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NOTICE OF MOTION –SHETLAND ISLANDS COUNCIL 19 MAY 2010

Construction of a Tunnel to Whalsay

That a member officer working group be formed to explore all methods and sources of possible funding of the cost of construction of a tunnel to Whalsay as this is of importance to Shetland's overall sustainability of resources and services and could be seen as a development opportunity.

1. The Group will explore all potential external funding streams and investment opportunities.
2. The Group will explore any innovative methods of procurement or investment which they feel may be worthwhile for the Council to explore further as well as traditional local authority methods.
3. The Group shall comprise six elected members, the Head of Finance, Executive Director of Infrastructure and Head of Economic Development. Advice will be sought of others as and when required during the life of the group.
4. The Group will report back on progress to the Council on 30th June with an interim Report to the Infrastructure Committee and report thereafter as necessary.

Signed 4 May 2010

① *Keith Henderson*
② *Betty*
③ *Jim Beards*
④ *Ally Cott*
⑤ *L. Gray*
⑥ *Alan Johnson*

⑦ *[Signature]*
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Shetland Islands Council

REPORT

To: Shetland Islands Council

19 May 2010

From: Depute Chief Executive

A REPORT BY THE CONTROLLER OF AUDIT TO THE ACCOUNTS COMMISSION UNDER SECTION 102 (1) OF THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973

1 Introduction

- 1.1 This report presents the further audit work required by the Accounts Commission in December 2009 from the Controller of Audit. It is for noting at this stage. There will be a requirement for the Council to consider its response to any actions required by the Accounts Commission, once their decision is known.

2 Links to Corporate Priorities

- 2.1 There is no explicit link to the Council's Corporate Priorities but the content is at the heart of the governance arrangements which the Council is expected to adhere to, to comply with relevant legislation and best practice.

3 Risk Management

- 3.1 The report identifies significant strategic risks in areas such as: political environment; financial management; employee management; and reputational damage.

4 Background and Proposals

- 4.1 On 9 December 2009, the Accounts Commission considered a report under S102(1) of the Local Government Scotland Act 1973 on the

Council's Annual Audit for 2008/09. The Report noted that the Council's financial statements had been qualified for the fourth consecutive year and highlighted concerns about working relationships in the Council, governance and accountability and strategic leadership. The Accounts Commission requested Audit Scotland to carry out further focussed audit work. Their report is attached in full at Appendix 1. The Accounts Commission will meet to consider the Report on 11 May 2010 and their decision on the actions required of the Council will be notified soon thereafter.

4.2 The Accounts Commission has the following mechanisms to call upon, under the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003:

- direct the Controller of Audit to carry out further investigations
- hold a Public Hearing
- state its findings (which may include recommendations to the Council and to the Scottish Ministers). Any findings issued by the Accounts Commission require to be considered at a meeting of the Council.

A note of the legal provisions is attached at Appendix 2.

5 Financial Implications

5.1 There are no direct financial implications arising from this report. There may be significant financial implications arising from any recommendations made to the Council by the Accounts Commission.

6 Policy and Delegated Authority

6.1 The report from the Controller of Audit covers the corporate governance of the Council, responsibility for which rests with the Council. Employment matters are the responsibility of the Chief Executive, as Head of Paid Service, once appointed.

7 Recommendation

7.1 I recommend that the Council formally receive the report from the Controller of Audit and note the need to consider the way ahead, once the outcome of the Accounts Commission deliberations are known.

Ref: HAS/sa

Report no: ESCD-15-F

**A REPORT BY THE CONTROLLER OF AUDIT TO THE ACCOUNTS
COMMISSION UNDER SECTION 102(1) OF THE LOCAL GOVERNMENT
(SCOTLAND) ACT 1973
SHETLAND ISLANDS COUNCIL**

1. Introduction

- 1.1 The purpose of this report is to update the Commission on events in Shetland Islands Council. The report includes the outcome of the further audit work requested by the Commission in December 2009 following their consideration of my last report.

