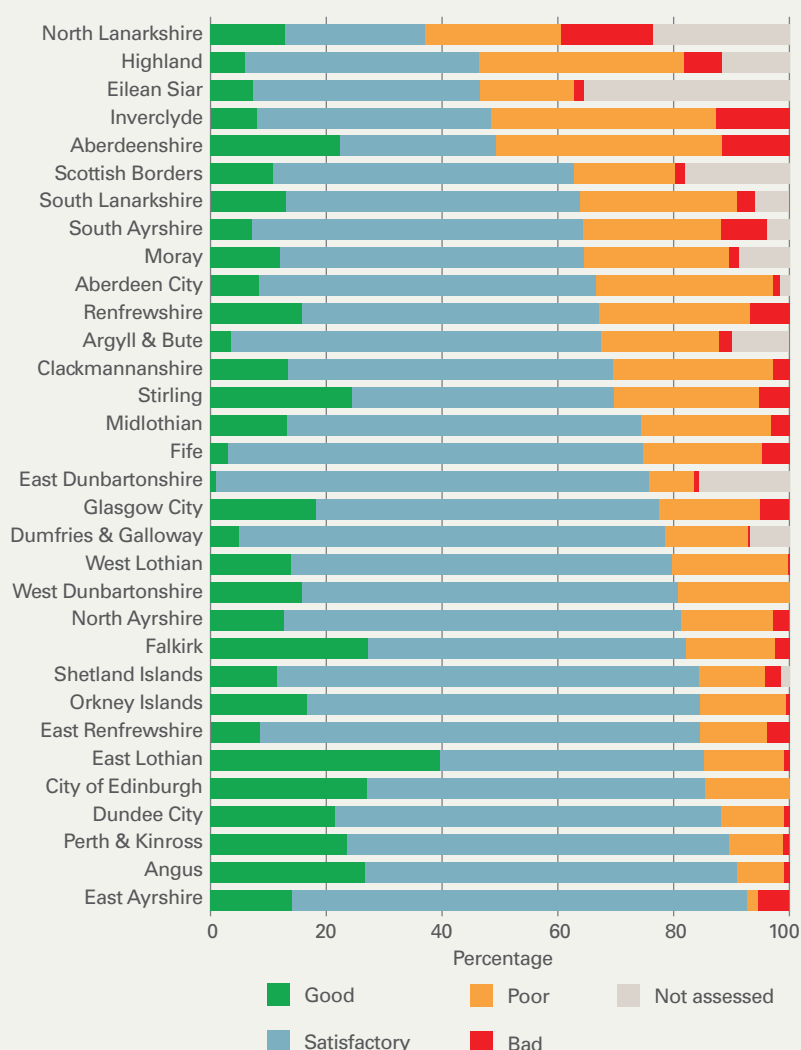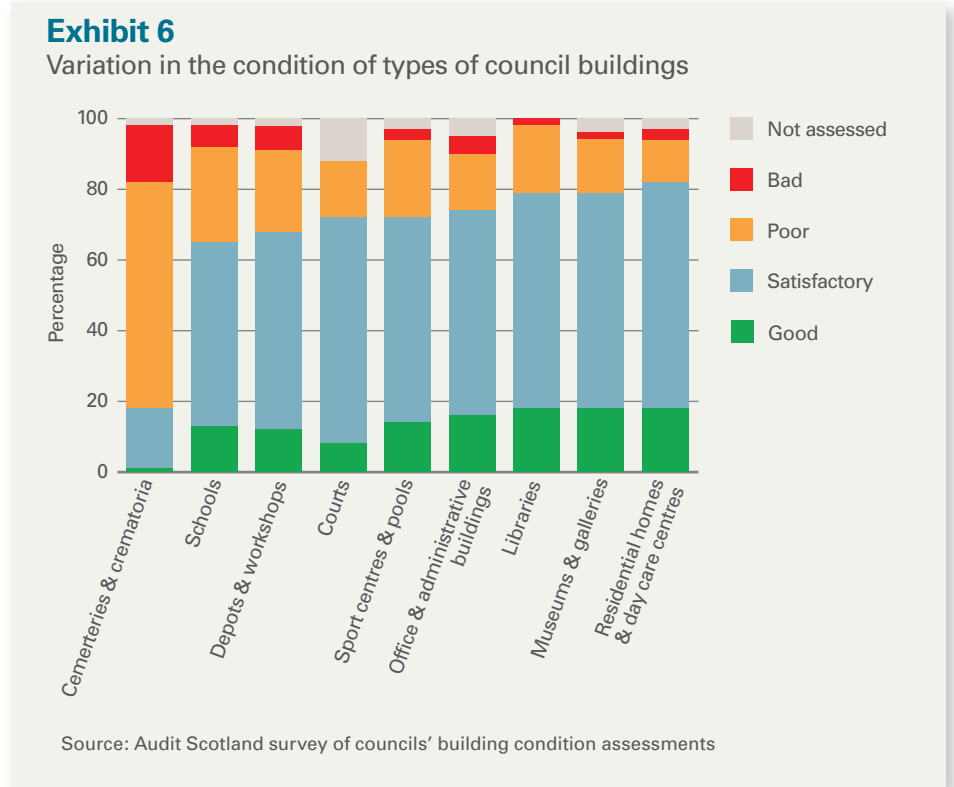- Not assessed (1,453) — 11.1%

Note: Where a property is made up of several buildings, for example a school, councils may conduct separate assessments of each building. Therefore the total number of building assessments exceed the total number of properties.
Source: Audit Scotland survey of councils' building suitability assessments

Exhibit 8
Variation in councils' assessments of building suitability

East Dunbartonshire, Scottish Borders, Eilean Siar, Dumfries & Galloway, Argyll & Bute, Aberdeenshire, Highland, North Lanarkshire, Shetland Islands, Inverclyde, South Ayrshire, South Lanarkshire, West Lothian, Fife, East Ayrshire, Renfrewshire, Perth & Kinross, East Renfrewshire, Clackmannanshire, Midlothian, Stirling, Aberdeen City, Angus, Moray, Orkney Islands, Falkirk, Dundee City, East Lothian, North Ayrshire, West Dunbartonshire, City of Edinburgh, Glasgow City

Percentage

- Good
- Satisfactory
- Poor
- Unsuitable
- Not assessed

Note: Glasgow City schools suitability information is not included as they were unable to provide this.
Source: Audit Scotland survey of councils' building suitability assessments

Islands and Scottish Borders) do not know the suitability ratings for more than 20 per cent of their buildings, with two of these councils (East Dunbartonshire and Scottish Borders) not knowing the suitability of more than 70 per cent.

36. Exhibit 9 shows councils' suitability assessments for different types of council buildings. Overall, no particular type of building is reported as being very good or very poor. Councils reported museums and galleries as scoring highest in the suitability ratings, with schools scoring poorly in comparison, despite the significant investment in schools during recent years.

Fourteen per cent of buildings are neither in good condition, nor suitable for their current purpose

37. Exhibit 10 shows the number of council buildings reported in each condition and suitability category. Overall, 6,878 buildings (61 per cent) are reported as in good or satisfactory condition and with good or satisfactory suitability. However, 1,557 buildings (14 per cent) are reported as poor (or worse) in both respects. Those councils that have not done so already, should set targets for reducing the number of buildings in the poorest categories.

38. Exhibit 11 (page 16) shows the percentage of buildings in each council that are reported as poor (or worse) in terms of condition and suitability. This varies from one per cent in Glasgow City to over 30 per cent in Aberdeenshire, with an average of 12 per cent. Councils with a high proportion of buildings in these categories need to develop a strategy to reduce this.

The people we surveyed are generally satisfied with council buildings… and consider ease of access to be the most important factor

39. We surveyed 88 members of the public, at ten council buildings selected by the study team, in our five fieldwork areas. We conducted interviews at two museums, four libraries, two service points, one bus-pass office and one community centre.

40. The people we surveyed consider access to buildings to be their most important feature, with people from all five areas highlighting disabled access and facilities for people with disabilities as highly important. Other issues they regard as important are:

- good maintenance

- good lighting inside and out

- cleanliness

- pleasant exterior (a building that looks inviting and safe)

- clear signposting, both inside and out

- security for both staff and the public

- good use of space

- good environmental conditions, such as temperature and ventilation

- privacy (especially where services deal with money or housing issues)

- opening hours – some people have difficulty accessing council services that are only available during working hours.

41. In general, the people we surveyed are satisfied that the buildings they use are of a good standard in relation to the features listed above. They also highlight the appearance of buildings (for example, interior décor, building exterior and landscaping) as having an impact on perceptions, and often mention this

Exhibit 9
Variation in the suitability of types of council buildings

Note: Glasgow City schools suitability information is not included as they were unable to provide this.
Source: Audit Scotland survey of councils' building suitability assessments
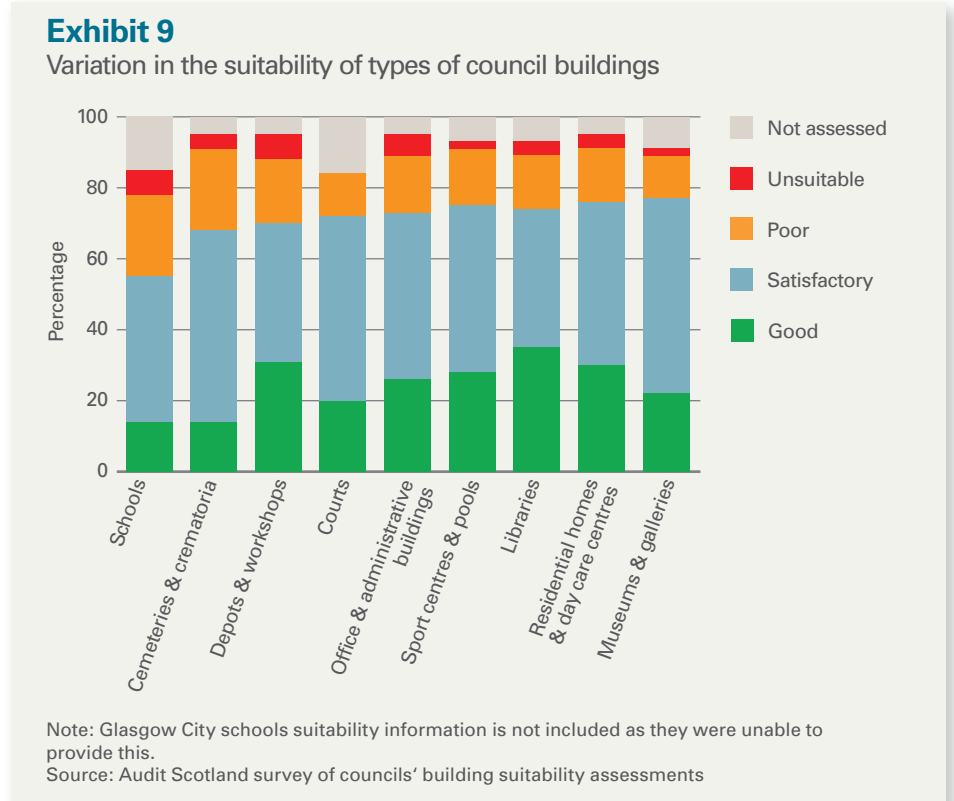
Exhibit 10
Councils' assessments of building condition and suitability

Condition	Suitability			
	Good	Satisfactory	Poor	Unsuitable
Good	923 (8.1%)	567 (5.0%)	183 (1.6%)	22 (0.2%)
Satisfactory	1430 (12.6%)	3958 (34.9%)	845 (7.4%)	185 (1.6%)
Poor	224 (2.0%)	1249 (11.0%)	956 (8.4%)	252 (2.2%)
Bad	40 (0.4%)	170 (1.5%)	214 (1.9%)	135 (1.2%)

Note: Midlothian and Orkney Islands Councils were unable to provide information in this format.
Source: Audit Scotland survey of councils' building condition and suitability assessments

in the context of suggestions for improvements. However, appearance is seen as less important as a core feature of a good public building.

42. The majority of people we interviewed are satisfied that the buildings are suitable for the services they house and that the facilities meet their own needs. However, some perceive a minority of older buildings not designed for their current use to be small, leading to limitations on service delivery and the facilities that can be provided.

43. Ease of access is of great concern to people who use council services, with both positive and negative remarks made in relation to buildings. Many specifically mention people with mobility problems, or parents with pushchairs, who may have difficulty accessing buildings. In general, the people we interviewed are positive about buildings that allow easy access for everyone through the same entrance, preferably at street level, and suggested improvements where alternative access involves long ramps or different entrances. Other issues they highlight include waiting

Exhibit 11
Percentage of council buildings reported as in poor condition and with poor suitability
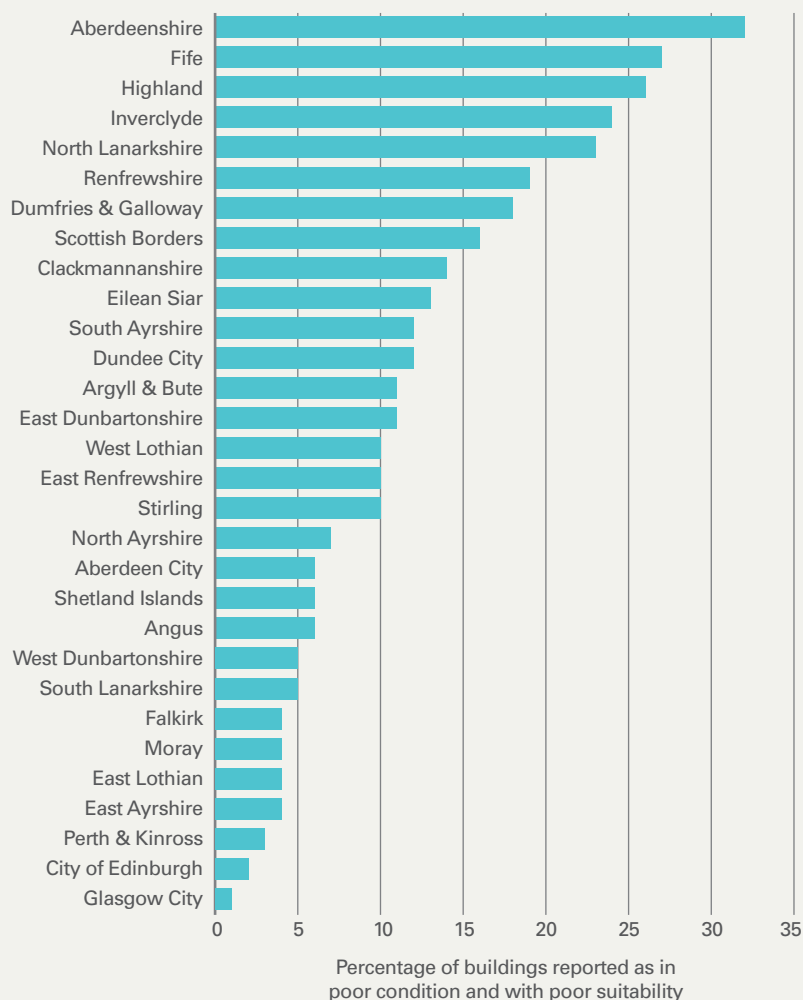
Note: Midlothian and Orkney Councils were unable to provide information in this format; Glasgow City was unable to provide schools suitability information.
Source: Audit Scotland survey of councils' building condition and suitability assessments

- physical access for people with disabilities

- appropriate design of the property and signposting, to ensure people can move easily around the building

- proximity to public transport

- lighting and security

- disabled parking

- gender mix of staff.

46. The Disability Discrimination Act (DDA) 1995 places a duty on organisations to make reasonable adjustments to accommodate people with disabilities. This could include physical access adjustments, such as ramps, but also includes other features such as lighting, the colour of facilities for people with visual impairments, and hearing loops for people with hearing impairments. Although investment in council properties will improve levels of disabled access, the advanced age of some properties means that councils face significant challenges in reaching desired standards.

47. Councils have good information on how accessible their buildings are for people with disabilities, but not all are acting on that information quickly enough. Our survey showed that while 21 councils have undertaken an accessibility audit for all of their buildings, only 14 of them have an access plan in place for all buildings.

**48.** The percentage of public service buildings that are suitable for, and accessible to, disabled people is one of the Accounts Commission's statutory performance indicators.[13] Across Scotland the percentage of buildings that are suitable and accessible has increased from 43.4 per cent in 2005/06 to 51.9 per cent in 2006/07 and 56.6 per cent

and queuing for council services, especially where there is not enough space to provide sufficient seating for comfortable waiting.

44. The people we surveyed also emphasise the importance of communal areas, which they can use as a meeting point, particularly in buildings used for community activities and in leisure facilities. Many people suggest that, where these do not exist, a cafe, or at least a water cooler, would be an improvement.

Councils need to ensure buildings are accessible for people with disabilities

45. Buildings need to provide good access for all and meet expectations in terms of privacy and dignity. The location of council facilities should not discourage or prevent any people from accessing services. This means councils need to consider issues such as:

- building location to ensure that it is accessible to residents

13   Statutory Performance Indicators Direction 2008, Accounts Commission, December 2008.

in 2007/08. The percentage varied among councils from below 30 per cent in North Lanarkshire and Eilean Siar to over 80 per cent in Angus, Dundee City, Scottish Borders and Renfrewshire.

Councils spent over £136 million on property maintenance in 2007/08, but too much is reactive, rather than planned…

49. The amount of maintenance a building requires depends on a number of factors, including the type of construction, building use and weather conditions. It is more economical to maintain buildings in a planned way, for example repair and replace roof tiles on a planned regular basis, rather than to wait until the roof fails and water damage results. The ratio of planned to reactive maintenance is a good indicator of the effectiveness of a council's maintenance regime. A 60:40 balance (or better), in favour of planned maintenance, is accepted as an indicator of good practice.[14] The same principle applies to other fixed assets and the Accounts Commission recommended a more proactive approach to maintenance in *Maintaining Scotland's roads*.[15]

50. Across Scotland, the £136 million councils spent on property maintenance in 2007/08 is evenly split between planned and reactive maintenance. However, our survey of councils shows that the proportions vary considerably among councils (Exhibit 12); North Lanarkshire achieved over 80 per cent planned maintenance, while in Inverclyde over 90 per cent of maintenance was reactive. Overall, only nine councils reported achieving the 60:40 good practice benchmark; 17 reported they have not achieved this benchmark, and six were unable to provide the relevant information.

Exhibit 12
Reactive maintenance as a percentage of total maintenance cost
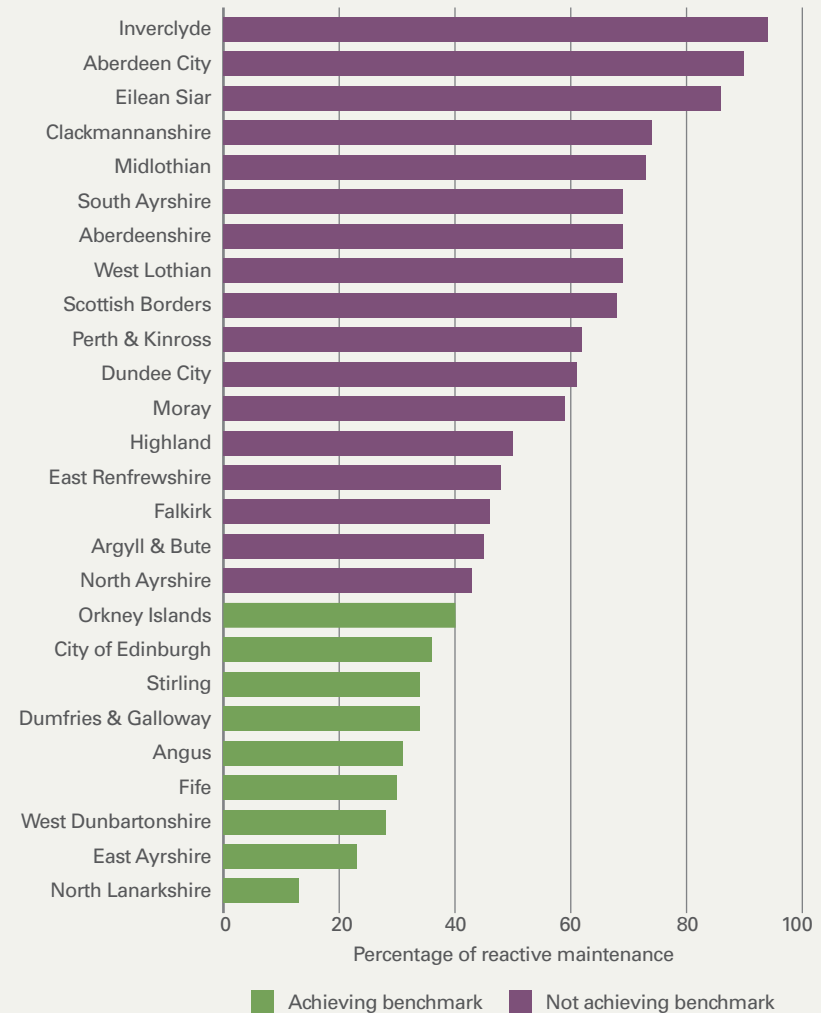
Note: East Dunbartonshire, East Lothian, Glasgow City, Renfrewshire, Shetland Islands and South Lanarkshire councils were unable to provide this information.
Source: Audit Scotland survey of councils

51. Although the proportion of reactive to planned maintenance and the maintenance backlog are good indicators of an effective maintenance regime, councils do not always report this information to elected members.

52. The five councils we visited reported they often set maintenance budgets incrementally, based on the previous year's budget, with adjustments to meet service pressures. There is little evidence of systematic methods for setting building maintenance budgets, for example a needs-based budgeting approach that considers the balance of expenditure between planned and reactive maintenance.

53. There is considerable variation among councils in their expenditure on property maintenance for operational assets (those used for providing public services) (Exhibit 13, overleaf). Although in most councils

14   *Value for money in public sector corporate services*, Public Audit Forum, 2007.
15   *Maintaining Scotland's roads*, Accounts Commission, November 2004.