2. Background

- 2.1 On 9 December 2009, the Accounts Commission considered a report under S102(1) of the Local Government Scotland Act 1973 on the Shetland Islands Council Annual Audit 2008/09. The report noted that the council's financial statements had been qualified for the fourth consecutive year and highlighted concerns about working relationships in the Council, governance and accountability, and strategic leadership.
- 2.2 The Commission requested me to carry out further focused audit work and report on the council's actions to address the issues which led to the qualifications of the financial statements and the financial challenges it faces. The work would also assess the current position on member/ member and member/ officer working relationships and the impact on strategic leadership within the council.
- 2.3 During January and February 2010 it became clear that the working relationship between the council and its chief executive was becoming untenable. By the end of February a negotiated settlement was reached which saw the chief executive leave his post.
- 2.4 Further audit work was carried out in March 2010 and involved file review, observation of the full council meeting on 24 March 2010 and interviews with 12 of the 22 elected members, officers and members of the public (including the former chief executive.)
- 2.5 The purpose of the audit work was to provide an update for the Commission and highlight some of the issues facing the council, with a particular focus on the appointment and subsequent departure of the chief executive. The audit work was not, however, intended to be a forensic investigation into all the circumstances surrounding the events leading to the chief executive's departure. There remains a significant level of disagreement between the key parties on many issues and it has not been practical to investigate every issue in detail within a reasonable timeframe and at a proportionate cost.

- 2.6 It is standard practice for draft audit reports to be shared with the council to check for factual accuracy. A draft report was sent to the council on 22 April 2010; by 28 April the draft report had been leaked to the media.
- 2.7 In addition to receiving comments on the draft report from the council, the audit team also received individual written comments from some elected members, a council officer, a union representative and legal representatives. Many of these responses serve to underline the continuing disagreements, the differences of interpretation and the lack of trust that exist within the council.

3. Overall conclusions

- 3.1 *It is of serious concern that a significant amount of public money has been spent in reaching a negotiated settlement with the former chief executive. The events of recent months have resulted in a serious deterioration in working relationships within the council. There is a risk that this will continue to affect the council's ability to conduct business in an effective way. Elected members have not demonstrated their ability to set and maintain a clear strategic direction.*
- 3.2 The council has had a range of serious problems during 2009 and 2010. The most significant problems relate to events surrounding the appointment and subsequent departure of the chief executive. The council appointed a new chief executive in May 2009, but in February 2010 it reached a negotiated settlement which led to his departure. These events have damaged working relationships in the council, as well as the council's reputation, and present a continuing risk to the organisation's ability to work effectively. This is particularly serious at a time when the council needs to take difficult decisions to sustain its current level of services whilst maintaining its target reserves balance and delivering its capital plans.
- 3.3 It is of serious concern that a significant amount of public money has been spent to settle the case with the chief executive. Using public money in this way is particularly unwelcome at a time of increasing financial pressures in public services, particularly since the council previously incurred costs to terminate the contract of a chief executive in 1999. It is clear that lessons were not learned from the earlier case.
- 3.4 The process for the recruitment and selection of the chief executive in 2009 was not sufficiently rigorous. Once an appointment was made, the council did not put a robust process in place to set clear personal objectives or manage the performance of the chief executive.
- 3.5 The chief executive was the subject of public criticism by some elected members, despite all members receiving legal advice about the risks that this might present for the council.
- 3.6 These factors played a significant part in the events which led to the departure of the chief executive and the negotiated settlement.

- 3.7 When it became clear that the council's relationship with the chief executive was becoming problematic, the council took appropriate external advice and the settlement was negotiated on a reasonable basis and in compliance with appropriate legislation.
- 3.8 The events of recent months have resulted in a severe deterioration in working relationships within the council. There is a risk that this will continue to affect the council's ability to conduct business efficiently and effectively.
- 3.9 The council has not demonstrated that it can set a clear strategic direction, supported by sound and consistent decision making. We found little evidence of elected members acting in the interests of Shetland Islands Council as a whole. Events over recent months have led to a significant proportion of members expressing concerns about the quality of strategic leadership in the council.
- 3.10 The council has a substantial level of reserves, but it faces challenges in achieving its financial strategy. It has agreed budget savings for 2010/11 but has yet to demonstrate how it can sustain its current level of service delivery in future years, whilst maintaining its target reserves balance and delivering its capital plans.
- 3.11 Services continue to be delivered to a high standard, albeit at a relatively high cost. Members and officers expressed the view that service delivery has not been compromised by the issues covered in this report. However, the senior officers on the Executive Team are currently covering corporate responsibilities in addition to their own departmental roles and the Executive Director – Education and Social Care is covering Chief Executive responsibilities in her role as Depute Chief Executive. This situation is not sustainable and increases the risk that services may be adversely affected.