Exhibit 13
Maintenance costs per square metre (operational assets)

	£ per m²
South Ayrshire	4
South Lanarkshire	4
Scottish Borders	5
Highland	6
Angus	8
Midlothian	8
North Lanarkshire	8
Aberdeenshire	9
North Ayrshire	9
Inverclyde	9.5
Perth & Kinross	9.5
Clackmannanshire	10
Moray	10
East Renfrewshire	11
West Lothian	11
Orkney Islands	11
Stirling	11
Fife	11.5
Aberdeen City	14
Argyll & Bute	15
East Ayrshire	17
Dumfries & Galloway	19
Falkirk	24
Scottish council average	11
Scottish health board average	18

Note: Dundee City, City of Edinburgh, Eilean Siar, West Dunbartonshire, East Dunbartonshire, East Lothian, Glasgow City, Renfrewshire and Shetland Islands Councils were unable to provide data.
Source: Audit Scotland survey of councils

the expenditure on maintenance is between £5 and £12 per square metre, several councils have much higher costs. The average maintenance cost reported was around £11 per square metre, considerably less than the £18 spend per square metre reported by health boards.[16] Although some of these differences may be due to variation in costing methodologies, the differences still seem considerable; in demonstrating Best Value, councils

should examine their costs and outputs, and the impact on building condition.

… which has led to a property maintenance backlog of at least £1.4 billion

54. As part of our survey, we asked councils for information on the size of their property maintenance backlog. Exhibit 14 shows the backlog for 23 of the 32 Scottish councils. The remaining nine councils were unable to provide the information. Councils

categorise their property maintenance backlog into three required maintenance priorities:

- level 1 (urgent works)

- level 2 (essential work required within two years)

- level 3 (desirable work required within three to five years).

55. The total property maintenance backlog for these 23 councils is £1.4 billion; if the level of backlog were similar in the remaining nine councils then the total maintenance backlog would be around £1.8 billion. This backlog is increasing in two-thirds of all councils. The reported maintenance backlog is slightly greater in councils than in health boards, at 10.6 per cent of total property value compared to 7.5 per cent in health boards.[17]

Councils need to deal with maintenance backlogs corporately
56. In addition to the backlog of property maintenance work, councils may also have maintenance backlogs in other areas, for example, we reported a £1.7 billion backlog for roads maintenance in our study *Maintaining Scotland's roads*.[18] Councils need to manage all of these maintenance backlogs. Decisions on dealing with backlogs across a range of services cannot be undertaken effectively at a service level alone. Councils need to prioritise the resources available for dealing with maintenance backlogs at a corporate level to achieve the best long-term outcomes across all council assets. They therefore need to take a corporate approach to managing, monitoring and reporting maintenance backlogs.

57. When faced with difficult economic circumstances, councils may choose to achieve savings through cutting maintenance

16   *Asset Management in the NHS in Scotland*, Audit Scotland, January 2009.
17   *Ibid*.
18   *Maintaining Scotland's roads*, Auditor General and Accounts Commission, November 2004.

Exhibit 14
Property maintenance backlog within 23 councils

25%

27%

48%

Priority 1: Urgent works
(totalling £376 million in 23 councils)

Priority 2: Essential work required
within two years
(totalling £667 million in 23 councils)

Priority 3: Desirable work required
within 3-5 years
(totalling £366 million in 21 councils)

Total: £1.4 billion
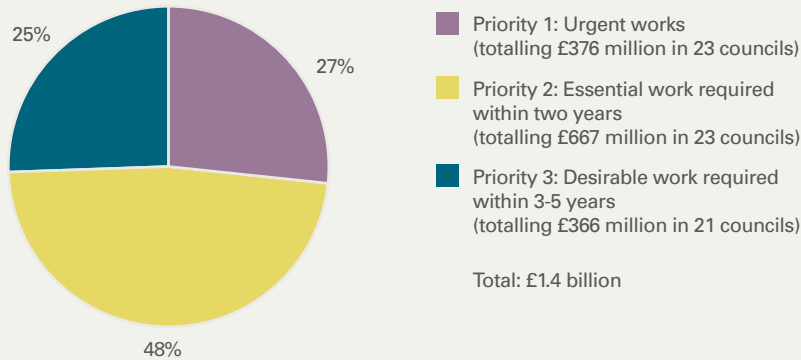
Source: Audit Scotland survey of councils

expenditure. However, while this may achieve short-term savings, it could also cause significant long-term cost increases by creating or increasing maintenance backlogs, as properties fall into poorer states of repair. An effective response to difficult economic circumstances includes taking a more systematic approach to asset management, for example by reviewing the use of assets to ensure they are performing efficiently, and using options appraisal to identify the best approach to dealing with surplus assets.

58. Ways in which councils can reduce their property maintenance backlogs include by increasing maintenance expenditure, reducing maintenance costs, for example by developing shared maintenance services with other public sector agencies, or by reducing the number of assets they are required to maintain. Where property assets are not being used to their full capacity, councils could reduce their maintenance backlog by rationalising the number of properties used and bringing building capacity into line with service demands. This also has the benefit of generating capital income and reducing the long-term maintenance costs. This supports the conclusion of the Improvement

Service review,[19] which suggested that councils 'shouldn't retain what they can't maintain'.

59. However, councils may be cautious in disposing of assets within the current economic environment, and could decide to retain properties until market conditions improve. The use of options appraisals will help councils consider the costs and benefits (including potential savings in maintenance costs) of selling or retaining particular properties over the short to medium term.

Recommendations

Councils should:

- work together to implement a consistent methodology for measuring building suitability

- undertake a systematic rolling programme of condition and suitability assessments, to ensure they have comprehensive information for all council buildings

- carry out regular surveys of public and staff satisfaction with council buildings and act on their findings

- put in place a timetable for undertaking comprehensive assessments of how well their properties meet the needs of people with disabilities, identify the financial requirements of making improvements, and develop approaches to implementing them

- formulate a long-term capital strategy, linked to achieving the aims of their asset management strategies; this should include a formal corporate approach to options appraisal for proposed capital projects

- ensure that elected members and council officers have transparent mechanisms for scrutinising property use and the cost of holding property; elected members should regularly consider reports on the condition, suitability and use of assets, property costs, and estimates of the maintenance backlog.

19   *Property Asset Management in Scotland's councils: Moving Forward,* Improvement Service, March 2008.

Part 3. Councils can improve their asset management arrangements

There need to be clearer links between asset management and community planning, council service plans and capital planning.

Key messages

- More than half of councils do not have an approved corporate asset management strategy, although many councils are in the process of developing strategies and plans for their fixed assets. Over two-thirds of councils have an approved IT asset management strategy in place, but less than half have asset management strategies approved for roads, property and vehicle fleets.

- The majority of councils report good arrangements for collecting data about assets, and for working across services to ensure a corporate approach to asset management, but they need to improve their performance management arrangements and ensure strategies, policies and plans are up to date and coordinated, and property asset management is implemented systematically.

Less than half of councils have an approved corporate asset management strategy

60. It is important that property strategies across the council are developed as part of a corporate approach to managing all fixed assets, and are coordinated with strategies for other assets, such as vehicles.

61. Exhibit 15 shows the stages of development of strategies and plans for fixed assets in Scottish councils:

- less than half have an approved corporate asset management strategy

- slightly fewer have a corporate asset management plan in place

Exhibit 15
Number of councils with strategies and plans in place for fixed assets

	Corporate asset management strategy	Corporate asset management plan	Property strategy	IM&T[1] strategy	Roads strategy	Vehicle strategy
Not yet started	0	0	4	0	0	3
In development	15	19	9	3	15	12
Completed but awaiting approval	2	1	3	3	3	2
Approved by relevant council committee	14	12	13	22	13	13

Notes: 1. IM&T = Information Management and Technology.
2. Not all totals add up to 32 because some councils did not answer every question.
Source: Audit Scotland survey of councils

- over two-thirds of councils have an asset management strategy for Information Management and Technology (IM&T) in place

- just under half have strategies for other types of fixed assets such as vehicles and roads.

62. Around two-thirds of councils have translated their corporate aims into specific objectives for asset use and management, but only half collated these in an asset management strategy document. Only a quarter of councils indicate that they updated their asset management plans within a two-year period. Nineteen councils reported that they did not have a completed asset management plan.

63. Guidance, such as that provided by CIPFA,[20] states that an asset management strategy should plan for the current and future development of a council's assets. The strategy should describe the current condition of the assets, the level of use, occupancy costs, service standards, organisational constraints and capital investment decisions. It should cover

a period of at least three to five years and include a written document approved by the council, which should cover three core elements:

- A baseline – where are we now? What is our understanding of our current asset base?

- A vision – where do we want to be? Do we know what assets are required to underpin current and future service needs?

- An action plan – how do we get there? Have we decided what this means in terms of purchasing additional or replacement assets?

We examined councils' arrangements for property asset management

64. We asked councils to complete a self-assessment questionnaire describing their arrangements for property asset management and to provide relevant information to support their responses. This included copies of relevant policies and plans, capital strategies, monitoring and

20   *A guide to asset management and capital planning in local authorities*, CIPFA, October 2008.

Exhibit 16
Key success factors for effective property asset management

1. Property strategy, policy and plans	Are property asset management strategies and plans up to date and properly coordinated?
2. Structure, roles and responsibilities	Are there effective management structures and clear roles and responsibilities?
3. Working with service areas	Do corporate asset managers work effectively with services?
4. Data collection processes	Are there good property data collection and storage systems?
5. Performance management and reporting	Is asset property management supported by good performance management systems?
6. Commercial property	Do councils have a clear strategy for owning and managing commercial property?
7. Property review	Are there systematic arrangements for property review?
8. Implementation	Is property asset management being implemented systematically?

Source: Audit Scotland analysis of a range of good practice guidance (listed at Appendix 3)

review reports, and examples of good practice. The Institute of Public Finance (IPF) analysed councils' responses to the questionnaire against eight factors for effective asset management (Exhibit 16).

65. These success factors are widely recognised as key to best practice in property asset management, as described by the guidance sources listed in Appendix 3. Key factors 1 to 5 are discussed in this part of the report; factors 6 to 8 are discussed in Part 4.

66. This analysis provides a national overview of how councils approach property asset management (Exhibit 17). It focuses on key processes and procedures in effective property asset management. It does not cover the quality and effectiveness of councils' property asset management arrangements.

67. The overview highlights areas of relative strength, where the majority of councils report many of the features associated with good practice (although there may be some room for improvement) and areas where the majority of councils report few features associated with good practice, and there will be substantial room for improvement.

68. The majority of councils report good arrangements for collecting data about assets and for working across services to ensure a corporate approach to asset management, although even in these areas there is scope for improvement. Areas where there is the greatest scope for improvement include ensuring strategies, policies and plans are up to date and coordinated, performance management, and implementing property asset management systematically.

69. Asset management practices need to reflect local circumstances and local needs. For smaller councils this may be particularly relevant where detailed and complex approaches might not be appropriate. For example, commercial property may be less of a priority where a council owns few such properties.

Only half of councils have complete property strategies

Key factor 1 – Property strategy, policies and plans
70. Our survey found that only half of councils report having a completed property strategy and just over a quarter reported they are in the process of developing one. We also found that some strategies are out of date, and only a quarter of councils report having updated their property strategies since 2005.

71. It is important that property strategies are made available to the public, and are assessed to check whether they could disadvantage any particular groups (for example, by using an 'equality impact assessment'). The process for developing the strategy should also include appropriate consultation with representative groups. Only half of councils reported publishing their property strategy for the public, and less than a quarter said they had conducted an equality impact assessment on their strategy.

Many councils do not have effective elected member scrutiny of property assets

Key factor 2 – Structure, roles and responsibilities
72. Guidance from the Royal Institution of Chartered Surveyors[21] (RICS), endorsed by The Scottish Government, CIPFA and a range of property groups, highlights the importance of elected member involvement in asset management,

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21   *RICS Public Sector Asset Management Guidelines – A guide to best practice*, Royal Institution of Chartered Surveyors, April 2008.

Exhibit 17
Overview of councils' property asset management arrangements

Areas of relative strength

Data collection processes

Property review

Working with service areas

Structure, roles and responsibilities

Performance management and reporting

Implementation

Property strategy, policy and plans

Commercial property

Areas in need of most improvement
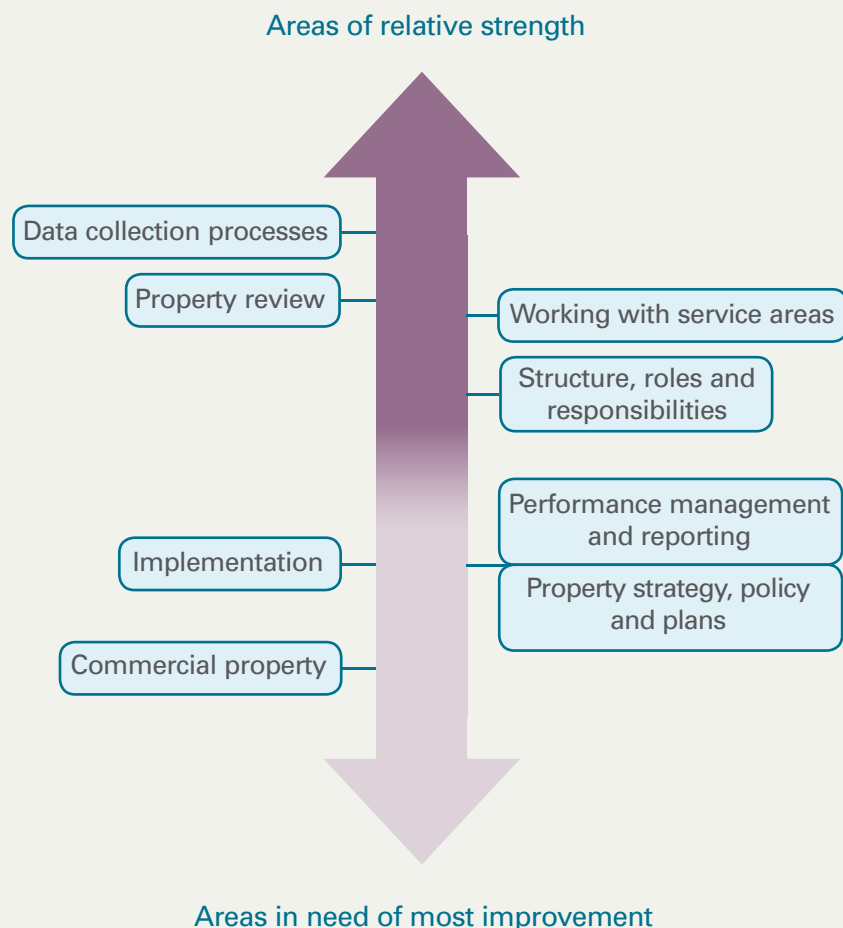
Source: Audit Scotland analysis of councils' survey responses

Most councils produce asset management plans for individual services

Key factor 3 – Working with service areas
75. While a corporate strategic approach to asset management is essential, it is also important that this approach is responsive to service needs. In the long term, property asset management is about meeting the property needs of services in a coordinated corporate manner. Over two-thirds of councils produce service asset management plans which feed into the overall corporate approach to asset management. Almost three-quarters of these councils have corporate guidance for services on asset management planning to ensure a consistent approach.

76. A good approach also involves having representatives of service areas involved in corporate planning for the short, medium and longer term, and in balancing service needs with the council's overall strategic approach to property ownership and management.

77. Just under two-thirds of councils indicated that they understood services' property requirements in the short and medium term, mainly by using service asset management plans based on a corporate approach or template. However, only a third of councils attempted to map out service requirements for a longer period (five years or more). Capital projects, such as Public Private Partnership (PPP) schools, have a lifetime of 25 years or more, and robust capital planning requires a long planning horizon. Service asset requirements need to be aligned with long-term capital planning; if long-term service requirements are not clearly mapped out, capital planning will become difficult, with the risk that it could lead to inefficient use of resources.

suggesting that elected members should have a key leadership role in relation to property assets. However, many councils do not have effective elected member scrutiny of property assets, for example reporting to members on property issues is commonly undertaken on an annual basis, or with limited reporting of building condition and suitability, and the level of the property maintenance backlog.

73. Almost all councils have a specific strategic property unit to lead on asset management planning.

Around 80 per cent of councils have a Strategic Property Group with membership including representatives of finance, key service departments and other stakeholders, which meets on a regular basis.

74. Most councils have a corporate asset manager in place, with only Moray Council indicating that they do not. However, not all corporate asset managers were of sufficient seniority to ensure the status they require to undertake the role effectively.

The majority of councils report good approaches to data collection and storage

Key factor 4 – Data collection processes
78. Data collection is essential to effective asset management as it enables councils to make robust and informed decisions based on a range of different criteria including location, condition and suitability of property.

79. We collected information from councils on a number of basic items required to support an asset management system. Exhibit 18 shows the number of councils that hold specific information about property, such as energy usage, and the format for holding this information, for example an electronic database. Data coverage is complete in some areas, for example schools, where councils are required to report the information to the Scottish Government, while in other areas data coverage is patchy.

80. Almost three-quarters of councils report good approaches to data collection and storage across most performance areas. Although most councils hold core property information, data on a number of other items, such as CO_2 emissions, is limited. Data coverage on 'property usage' is poor, with only a fifth of councils collecting adequate information.

81. Data coverage is also poor in areas associated with health and safety. Only 15 councils had full coverage of data for fire risks, 17 for health and safety surveys, 23 for asbestos content and 23 for water hygiene information.

82. It is important that data is stored in a format that is accessible to relevant staff. However, many councils have not yet developed up-to-date electronic inventories of the number and condition of property assets, to support property maintenance regimes, and to help to prioritise the allocation of maintenance expenditure.

Exhibit 18
Number of councils holding asset management information

Information	Number of councils with…			
	an electronic database system	a spreadsheet system	a paper based system	full coverage of data for all their properties
Core/basic data on property	27	4	1	26
Condition information (based on on-site surveys by qualified staff)	26	4	0	18
Required maintenance (backlog in priority bandings)	21	7	2	16
Suitability information (fitness for purpose)	19	11	1	23
Capacity information (sufficient/insufficient/quantum)	16	10	1	12
Usage (hours)	7	8	1	7
Energy usage (consumption/costs)	24	6	0	22
Environmental performance including CO_2 emissions	18	6	1	18
Accessibility issues (Disability Discrimination Act)	17	7	4	18
Water and sewerage costs	16	11	0	23
Asbestos content	24	5	1	23
Health and safety surveys	8	5	7	17
Water hygiene information	13	10	6	23
Fire risk	11	8	3	15
Maintenance spending patterns (for example, planned to reactive ratio)	24	2	1	23
Financial performance (commercial estate only)	14	6	2	24
Energy performance certificates	4	5	0	0

Note: Columns 1 to 3 do not always total 32. This is because some councils do not have a system for recording particular information, and some councils did not return complete data.
Source: Audit Scotland survey of councils

Only half of councils provide regular information to elected members on property performance

Key factor 5 – Performance management and reporting

83. Councils need a range of performance measures to enable them to pursue greater efficiency in the use and management of their assets. All the councils we visited monitor expenditure on their property assets and compare budgeted and actual expenditure. Monitoring of other aspects of performance in these councils was variable. Some councils have made significant investment in technology to allow them to monitor the progress of works and measure aspects of performance other than financial performance. However, others have less sophisticated arrangements, relying on incompatible computer systems, spreadsheet, or paper-based systems that make it difficult to monitor whether objectives and targets are being achieved (Exhibit 18).

84. Many councils have yet to establish a framework of performance indicators and outcome targets against which to measure the performance of their assets, support continuous improvement and assist public performance reporting. Only half of councils provide regular information to elected members on property performance.

85. Three councils, Midlothian, Eilean Siar and Orkney Islands, do not collect performance indicators for their property and under a third of councils have a comprehensive range of performance measures in place. The remainder collect a combination of performance measures drawn from sets developed by the Federation of Property Societies and the Improvement Service, those collected by the National Best Value Benchmarking Scheme (NBVBS) and Statutory Performance Indicators (SPIs). Councils could make wider use of value-for-money indicators for

estates, developed by the UK Joint Audit Agencies,[22] and indicators developed by the Association for Public Service Excellence (APSE) performance networks.

Recommendations

Councils should:

- ensure they have effective asset management plans and strategies for their property, IT, vehicles, roads and associated infrastructure. These strategies should:

  - set out a vision for each type of asset which shows how they will contribute to council objectives and service aims

  - set targets for assessing progress, including the condition and suitability of each asset

  - describe an overall plan for achieving this

- ensure that service-planning guidance includes the development of service asset management plans for the short, medium and long term, within a corporate asset management framework

- ensure that asset information is up to date, complete, and held in a form which allows the production of appropriate management reports

- establish robust monitoring and reporting procedures for asset performance, to assess progress against their strategies.

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22   *Value for Money in pubic sector corporate services*, Public Audit Forum, 2007.

Part 4. Improved asset management and partnership working can improve council efficiency

Property assets consume a lot of resources – councils will need to review how they use their property, and their future property needs, if they are to secure savings.

Key messages

- There are large variations in the cost of holding property among councils. In most councils property costs are between five per cent and 12 per cent of their gross revenue budget, but in some councils costs are higher.

- Although councils are reducing energy use in their buildings, environmental sustainability is not a key factor in building design. Most councils are missing opportunities for incorporating environmentally friendly features into the design of new buildings.

- Some councils gave examples of savings from rationalising office space, but few were able to provide details of significant efficiencies arising from property review and rationalisation.

- Many councils find rationalising property assets difficult to manage well. The role of elected members is of crucial importance; however, many councils do not have effective elected member scrutiny of property assets and only half provide regular information to elected members on property performance.

- Councils and health boards have a high-level commitment to joint working on property asset management. However, joint working does not appear to be widely embedded across services at a planning or operational level.

- There has been some well-planned joint working reported between social work and primary care services. Many joint property projects are developed in an opportunistic way, rather than as part of a long-term joint strategy.

- In three out of the five councils we visited, national policies on the sale of assets are seen as a barrier to joint working. For example, a health board may wish to use surplus council land for a community facility, but is not able to meet the market price which the council is required to achieve.