4. Recruitment of the Chief Executive

- 4.1 *The process for the recruitment and selection of the chief executive was not sufficiently rigorous.*
- 4.2 The previous chief executive tendered his resignation in February 2009. On 25 March 2009 the council agreed a process for the recruitment of a new chief executive. This procedure fell short of what would normally be expected as good practice for such a significant post, and was less rigorous than the processes that had been used to appoint to the posts of Executive Director in 2007 and 2008. In particular, the sub committee appointed by the council to undertake this task chose not to take advice from human resources (HR) to engage external support other than for the development of the job advertisement.
- 4.3 Following the receipt of 38 applications for the post, the HR department used a set of criteria to develop a short list of nine applicants. A panel of seven members, supported by the HR manager, then selected five applicants from this short list to progress to the next stage of the recruitment process.
- 4.4 The five applicants were invited to attend a two day recruitment event on 18

and 19 May 2009. On 18 May applicants were invited to deliver a presentation based on a case study developed by the previous chief executive.

- 4.5 On 19 May applicants were interviewed by the full council; 19 of the 22 elected members participated. After approximately 90 minutes of deliberation, the council held three secret ballots to select one preferred and one reserve candidate. The preferred candidate received 11 of the 18 votes; there was one abstention.
- 4.6 The recruitment and selection process fell short of good practice in a number of respects for a post of such significance. The council chose not to adopt a number of good practice recruitment activities, including psychometric testing and assessment centre exercises such as numerical and verbal reasoning or business case analysis.
- 4.7 Elected members were offered a set of potential interview questions including a core set of questions to be asked of all interviewees together with specific questions relating to each individual. Members chose not to use the specific questions, which had been designed to probe the detail of each candidate's experience and so help members assure themselves of the suitability of candidates.
- 4.8 A panel of 19 is not considered to be good practice as it makes it more difficult to conduct structured and detailed questioning of interviewees. It is, however, in line with the council's recruitment and selection policy.
- 4.9 A number of members and officers expressed reservations about the lack of rigour in the recruitment process, including the lack of external guidance and support, the limited assessment of candidates, and the interview process itself.
- 4.10 The council has recognised the shortcomings in the recruitment process it followed. In March 2010 the council agreed a different process for the recruitment of an interim chief executive who is to be appointed for a period of at least 18 months and up to two and a half years. The revised process includes external support.

5. Objective setting and performance appraisal for the Chief Executive

- 5.1 *The council did not put in place a robust process to set personal objectives for the chief executive. There was no formal process to appraise and manage his performance. The chief executive was the subject of public criticism by some members. These factors played a significant part in the departure of the chief executive through a negotiated settlement.*
- 5.2 Following the council decision on 19 May 2009, the new chief executive took up his post on 01 June.
- 5.3 Although the council's priorities were discussed as part of the interview process and some informal discussions took place, the incoming chief

executive was not set clear personal objectives. There was no formal performance appraisal system in place.

- 5.4 The council contacted COSLA to seek advice about developing the organisation's overall performance management arrangements and implementing an appraisal system for the chief executive, but this did not take place until the chief executive had been in post for over four months, by which time serious tensions between the chief executive and some members were already evident.
- 5.5 These are fundamental areas of good practice which any organisation should have in place. The absence of clear performance management processes was a factor in the events that unfolded between June 2009 and February 2010 when the chief executive left his post. The lack of performance management arrangements meant there was no framework for formally assessing the chief executive's performance and holding him to account. Had clear objectives been set and performance appraisal arrangements been in place, some of the issues which subsequently arose could have been avoided or at least mitigated.

6. The negotiated settlement

- 6.1 *It is of serious concern that a significant amount of public money has been spent to settle the case with the chief executive. Using public money in this way is particularly unwelcome at a time of increasing financial pressures in public services, especially since the council had previously been criticised by the Accounts Commission for the way it had handled the termination of the employment of a chief executive in 1999. It is clear that lessons have not been learned. However, once the problematic relationship between the council and the chief executive was apparent, the council took appropriate external advice and the settlement was negotiated on a reasonable basis and in compliance with the relevant legislation.*
- 6.2 The professional conduct of the chief executive became a matter of concern for some members soon after he took up the post. A range of complaints, allegations, and disagreements have been raised, and it is clear that this had a negative impact on working relationships and the reputation of the council has been damaged.
- 6.3 In September 2009 an elected member made a complaint to the council and the police about threats allegedly made by the chief executive in a telephone call. The council established an investigating committee which reported to full council in October. The committee found that the allegations were not proven.
- 6.4 Though external legal advisers were present, a number of members have expressed their dissatisfaction with the way the investigation was handled. There remains a perception amongst some members that the council was not adequately represented in legal terms.
- 6.5 The allegations were also investigated by Northern Constabulary and a report

was submitted to the procurator fiscal, who concluded that no proceedings would be taken.

- 6.7 In November 2009, the chief executive raised concerns about public criticisms made about him by some members. The council sought legal advice and the convenor circulated an advice note to all members outlining the potential risks to the council.
- 6.8 In December 2009, six elected members made a formal complaint to the Convenor under the terms of Section 86(e) of the COSLA Chief Executives Disciplinary Procedures and expressed the view that the chief executive had failed to establish and maintain a satisfactory working relationship with the council since his appointment. The letter outlined 20 areas of concern. The letter was reported in the local media the following day. This letter was passed onto the council's external legal advisors and was later used in considering the options available to the council in February.
- 6.9 The convenor's assessment was that the issues raised in the letter had been addressed through the relevant policies and procedures.
- 6.10 A number of members still hold the view that the complaints outlined in the letter were never fully investigated or properly dealt with and this remains a matter of ongoing correspondence between some members and the council. If more thorough and decisive action had been taken regarding this letter it may have affected the outcome of this situation.
- 6.11 During January and February 2010 it became clear that the working relationship between some elected members and the chief executive was becoming increasingly difficult. The council engaged COSLA to negotiate with the chief executive on its behalf. The council acted reasonably in employing external advisers with appropriate expertise to assist them.
- 6.12 The council's advisers considered a wide range of evidence and gave their views on the implications of each of the options available to members before the council made its decision. The advisers' view was that there were significant financial risks to the council should it pursue disciplinary action.
- 6.13 At a special meeting on 19 February the council decided to approve the negotiation of a compromise agreement with the chief executive. This resulted in the chief executive leaving his post with effect from 24 February 2010.
- 6.14 The cost to the council of the agreement is approximately of £285,000. The council will also incur additional costs relating to legal fees and other costs up to a capped level of £21,000. The cost to the council in relation to tax liabilities is not yet clear.
- 6.15 That public money has been used in this way is particularly unwelcome in a time of tightening public finances but, in the circumstances, the settlement was negotiated on a reasonable basis, taking account of the options available and in compliance with relevant legislation. The council considered the options open to it before deciding to negotiate a settlement. The amount of the

settlement was judged by the council's advisers to be an appropriate sum based on the circumstances of the case. The council accepted the view of its advisers and approved negotiation of the compromise agreement.

- 6.16 A similar situation arose in Shetland in 1999 on the termination of the contract of the then chief executive. This led to the publication of Statutory Report S.R.99/5. The Accounts Commission made clear recommendations to the council regarding employment policies and the performance framework for future chief executives. It is clear that these lessons have not been learned. It is worth noting that a number of current elected members and officers were in post in 1999 and should have been aware of the implications of not having effective arrangements in place.

7. The post of Assistant Chief Executive

- 7.1 *The deletion and subsequent re-instatement of the post of assistant chief executive contributed to the problems experienced in the council. Although there were communications with the assistant chief executive at an early stage in compliance with the Redeployment Policy, Trade Union consultation was not initiated as soon as practicable as set out in the council's Redundancy Policy.*
- 7.2 The handling of matters in relation to the post of assistant chief executive has been a significant feature of events since Summer 2009. This issue has been a matter of concern for elected members and members of the public, and has been the subject of significant local media interest.
- 7.3 Following his appointment, the chief executive commenced a review of the post of the assistant chief executive. Council officers told us that the authority for reviews of this type dates back to a decision by council at a meeting in March 2002. This authorised the chief executive to 'take the necessary actions' which 'require a critical appraisal of the Council's overall strategic programmes of activities, a setting of priorities therein, an examination of alternatives and subsequent staffing rationalisation aimed at improving efficiency in the delivery of the required services.' Whether the 2002 approval was used appropriately in this case remains a matter of contention in the council.
- 7.4 In June 2009 communication began between the chief executive and the post holder on a future role for the assistant chief executive and the chief executive shared his plans with some senior members. In August 2009 this process resulted in the deletion of the post. On 24 August the Chief Executive met the postholder and also e-mailed all elected members to advise them of his decision to create a post of Head of Asset Strategy and that the post of Assistant Chief Executive was no longer required. The postholder was offered the choice of the position of Head of Asset Strategy (for a trial period of 6 months attracting the same pay and terms and conditions as the assistant chief executive post), a holding position within Legal Services as a corporate solicitor, or departure from the council by mutual agreement. These offers were in accordance with the council's redeployment policy. On 31 August the Chief Executive also e-mailed all elected members and staff to advise them of

the change. Between 31 August 2009 and the beginning of January 2010 the postholder was on authorised absence from work on full pay.