- Although there have been a number of national initiatives to facilitate joint working between councils, the NHS, and other partners, the impact to date on asset management has been limited.

The cost of holding property varies among councils

86. Property assets consume a lot of resources. Property costs include the costs of repairs and maintenance, energy, water, grounds maintenance, rents, rates, cleaning and domestic costs, premises insurance, caretaking and security. Scottish councils spent around £1.1 billion in 2007/08 on property, about 7.4 per cent of their gross revenue budgets. Property costs in 2007/08, ranged from around £7.5 million per year in Orkney Islands Council to £116 million per year in Glasgow City Council.

87. Exhibit 19 (overleaf) shows the variation in property costs among Scottish councils. In most councils reported property costs are between five and 12 per cent of the council's gross revenue budget. In Eilean Siar and Shetland Islands Councils, property costs are over 20 per cent of the overall budget.

88. There is some correlation between councils that reported well-developed asset management arrangements in their responses to our survey, and lower property costs. This suggests that more effective asset management helps councils achieve savings in property costs. We found no clear pattern in property cost variation, for example no evidence of

economies of scale, or an urban/rural divide (although the two highest spending councils are both islands councils).

Councils have a variety of options to use property more efficiently

Councils can make better use of office space
89. Scottish councils use around 1.2 million square metres of office space, with a property cost of around £190 million per year. Property costs of office space reported by councils vary from less than £50 per square metre reported by Falkirk and West Dunbartonshire to over £350 reported by Eilean Siar, Inverclyde and Edinburgh.

90. Three of the councils we visited (Fife, Renfrewshire and the City of Edinburgh) had recently rationalised and refurbished their office accommodation. They had significantly reduced the number of buildings used, while improving the condition and suitability of their facilities by making increased use of open-plan space and off-site document storage.

91. The working practices councils adopt have a significant impact on the volume, type and cost of the office property they hold. The following factors should be considered in planning office space:

- There may not be a business need to locate staff in unsuitable or expensive town hall or city centre accommodation.

- Using customer service centres to provide access to services by telephone, to reduce the number of small peripheral offices and improve services; although some councils prefer to maintain a physical council presence in an area, for example Highland Council has made a policy choice to maintain a presence in rural settlements.

Exhibit 19
Property costs as a percentage of gross revenue budget

Council	
Argyll & Bute	
Renfrewshire	
Perth & Kinross	
Glasgow City	
West Lothian	
Orkney Islands	
Stirling	
Aberdeen City	
City of Edinburgh	
Scottish Borders	
Dundee City	
Angus	
West Dunbartonshire	
North Lanarkshire	
North Ayrshire	
Falkirk	
Moray	
Fife	
East Renfrewshire	
East Lothian	
East Ayrshire	
Dumfries & Galloway	
South Lanarkshire	
Clackmannanshire	
Aberdeenshire	
Inverclyde	
Highland	
East Dunbartonshire	
Midlothian	
South Ayrshire	
Eilean Siar	
Shetland Islands	

Percentage

Source: Audit Scotland survey of councils

Example 1
Use of flexible working at British Telecom

BT has effected a massive change in its workforce culture since 1998, when the company then had just 400 teleworkers out of a total workforce of 119,000. It now has 63,000 people on some form of flexible working, with over 12,000 employees working at home out of a total workforce of just under 100,000. One of the main drivers for this change has been the reduction of office space, although developments in information and communication technology will also have been a major factor.

BT has saved over £220 million in the last ten years from real estate costs alone. They have reduced travel costs by £9.7 million per annum and saved 1,800 person years of travel time each year. Another benefit has been the retention of key skills and the ability to attract talent, reducing employee turnover and the costs associated with recruitment of new staff.

Source: Institute of Public Finance

- Increasing the use of 'hot-desking' for staff who spend much of their time away from the office but need to use office facilities occasionally. Most of the councils responding to our survey indicated they were investigating or piloting new ways of working, however, none had estimated the efficiency savings arising from these initiatives.

- There are many opportunities for new ways to work which can support office rationalisation, for example, home working can benefit both staff and employers; however, few councils have systematically evaluated these options.

92. The private sector focuses more on the financial performance of an asset and the key driver is to achieve more productive workplaces from less space at less cost. There is a link between working practices and space requirements, and private sector bodies seem to appraise this more systematically than the public sector. Example 1 is an illustration of this.

Councils need to make significant reductions in energy consumption
93. In the context of climate change and global warming, the environmental performance of council properties can make a big impact on Scotland's carbon footprint. The climate change bill, currently progressing through the Scottish Parliament, calls for a reduction in carbon emissions of at least 80 per cent by 2050, with an interim target of cutting emissions by 50 per cent by 2030. These targets will be difficult to achieve without significant improvement in the energy consumption of councils' property portfolio. The introduction of the UK-wide Carbon Reduction Commitment scheme in 2010 will provide financial incentives for councils to reduce their carbon emissions.[23]

23   www.defra.gov.uk/environment/climatechange/uk/business/crc/about.com

94. Our report *Improving the school estate*[24] found that environmental sustainability is not a key factor in school design and that opportunities were being missed for incorporating environmentally friendly features into the overall building design. One of the main ways of reducing carbon emissions from council buildings is the replacement of energy inefficient buildings with energy efficient ones. It is important that energy efficiency is included in the options appraisal process used for reviewing council property and in considering their replacement.

95. Our report *Improving energy efficiency*,[25] found that councils had reduced their energy consumption by five per cent in the three years up to the end of March 2007. However, spending on energy had increased by 46.7 per cent over the same period because of rising energy prices. The report identified a need for stronger leadership within public bodies to improve energy efficiency and ensure that the necessary cultural and behavioural changes are made. Example 2 illustrates what councils can achieve with good design.

Income from commercial properties varies considerably between councils

Key factor 6 – Commercial property
96. Overall, commercial property generates income of £94 million per year for Scottish councils, varying from £185,000 in Shetland Islands, to almost £22 million in Glasgow. Most councils review their rentals on either three-yearly or five-yearly cycles. There is a considerable variation in income per square metre from commercial properties among councils. In most councils income is reported as between £20 and £82 per square metre, with this varying from £1 in Fife to £106 in West Lothian. Although some of this variation may be due to differences in the type of property and market values in each area, councils

> **Example 2**
> City of Edinburgh Council's corporate headquarters
>
> In December 2006, the City of Edinburgh Council moved into a £45 million flagship HQ located in the heart of the city. The project provided an opportunity to integrate sustainable development objectives in the construction of the new building.
>
> The council worked closely with the developer, using sustainability key performance indicators (KPIs) to guide the development. These have subsequently been included in the terms of the lease. The building has solar panels and a range of water and energy conservation measures, including a rainwater storage system which will allow the council's street cleansing vehicles to fill up their tanks. All timber used on the project came from certified sustainable sources and the furniture for the new building has been assessed against sustainable development criteria.
>
> The work of the council on the new HQ led to the development of subsequent sustainable design and construction policies and projects, with the council developing recognised expertise in this area.
>
> Source: Audit of Best Value and Community Planning, City of Edinburgh Council, Audit Scotland, February 2007

need to assess whether their level of return is consistent with their strategic objectives for commercial property.

97. Over two-thirds of councils have developed performance measures in relation to commercial property, although only some of these covered both financial and social issues. For example, Aberdeenshire Council conducts an annual survey of tenants and collects information on occupancy rates and whether the properties meet the basic needs of occupants. Over half of councils have reviewed their commercial property within the last two years; however, five (Eilean Siar, Highland, Moray, Perth & Kinross and West Dunbartonshire) have not reviewed their commercial estate for over five years.

98. Approximately two-thirds of councils indicate that they have developed a strategy for owning and managing commercial property,

covering one or more of the following issues:

- the reasons for holding such property

- standards for management

- how ownership of such property will be reviewed and challenged.

99. Councils need to review key aspects of their commercial estate and ensure they have effective arrangements to scrutinise and challenge the results. This should inform strategy for owning and maintaining commercial property and should include the reasons for holding property, and whether this is for income generation, or for social reasons. A strategy should contain management standards and include a small number of indicators to measure the performance of the commercial estate.

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24   *Improving the school estate*, Auditor General and Accounts Commission, March 2008.
25   *Improving energy efficiency*, Auditor General and Accounts Commission, December 2008.

Only a small proportion of property reviews have resulted in significant change

Key factor 7 – Property review

100. Disposing of excess property can produce capital income and release revenue savings by reducing ongoing property costs. Scottish councils own surplus assets valued at around £500 million.[26] Our survey of councils shows that they currently own around 876 unoccupied properties with a floor area of 160,000 square metres. In the current economic climate councils may be cautious in disposing of surplus assets due to falling market values. However, there may also be opportunities for councils to purchase properties more cheaply than would otherwise be the case, for example in order to re-organise office provision.

101. The councils we visited tended to review their properties on a building type or service area basis, for example reviews of school or library provision. Our survey of councils found that:

- 28 had reviewed their office portfolio

- 25 had reviewed at least one service area

- 24 had reviewed their property based on a single building type

- 20 had reviewed property based on a geographical area with other public sector organisations.

102. Only a small proportion (less than five per cent) of property reviews reported in our survey of councils resulted in significant change. There were good examples, such as a review of the local office network in Fife; this resulted in the sharing of facilities (for example, between libraries and local council offices),

and in the closure and sale of eight properties in the first phase. A second phase is being undertaken, with the intention of reducing the remaining 20 local council offices to eight 'civic and community hubs'.

103. Area reviews increase the potential for efficiency savings and improved service delivery, because they can increase the scope for bringing services together and rationalising property use. For example, Perth & Kinross Council has recently undertaken a review of its properties in the Blairgowrie area, which will contribute to the council's 'Customer First' initiative, which aims to improve customer service standards. However, no council provided details of the savings resulting from property reviews. Only North Lanarkshire provided details of savings arising from changes in asset management, where reviews of operational efficiency are reported as leading to savings of £0.5 million in water consumption costs.

104. A common theme in our fieldwork was that within any given part of a city, small town, or rural area, councils and other public agencies usually deliver services from their own properties, rather than sharing with other bodies. This results in:

- physical barriers to joint working

- unnecessary duplication of resources

- people using services having to travel longer distances to access public services.

105. Although two-thirds of councils in our survey said they had undertaken property reviews based on a geographical area with other public sector partners, there is little evidence to date of significant change

to property provision as a result. The reasons for this vary from area to area, but common issues mentioned in our council survey included:

- the difficulty of aligning capital and revenue expenditure plans between public sector bodies

- difficulty in aligning priorities for renewing assets, for example renewing a community centre in a specific area might be a high priority for the council, but renewing the local police station and health centre in the same area may be low priority for the police service and NHS

- protracted timescales for decision-making on issues such as agreeing financial contributions.

106. When councils are selling surplus property they need clear and transparent procedures for doing so. These procedures should make sure prices are agreed properly and that councils follow regulations. However, council procedures do not always ensure this happens – the Controller of Audit's investigation into property sales at Aberdeen City Council[27] found insufficient evidence to support the valuation of properties, a lack of proper procedures, poor reporting to elected members, and cases where the council might have got a better price for properties. Overall, the loss of income might have been more than £5 million.

We found little evidence that councils are budgeting for planned maintenance of new buildings

Key factor 8 – Implementation

107. Councils' capital expenditure in 2007/08 totalled £2 billion;[28] £0.5 billion of this is the Housing Revenue Account (HRA), which is restricted to expenditure on council

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26   *Overview of the local authority audits 2008*, Audit Scotland, February 2009.
27   A report by the Controller of Audit to the Accounts Commission under Section 102(1) of the Local Government (Scotland) Act 1973, Aberdeen City Council, Audit Scotland, April 2008.
28   *Overview of the local authority audits 2008*, Audit Scotland, February 2009.

housing. Of the remaining £1.5 billion, expenditure on schools was £425 million (28.3 per cent), offices and administrative buildings £96 million (6.4 per cent), sports centres and pools £69 million (4.6 per cent), residential homes and day care centres £54 million (3.6 per cent) and museums and galleries £28 million (1.9 per cent). The majority of the remaining non-HRA capital expenditure was on roads and transport £484 million (32.3 per cent), vehicles, machinery and equipment £157 million (10.5 per cent), and other buildings £187 million (12.5 per cent).

108. The construction cost of a building is on average only 2.5 per cent of the lifetime cost of that building and its services.[29] All investment has long-term revenue and capital costs for councils, known as whole-life costs. They include the costs of borrowing any initial capital required, and the maintenance, utilities and staffing costs for the lifetime of the building, most of which are funded from councils' revenue budgets.

109. Councils should base their capital expenditure on an effective property review programme, linked to an options appraisal process and asset management strategy. However, five councils (Eilean Siar, Aberdeen City, Glasgow City, Highland and Stirling) said they do not have a strategic approach to prioritising areas for capital spending and a third of councils do not have a documented approach to options appraisal for use on major projects.

110. We could find little evidence that councils' are budgeting to meet the costs of planned maintenance of new buildings. If councils do not make a commitment to fund whole-life costs, including maintenance, they risk financial inefficiencies – for example, they may need to replace assets sooner than if they had maintained them effectively.

111. Our recent report on improving the school estate also noted that whole-life costs, such as maintenance, are included within the budgets for Private Finance Initiative (PFI) schools, but generally not for council-owned schools. There is a risk that the condition of school buildings may deteriorate faster in non-PFI schools, as council funds come under pressure to meet other demands, such as existing maintenance backlogs.[30]

Councils are not developing outcome measures to monitor the success of capital projects

112. There are two main outcomes that result from investment in major capital projects – those specifically relating to the delivery of the project, and those related to subsequent service delivery. To assess how effectively a project has been delivered, measures can include whether it was completed on time and within budget, and to what extent it meets expectations around the size of spaces and the quality of the build.

113. The wider outcome of a project is the impact it has on the delivery of services and whether outcomes have improved because of the investment. While it is difficult to identify the exact impact that changes to assets have upon outcomes due to the number of other factors involved, there are indirect measures which can be used, for example improvements to staff morale. These can be assessed by post-project reviews and post-occupancy evaluations; although most councils do not undertake these regularly.

114. None of the councils in our survey have developed service outcome measures and only four councils (Aberdeenshire, Dundee, East Ayrshire and West Lothian) are looking at developing outcome measures for projects. Councils should include service outcome

measures in their assessment of the impact their investment in assets has on improving service delivery.

115. Renfrewshire and Edinburgh councils consulted staff on the use of space and layouts in the development of their new offices. Fife Council undertook post-occupancy surveys of staff, during the phased move from three central Glenrothes office locations to two, allowing them to make improvements in office layout for later phases of the project. The use of post-occupancy reviews across other councils was not common.

116. While councils frequently consult the public on the development of service plans, our survey found that there was little or no public consultation on what is required when they are considering the design of new assets.

Elected members can play a vital role in taking strategic decisions about assets

117. Elected members can play a vital role in achieving a balance between local interests and good corporate management of assets. Changes in service provision can be difficult to put into practice, especially where the public or elected members view the retention of particular buildings as symbols of commitment to service delivery in their area. Asset rationalisation, for example school closures, is highly emotive and can provoke strong local feelings. This can result in tension among elected members where ward interests conflict with corporate decision-making and value for money. Many councils have had to make difficult decisions about school or library closures, and this can lead to challenges for the political management of the council. Many of the council members and senior managers we interviewed

29   *Improving the school estate*, Auditor General and Accounts Commission, March 2008.
30   *Ibid.*

feel that there is a need to build greater consensus about the long-term strategy for assets across political groupings to be able to make significant progress.

118. Better performance management and leadership, increased use of options appraisal and whole-life costing may help to bring greater clarity and objectivity to the process of property rationalisation. Councils need to consult residents openly and sensitively about the issues they are facing and provide clear information on the alternatives available and the reasons for proposed change. This can also help to manage residents' expectations of potential outcomes at an early stage, and provide elected members with good information to enable them to balance local interests with those of the wider community.

Councils and their community planning partners need to work together to make public sector assets work more efficiently

119. Planning and undertaking joint projects with other public sector organisations present challenges to councils and their partners. There are many potential benefits including economies of scale.

120. Councils and health boards have a high-level commitment to joint working on property asset management, and councils are beginning to develop joint property strategies with other public sector partners. However, joint working is still in its early stages across most of the country and is not yet widely embedded across services at a planning or operational level. We found that joint property projects are being developed in an opportunistic way, rather than as part of a planned strategy. We also found that informal networking and personal relationships

are often seen as key to making asset management work between agencies. By their very nature these factors are difficult to replicate across all partners and over the long term.

121. Examples of joint use of property between councils and health boards include GP surgeries located in the same building as social work offices, libraries and pharmacies; however, we found it difficult to identify many examples of good practice. Our questionnaire asked councils for examples from area reviews, community use or other joint initiatives, but responses were limited. One example is the North West Kilmarnock Area Centre, which brings together a wide range of services such as a nursery and family centre, dental health and mental health services, day care for older people and a community health cafe and fitness suite. The centre has opened up opportunities for joint working and addressed a number of issues in the community. Another example is the Dalmellington Area Centre, also in East Ayrshire (Example 3).

122. In three out of the five councils we visited, national policies on the sale of assets are seen as a barrier to joint working with public sector partners. This can become an issue where, for example, a health board could use surplus council land for a NHS facility but is unable to meet the market price, or conversely, where a council could use a redundant NHS site for a school. Differing funding regimes also make joint working more difficult. Councils cite central control of NHS capital expenditure as resulting in slower decision-making. However, this only applies to capital expenditure of over £5 million (£10 million in NHS Greater Glasgow and NHS Lothian).

123. The 1973 Local Government (Scotland) Act, requires councils to secure 'the best consideration reasonably obtainable when disposing of land', usually interpreted as getting at least the market value. Where a council decides to accept less, it needs consent from Scottish ministers.[31] The 2003 Local Government in Scotland Act allows ministers to make regulations that councils must follow when selling assets.[32] The Scottish Government is currently considering draft regulations on these issues.

124. An approach which uses these processes and considers the overall value of a scheme to the public sector, rather than just aiming to achieve the highest price, could help deliver wider benefits and Best Value in the long term.

National initiatives to promote joint working have had varying degrees of success

125. There have been a number of national initiatives that have attempted, with varying degrees of success, to bring together community planning partners to invest in joint property projects. These include the community schools programme, the joint futures programme and the hub initiative.

126. The Scottish Executive[33] set up the New Community Schools (NCS) initiative (now known as Integrated Community Schools) in 1999, with an initial investment of £26 million from the excellence fund. One of its aims was to house social work, health, psychological and other child professionals in selected schools.

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31 Local Government (Scotland) Act 1973, Section 74.
32 Local Government in Scotland Act 2003, Section 11.
33 In 2007, the Scottish Executive changed its name to the Scottish Government. Where appropriate this report refers to the Scottish Executive rather than the current Scottish Government.

Example 3
The Dalmellington Area Centre, East Ayrshire Council

The Dalmellington area centre provides over 11,000 residents of the Doon Valley with a single point of access to a very wide and comprehensive range of public services, including council services, doctors, dentists and the police, as well as electronic service delivery by other government departments, including Job Centre Plus and the Inland Revenue. The facility also incorporates small-scale industrial starter units and a Business Technology and Training Centre. While co-location projects are not unique, this centre is designed to ensure daily interaction between staff from each of the agencies in supporting users and there is evidence that this is providing both higher quality and more joined-up services for customers. The centre was designed to produce several benefits in a single package, including:

- everyone working together under one roof
- new services delivered locally
- modern high-quality accessible accommodation
- increased uptake of services
- informal sharing of skills across agencies
- easier referral pathways between agencies
- value for money.

The council involved other partners in the project to maximise the use of available accommodation and extend the range of services available to the community. Based on the experience of the Dalmellington Area Centre, a 'Perfect Partners' practical handbook has been developed to share good practice.

Source: Best Value audit report, East Ayrshire Council, September 2006.

127. An independent review, *The sum of its parts? The development of integrated community schools in Scotland* (HMIE, 2006), found that the initiative lacked hard evidence of short-term success and had not been fully successful in its aim of establishing a new overarching vision and framework for the delivery of education and other children's services, using schools as the hub. NCS initiatives often sat alongside a range of other initiatives and activities, rather than bringing initiatives together and giving them greater coherence.

128. The Joint Futures Unit, part of the Partnership Improvement and Outcomes Division within the Scottish Government Health Department (SGHD), promotes joint working between the NHS and the rest of the public sector, including the development of joint premises. In 2005/06, the unit developed a list of data that public bodies should hold for their properties, and a toolkit to help public bodies develop joint estates projects. Very few NHS bodies have developed common datasets or used the toolkit; only three councils (Aberdeen City, Aberdeenshire and East Dunbartonshire) have completed the common dataset, although 16 councils have made full use of the toolkit.

129. More recently, the Scottish Government has announced proposals for the hub initiative to be taken forward by the Scottish Futures Trust. The government intention is that councils, health boards and other community bodies come together with the private sector in local hub companies to procure facilities jointly over a period of years. The government intends the hub to be a strategic way of procuring community assets, achieved through local agreements between the public sector and a private sector development partner.

130. It is intended that local hub companies will be established in five 'territories' across Scotland, overseen by a national hub office based within the Scottish Government. The Scottish Government has announced funding of £2.8 million over a five-year period to meet set-up costs for pathfinder projects in two of these territories. It is not clear how the five territories proposed by the Scottish Government will work within the current community planning arrangements.

Recommendations

Councils should:

- formulate a long-term capital strategy, linked to achieving the aims of their asset management strategies; this should include a formal corporate approach to options appraisal for proposed capital projects

- ensure that whole-life costs are taken into account in councils' capital and revenue planning

- consider issues of sustainability, such as CO_2 emissions, in their whole-life costing model for proposed capital projects

- review key aspects of their commercial estate and ensure they have effective arrangements to scrutinise and challenge the results

- set service outcome measures for capital expenditure and put in place mechanisms to monitor whether they have been achieved when projects are completed

- where significant changes are planned to assets in an area, or to a particular type of asset, for example school buildings, ensure consultation with residents is open about the issues the council is facing and provides clear information about the options for change

- agree with community planning partners arrangements for joint planning, management and property sharing. This should include identifying and tackling the barriers to strategic joint working around public assets and developing shared property databases to facilitate joint working.