- 7.5 On 9 December 2009, the council reinstated the post by approving a recommendation to invite the post holder 'to resume his duties as Assistant Chief Executive, with immediate effect, on his existing salary and terms and conditions of service, with a remit to undertake a range of strategic projects, in line with the requirements of the Council.' The recommendation to reinstate the post was made following an intervention by the Convener.
- 7.6 The council's Redeployment Policy does not specifically state that union consultation is necessary when redeployment is planned as a result of a restructuring process. However, the council's Redundancy Policy states that 'employees and their Trade Union representatives will be advised as soon as practicable of any proposals to reorganise service delivery that have implications for employees.'
- 7.7 The Trade Unions were only notified on 24 August that the post of Assistant Chief Executive was to be deleted and a new permanent post of Head of Asset Strategy created with immediate effect. Although the procedures followed complied with the Redeployment Policy, the Redundancy Policy was not followed as far as consultation with the Trade Union was concerned. As redundancy was, in effect, one of the options under consideration, this policy should have been followed.
- 7.8 It is clear that the process was not handled well and has contributed to the deterioration in working relationships within the council. The situation has not yet been fully resolved and remains the subject of correspondence between the postholder's legal advisers and the council. The postholder does not as yet have a clear remit or objectives.

8. Working relationships within the council

- 8.1 *The events of recent months have resulted in a serious deterioration in working relationships within the council. There is a risk that this will continue to affect the council's ability to conduct business in an effective way.*
- 8.2 It is clear that working relationships in the council have been under considerable strain. Tensions exist between members and members, between members and officers and between some officers.
- 8.3 The events of 2009 and early 2010 have led to members being publicly critical of one another, for example about the way in which the position of the chief executive was handled. Some members have also expressed concern that they have felt excluded from decision making.
- 8.4 A number of complaints are currently being considered by the Standards Commission with regard to the conduct of some elected members during this period. The Standards Commission's reports on these cases will need to be considered by the council when they are received.
- 8.5 Some officers have expressed concerns about what they see as a lack of

support and professional respect by members, and consider that they are being unjustly blamed for events outwith their control. The events over recent months have also led to a deterioration in the working relationships between some officers.

- 8.6 There is now a level of mistrust between a significant proportion of the key stakeholders in the council and this is a barrier to conducting business in an efficient and effective way.

9. Strategic leadership

- 9.1 *The council has not demonstrated that it can set a clear strategic direction, backed by sound and consistent decision making. We found little evidence of elected members acting in the interests of Shetland Islands Council as a whole. The events of recent months have led to a significant proportion of members expressing concerns about the quality of strategic leadership in the council.*
- 9.2 Elected members are required to provide strong and consistent leadership. Having set a clear policy direction, they need to back this up with clear and consistent decision making. Strong leadership by members is particularly important when difficult financial decisions need to be made.
- 9.3 We found little evidence of strategic leadership or of elected members acting in the interests of Shetland Islands Council as a whole. Councillors have not demonstrated that they can set and maintain a clear strategic direction for the council. The convenor has sought to resolve the council's problems in a constructive way, but more inclusive decision making and decisive action might have led to a better outcome for the council.
- 9.4 The council continues to face significant challenges which will require clear strategic leadership from elected members. These include:
- the rebuild of Anderson High School; this has been discussed by the council for over 18 years and continues to be an issue of considerable debate. As at 31 March 2009 the council had incurred expenditure of £5.54 million on the original proposed site. A large element of this is now a sunk cost as the site for the new school has been changed. In 1991 the council decided to build a new Anderson High School and two sites were identified - Staney Hill and the Knab site, which is the location of the current school. In 1999 the council decided to build on the Staney Hill site, but in 2003 took the decision to concentrate on the Knab site unless significant planning, financial or educational difficulties arose. Further delays took place in the following years as this decision was the subject of discussion by members, the media and members of the public. In June 2009, pending the outcome of an independent review the project was again put on hold. The results of this review were presented to the services committee of the council on 3 September 2009 when members decided to reverse the decision to build on the Knab site and to proceed with Staney Hill as the preferred site. This decision reflected the

groundswell of public opinion and petitions against the council's earlier decision to proceed to the construction phase on the Knab site. On 16 September 2009, members voted to adopt the Staney Hill site as the preferred location for the purpose of undertaking statutory consultation on the relocation of a school.