Councils, Community Planning Partnerships and the Scottish Government should:

- make use of legislation which allows councils to sell assets at below market value if it is for public benefit, where this is consistent with a published policy objective, and would achieve Best Value for the public sector overall.

Appendix 1.

Improving property asset management – a checklist for elected members

Key issues	Key questions
1) Setting clear policies and objectives for asset management	• Is asset management a clear component of the council's overall strategy determined by the council? • Does executive leadership of corporate asset management clearly reside with the chief executive, supported by the corporate management team? • Does the council have an asset management strategy and published plans which support the council's corporate objectives? • Is property seen as a corporate resource?
2) Corporate commitment and management capacity	• Are elected members engaged with property asset management and is asset performance regularly reviewed by members? • Are property management responsibilities clearly set out at a corporate and service level? • Are there adequate resources at a corporate level, to review property assets and running costs?
3) Property information	• Does the property management service have adequate information systems to support property maintenance? • Are the information systems used to support asset management linked to other relevant systems, for example geographical information systems?
4) Property maintenance	• Has the council conducted an options appraisal for ensuring that the property maintenance backlog is being managed effectively? • Does the asset management plan ensure that all planned work reflects the results of a systematic option appraisal? • Is the work of the property management service planned to minimise long-term costs?
5) Property review	• Are senior managers aware of the property costs of the buildings services occupy? • Is there a programme of property reviews? • Is information on running costs and environmental impact available to the review team?
6) Resourcing and financial management	• Is there a corporate approach to options appraisal and the prioritisation of capital projects, in line with corporate objectives? • Are decisions on capital projects based on a clear business case, including options appraisal and whole-life costing? • Does property maintenance have the resources to meet its policy objectives and is adequate priority given to routine maintenance within the budget setting process? • Is funding for maintenance linked to the condition of assets?
7) Procurement and service delivery	• Does the council work with its community planning partners to achieve economies of scale in asset management? • Are unit costs benchmarked against other councils and the private sector?
8) Accounting for performance	• Does the asset management service maintain an effective performance management framework, to continuously review and improve its performance? • Are there annual performance plans, agreed by council members, setting out targets for improvement? • Does the council include this information in public performance reporting?

Appendix 2.

Study advisory group members

Member	Organisation
Alan Tyler	Federation of Property Societies
Gordon Taylor	Property Asset Manager, Corporate Services, Perth & Kinross Council
Nick Allan	COSLA (Corporate Assets Manager, Argyle & Bute Council)
John Symon	CIPFA Directors of Finance Group (Head of Finance, Perth & Kinross Council)
Jim Valentine	SOLACE (Head of Roads and Infrastructure, Perth & Kinross Council)
Colin Mair	Chief Executive, Improvement Service
Hilary Pearce	Efficiency and Transformational Government Division, Scottish Government (now Culture Division)

Appendix 3.

Published sources of guidance

Year	Date	Guidance	Author
2000	April	Hot Property: Getting the best from local authority assets	Audit Commission
	August	Beginning and Developing a Corporate Asset Management Process	Department of the Environment, Transport and the Regions (DETR)
2001	September	A Guidance to Asset Management Planning in Wales	Consortium Local Authorities Wales (CLAW)
2003	March	Supplementary Guidance to Asset Management Planning in Wales	CLAW
2004	December	Towards better management of public sector assets: A report to the Chancellor of the Exchequer	Sir Michael Lyons
2005	January	Asset Management under Best Value Advisory Note: Local Government in Scotland Act 2003	Best Value Task Force
	June	Joint Premises Toolkit	Scottish Government
	August	Guidelines developed by the Royal Institute of Chartered Surveyors (RICS) and the Office of the Deputy Prime Minister (ODPM)	RICS & ODPM
2006	April	Improving Property Asset Management in the Central Civil Government Estate	University of Leeds for the Office of Government Commerce (OGC)
	October	Capital Planning and Option Appraisal – A Best Practice Guide for Councils	Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Directors of Finance Section
	November	High Performing Property	Office of Government Commerce
2007	May	High Performing Property Implementation Plan	Office of Government Commerce
	May	Making assets work – the Quirk Review of community management and ownership of public assets	Barry Quirk for the Department for Communities and Local Government
	November	Improving the efficiency of central government's office property	National Audit Office
	December	Accounting for the Common Good Fund: A Guidance Note for Practitioners	Local Authority (Scotland) Accounts Advisory Committee (LASAAC)
2008	January	Public Sector Asset Management Guidelines (suite includes separate guidance for senior decision-makers and how to get started quickly)	Royal Institute of Chartered Surveyors (RICS)
	February	Building on Strong Foundations	Dept for Communities & Local Government
	March	Property Asset Management in Scotland's councils – Moving Forward	Improvement Service
	May	Improving the efficiency of central government's use of office property	House of Commons – Committee of Public Accounts
	October	A guide to asset management and capital planning	CIPFA Local Government Directors of Finance Section

Asset management in local government

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		2007/08	2008/09	2007/08	2008/09		
AHS Technician	AHS Technician	2,179	2,438	23,058	25,798	-11.88	-2,740
AHS Technician Total		**2,179**	**2,438**	**23,058**	**25,798**	**-11.88**	**-2,740**
Building Serv	Building Serv - Building Maint DLO	56,944	57,548	602,465	608,859	-1.06	-6,393
Building Serv	Building Serv - Catering	1,169	0	12,367	0	100.00	12,367
Building Serv	Building Serv - Cleaning	1,196	0	12,657	0	100.00	12,657
Building Serv	Building Serv - Cleaning2	0	0	0	0	0.00	0
Building Serv	Building Serv - Gremista Stores	90	223	952	2,356	-147.44	-1,404
Building Serv	Building Serv - Liftecs	6,089	5,775	64,418	61,100	5.15	3,319
Building Serv Total		**65,488**	**63,546**	**692,860**	**672,315**	**2.97**	**20,545**
Chief Exec	Chief Exec	1,579	1,255	16,707	13,276	20.54	3,431
Chief Exec Total		**1,579**	**1,255**	**16,707**	**13,276**	**20.54**	**3,431**
Cleansing Serv	Cleansing Serv - Cleansing Support	2,392	1,616	25,311	17,098	32.45	8,212
Cleansing Serv	Cleansing Serv - Community Skips	3,021	2,454	31,960	25,965	18.76	5,995
Cleansing Serv	Cleansing Serv - Public Toilets	821	808	8,685	8,543	1.63	142
Cleansing Serv	Cleansing Serv - Refuse Collection	71,870	72,414	760,379	766,137	-0.76	-5,758
Cleansing Serv	Cleansing Serv - Skip Contract	12,142	12,263	128,461	129,746	-1.00	-1,284
Cleansing Serv	Cleansing Serv - St Cleaning	17,872	20,066	189,085	212,293	-12.27	-23,208
Cleansing Serv Total		**108,117**	**109,620**	**1,143,881**	**1,159,783**	**-1.39**	**-15,902**
Community Services	Community Services	3,860	4,534	40,837	47,969	-17.46	-7,132
Community Services Total		**3,860**	**4,534**	**40,837**	**47,969**	**-17.46**	**-7,132**
Education	Educ - Catering	0	958	0	10,139	0.00	-10,139
Education	Educ - Cleaning	0	1,056	0	11,174	0.00	-11,174
Education	Educ Services	0	0	0	0	0.00	0
Education Total		**0**	**2,014**	**0**	**21,312**	**0.00**	**-21,312**
Env Services	Env Serv - ABS-NSW	511	1,022	5,407	10,817	-100.04	-5,410
Env Services	Env Serv - Pest Control	6,247	4,686	66,092	49,581	24.98	16,511
Env Services Total		**6,758**	**5,709**	**71,500**	**60,398**	**15.53**	**11,102**
Ferry Services	Ferry Services	0	13,075	0	138,336	0.00	-138,336
Ferry Services Total		**0**	**13,075**	**0**	**138,336**	**0.00**	**-138,336**
Finance	Debt Collector	460	0	4,862	0	100.00	4,862
Finance Total		**460**	**0**	**4,862**	**0**	**100.00**	**4,862**

Service	Site	Consumption Ultra Diesel Plus Litres 2007/08	2008/09	kWh 2007/08	2008/09	Energy Savings %	kWh
FMU	FMU - Special Needs Buses	7,229	8,932	76,484	94,503	-23.56	-18,019
FMU	FMU - Tingwall Airstrip	492	216	5,207	2,290	56.03	2,918
FMU	FMU - Vehicles	3,974	5,079	42,046	53,737	-27.81	-11,691
FMU	FMU - Walls Buses	40,570	39,636	429,233	419,352	2.30	9,881
FMU	FMU - Whalsay Buses	414	493	4,382	5,218	-19.07	-836
FMU Total		**52,680**	**54,357**	**557,352**	**575,099**	**-3.18**	**-17,747**
Housing	Housing Serv - DLO	54,881	58,116	580,643	614,870	-5.89	-34,227
Housing	Staney Hill Hostel	0	583	0	6,168	0.00	-6,168
Housing	Housing Services	0	0	0	0	0.00	0
Housing Total		**54,881**	**58,699**	**580,643**	**621,038**	**-6.96**	**-40,395**
ICT	ICT	4,213	4,072	44,570	43,083	3.34	1,488
ICT Total		**4,213**	**4,072**	**44,570**	**43,083**	**3.34**	**1,488**
Library	Library	6,889	6,325	72,881	66,913	8.19	5,968
Library Total		**6,889**	**6,325**	**72,881**	**66,913**	**8.19**	**5,968**
Marine Ops	Marine Ops	52,471	39,931	555,140	422,466	23.90	132,674
Marine Ops	Boats	759	408	8,032	4,317	46.26	3,716
Marine Ops Total		**53,230**	**40,339**	**563,172**	**426,782**	**24.22**	**136,390**
Roads Serv	4 Wheelers	27,993	24,676	296,168	261,073	11.85	35,095
Roads Serv	6 Wheelers	28,363	29,260	300,082	309,570	-3.16	-9,488
Roads Serv	CAT 307	6	0	65	0	100.00	65
Roads Serv	DLO Overheads	36,232	25,932	383,337	274,356	28.43	108,980
Roads Serv	DLO Small Plant	26	25	279	263	5.68	16
Roads Serv	Grit-Tankers	5,393	4,624	57,060	48,923	14.26	8,137
Roads Serv	Group 6	0	108	0	1,145	0.00	-1,145
Roads Serv	Highway Pick-ups	69,724	60,805	737,676	643,316	12.79	94,360
Roads Serv	JCBs	0	104	0	1,103	0.00	-1,103
Roads Serv	Johnson Sweeper	7,276	7,911	76,979	83,702	-8.73	-6,723
Roads Serv	Lab - Hayfield House	677	390	7,158	4,126	42.36	3,032
Roads Serv	MF 650 Tractors	0	0	0	0	0.00	0
Roads Serv	Roads Job	1,665	2,026	17,620	21,433	-21.64	-3,813
Roads Serv	Scord Admin	547	971	5,789	10,277	-77.52	-4,488
Roads Serv	Scord Drilling	3	0	26	0	100.00	26

Service	Site	Consumption				Energy Savings	
		Ultra Diesel Plus					
		Litres		kWh		%	kWh
		2007/08	2008/09	2007/08	2008/09		
Roads Serv	Unibody - Fodden	10,244	11,586	108,385	122,575	-13.09	-14,190
Roads Serv	Unibody - MAN	33,545	44,143	354,910	467,034	-31.59	-112,124
Roads Serv	Unibody - Sedden	25,112	13,843	265,689	146,463	44.87	119,226
Roads Serv	Unst Airport	27	380	280	4,025	-1,335.47	-3,744
Roads Serv	Winter Service	5,301	3,937	56,082	41,653	25.73	14,429
Roads Serv Total		**252,135**	**230,722**	**2,667,586**	**2,441,038**	**8.49**	**226,548**
Social Work	Social Work	1,351	2,204	14,294	23,323	-63.17	-9,029
Social Work	Criminal Justice	411	579	4,349	6,124	-40.79	-1,774
Social Work	Shetland Family Services	494	423	5,231	4,474	14.46	756
Social Work	Transport	34,254	34,987	362,406	370,157	-2.14	-7,751
Social Work Total		**36,510**	**38,193**	**386,280**	**404,078**	**-4.61**	**-17,798**
Trading Standards	Trading Standards	165	193	1,746	2,046	-17.21	-300
Trading Standards Total		**165**	**193**	**1,746**	**2,046**	**-17.21**	**-19,743**
Waste Services	Burial Grounds	12,844	13,038	135,894	137,941	-1.51	-2,047
Waste Services	Glass Re-use	0	10,349	0	109,495	0.00	-109,495
Waste Services	Kerb Recycling	2,302	1,673	24,352	17,698	27.32	6,654
Waste Services	Rova Head	9,968	9,134	105,466	96,633	8.37	8,832
Waste Services	Waste Prevention	0	0	0	0	0.00	0
Waste Services	Waste to Energy	280	110	2,959	1,160	60.82	1,800
Waste Services Total		**25,394**	**34,303**	**268,671**	**362,927**	**-35.08**	**-94,256**
Grand Total (Council Use)		**674,537**	**669,394**	**7,136,606**	**7,082,190**	**0.76**	**54,415**

Shetland
Islands Council

REPORT

To: **Audit and Scrutiny Committee**   **17 June 2009**

From: **Performance Management Co-ordinator**

CE-30-F

Diesel usage update 2008-09

1 Introduction

1.1 This report provides Members with an end of year position on diesel usage across all service areas.

2 Links to Corporate Priorities

2.1 This report contributes to the Council's Corporate Plan 2008-11 aim of "Living within our means".

3 Background

3.1 The Audit and Scrutiny Committee carried out an extensive study into the private use of Council vehicles during 2008. Upon conclusion of the study, the Committee recommended to Council that services reduce their diesel usage by 5% for each of the next 4 years. This was endorsed at the Council meeting on 22nd October (min ref: 143/08) and is therefore current Council policy.

3.2 This requirement for services to make the 5% reduction in diesel was communicated to service managers after the Council meeting in late 2008.

3.3 The Appendix to this report provides an end of year position statement showing the diesel consumption rates across Council services for the financial year 2008-09. In order to put these figures into some context, the 2007-08 consumption figures are also provided. These figures are taken direct from the Council's 'Triscan' fuel system and are collated by the Energy Unit.

3.4 Although Members will have had the opportunity to discuss fuel reduction measures with managers at the 'end of year' performance reviews which took place in early May, an update has never been sought from services on the measures they are employing to meet the 5% target. Members are

therefore asked to scrutinise the figures for the whole Council in Appendix 1 and comment on any issues arising, as considered appropriate.

4.   Financial Implications

4.1   There are no financial implications arising from this report.

5.   Policy and Delegated Authority

5.1   As described in Section 10 of the Council's Scheme of Delegations, the remit of the Audit and Scrutiny Committee includes reviewing Council performance information.

6.   Conclusion

6.1   This short report has sought to update Members on the diesel usage rates across the Council, in light of the study carried out last year for the Audit and Scrutiny Committee.

7.   Recommendations

7.1   I recommend that members of the Audit and Scrutiny Committee scrutinise the attached figures and make comment, following-up with services, as considered appropriate.

June 2009   CE-30-F

Exit Questionnaire

We are sorry that you are leaving your post and ask that you complete this exit questionnaire to help the Council understand the reasons why people leave and to identify any improvements or changes that could be made. This information will be recorded on a database and used to provide regular monitoring information to help the Council develop and improve the way we do things.

This form should be completed by the leaving employee and then discussed with the supervisor/line manager at an exit interview. However, if you do not wish to discuss the content of your form with your supervisor/manager, the form can be passed to and discussed with the Staff Welfare Officer if requested.

Thank-you for the time you take to complete this form

Employee Name:	Employee Number:

Post Title:	Work Location:	Post Number:

Supervisor/Line Manager's Name:	Leaving Date:

Details provided on the questionnaire and comments made during the interview (if applicable) will not influence future references or re-employment with the Council.

1. Method of Leaving

Please record the method of leaving by ticking one of the boxes below.

☑ Please Tick

☐ Early Retirement
☐ Normal Retirement Age
☐ Ill-health Retirement
☐ Redundancy
☐ Dismissal
☐ Resignation (including when moving to a new post within SIC)
☐ End of Temporary Contract

2. Early Retirement

Please record your main reasons for requesting early retirement from the Council. (Limit the reasons to 3 if possible)

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(i)

(ii)

(iii)

3. Reasons for Resignation

Please record your main reasons for resignation by ticking the boxes that most closely apply to you.

3.1 Reasons relating to career progression

    ☑ Please Tick

    ☐ Promotion/higher paid job within Section/Service
    ☐ Promotion/higher paid job in another part of the Council
    ☐ Promotion/higher paid job in another organisation
    ☐ Lack of training/career development opportunities
    ☐ Taking up full/part-time education/study
    ☐ Other.   Please state

Please comment on issues relating to career progression if you wish.

3.2 Personal Reasons (you do not need to complete this section if you do not wish to do so)

    ☑ Please Tick

    ☐ Health
    ☐ Home relocation
    ☐ Caring responsibilities
    ☐ Not returning to work following maternity leave
    ☐ Need for change
    ☐ Travel problems/work closer to home
    ☐ Other personal reasons

Please comment on reasons related to the above if you wish

3.3 Reasons relating to the job

    ☑ Please Tick (you can tick more than one)

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    ☐ Lack of job security
    ☐ Dissatisfaction with workload (relating to too much or too little to do)
    ☐ Dissatisfaction with duties (too easy or too difficult)
    ☐ Dissatisfaction with working environment
    ☐ Lack of job satisfaction
    ☐ Lack of managerial/supervisory support
    ☐ Lack of challenge
    ☐ Other – Please comment

Please provide additional comments if you wish.

3.4 Reasons relating to the workplace

    ☑ Please Tick (you can tick more than one)

    ☐ Problems with work colleagues
    ☐ Problems with Supervisor/Manager
    ☐ Discrimination – e.g. sex, race, age
    ☐ Harassment and/or bullying
    ☐ Workplace stress
    ☐ Other – Please state

Please provide additional comments if you wish.

Thank-you for completing this questionnaire. Please return it to either your line manager or the Staff Welfare Officer.

Your line manager will forward the form to the Staff Welfare Officer after discussing it with you.

If you would like a larger print version of this form or help completing it please contact the Staff Welfare Officer on ext. 4580 or email Wilma Ross.

I am happy to take part in an Exit Interview with my line manager

Yes ☐   No ☐

Signature:_____ **Date:**_____

Supervisor/Manager:_____ **Date:**_____

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Shetland
Islands Council

REPORT

To: **Audit and Scrutiny Committee**   **17 June 2009**

From: **Human Resources Service Manager**

CE-28- F

Exit Interviews

1   Introduction

1.1   This short report provides an update to the Audit and Scrutiny Committee on work that has been carried out to improve the arrangements for monitoring exit interviews across the Council.

2   Link to Corporate Priorities

2.1   This report links very closely to the "Sustainable Organisation" section of the 2008-11 Corporate Plan, where the Council aims to "be an excellent employer".

3   Background

3.1   In November 2008, the Audit and Scrutiny Committee considered a report by the Performance Management Co-ordinator (Min ref: 40/08) updating Members on the gender balance of the Council, following on from the investigation that was carried out into this matter in 2007. During that meeting, the subject of employees leaving the Council was discussed and in particular, what recording and monitoring of workforce profile data was obtained through the Council's Exit Questionnaires.

3.2   As you are aware, the Council is required to produce an annual Gender Equalities Report that sets out the Council's workforce profile in a number of different areas including the different ways that employees leave the organisation. The analysis of that section of the report is attached to this report, for discussion. As you will see, the gender balance of the SIC is 75% female 25% male. The Gender Equality Report will be submitted to the Council in the June cycle, to meet national reporting requirements.

4   Exit Strategy Development

4.1   At the time of the October Audit and Scrutiny Committee meeting, Human Resources was piloting the use of Exit Questionnaires within some services

in Education and Social Care to gather information on people leaving either the Council or their post. This pilot has since been rolled out Council-wide and all employees leaving their post, whether to move on to another post or to leave the Council are now provided with a questionnaire to complete and return. They are also offered the opportunity to take part in an Exit Interview with their line manager or the Staff Welfare Officer. A copy of the questionnaire is attached, for information. A copy of every form is sent to the Human Resources Manager via the Staff Welfare Officer who then follows up on any concerns raised with either the employee or their manager.

4.2   The exit process is about to undergo further development with the recruitment of a graduate who begins work on June 1st. Amongst other HR project work, the graduate has been tasked with developing a database capable of recording, monitoring and reporting on the exit data gathered.

4.3   All feedback from the exit questionnaires and interviews will be objectively reviewed and put into proper context. Producing an annual report will help prioritise the messages employees give us and take appropriate action in a timely manner by identifying emerging themes and trends. In addition to that, we will be looking at current best practice in capturing this information so that we can ensure our approach is as good as it can be.

5   Financial Implications

5.1   There are no financial implications arising from this report.

6   Policy and Delegated Authority

6.1   As outlined in Section 10 of the Council's Scheme of Delegations, the remit of the Audit and Scrutiny Committee includes reviewing Council performance information.

7   Conclusion

7.1   This report has sought to provide a brief update on work that has been ongoing to improve the Council's arrangements for employee exit interviews.

8   Recommendations

8.1   I recommend that Members of the Audit and Scrutiny Committee discuss the attached document and comment, as considered appropriate.

June 2009   CE-28-F
Ref: DB/PP

Exits from the Council - 2008/9

(Taken from the Council's Gender Equality Scheme 2009 – due for publication in July 2009)

EMPLOYEES WORKING FOR THE COUNCIL

Female	75.53%
Male	24.47%

3944 employees (2534 full-time equivalents)

RESIGNATIONS

Female	78.79%
Male	21.21%

429 employees resigned

REDUNDANCIES (Voluntary)

Female	66.67%
Male	33.33%

3 employees were awarded voluntary redundancy

DISMISSALS

Female	0%
Male	100%

1 employee was dismissed

RETIRALS

Female	60.00%
Male	40.00%

60 employees retired

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