- the council's capital programme; this continues to be over-subscribed and some members characterise it as a 'wishlist' and 'unrealistic'. The council has recently agreed years two to five of a capital programme, within a financial policy framework. Capital projects are to be the subject of a 'Gateway' review process which was agreed in March 2010 and which aims to help manage the capital programme. However, previous systems which sought to prioritise the programme have been abandoned by members.
- 9.5 In March 2010, the council signed an agreement with Total E&P UK Limited to allow them to build a gas plant at Sullom Voe. Elected members and council officers worked together to secure this deal which means that the Shetland Islands will benefit from new jobs. The council should consider what lessons it can learn from the experience and how this approach might be used to tackle the other challenges it faces.

10. 2010/11 Budget and financial situation

- 10.1 *The council faces a challenging financial future. It has agreed budget savings for 2010/11 but has yet to demonstrate how it can sustain its current level of services in future years whilst maintaining its target reserves balance and delivering its capital plans. This will require difficult decisions to be taken and clear and consistent leadership by elected members.*
- 10.2 The 2008/09 annual audit report noted that 'in our opinion councillors have yet to demonstrate they are able to collectively take the difficult decisions required to reduce the draw on reserves in line with the agreed financial strategy.' The council used £23.02 million of its reserves in 2008/09 to fund its services. The unallocated balance on its reserves at 31 March 2009 was £280 million, but the council's budget forecasts show that the reserves will be reduced to the target of £250 million in the 2009/10 accounts. The council recognises it is not sustainable to use reserves for the delivery of services in this way.
- 10.3 In a report to members on 9 December 2009, the Head of Finance described the projections arising from the budget preparations as 'very worrying'. It went on to note that 'across all Funds and departments the Budget Proposals for 2010/11 exceed the No Growth projection (the basis for the Budget Strategy) by £16.3 million, or 14%. If these Budget Proposals were approved, it would destroy the existing financial policy framework and would totally deplete the Council's reserves in a decade or less.'
- 10.4 Following this report, officers worked to reduce the budget deficit gap and on 17 February 2010 the council set the budget for 2010/11. The budget was set with an approved draw of £2.0 million from reserves, which is in line with the council's current financial strategy.

- 10.5 The annual audit report also noted shortcomings relating to the council's budget setting process and budget monitoring reports. For 2010/11 budgets have been compiled on an incremental basis and the budget savings were identified primarily by top slicing service spending, without a review of the overall priorities and spending needs of the council.
- 10.6 The economic situation requires the council to prioritise spending, identify efficiencies and review commitments to ensure it can deliver its objectives and manage financial pressures. To face these challenges while ensuring the sustainability and quality of services, the council needs to develop an approach to budgeting which reflects its strategic priorities. In March 2010 the council adopted a system to link the corporate plan, service planning and budgeting.
- 10.7 Budget monitoring reports are now being presented to members on a regular basis. The most recent position, covering the period 1 April 2009 to 31 December 2009, was reported to members in February 2010. The appointed auditor will continue to monitor these reports throughout the 2009/10 audit.
- 10.8 While the annual budget has been set, the council has yet to demonstrate how it can sustain its current level of services in future years whilst maintaining its target reserves balance of £250 million and delivering its capital plans. Councillors have not shown that they are able collectively to take the difficult decisions required to reduce the draw on reserves in line with the agreed financial strategy.
- 10.9 The appointed auditor will continue to monitor the 2009/10 budget and provide an update in the annual report to members.

11. Governance and accountability

- 11.1 *The council needs to improve its governance and accountability arrangements. At this stage it seems likely that the council's financial statements will be qualified for a fifth consecutive year as a result of the accounting treatment of the Shetlands Charitable Trust. Many of the issues in this report have been reported at length in the media and there are indications that a number of press reports have originated in leaks from within the council. This has a negative impact on the reputation of the council, on working relationships and on the council's ability to conduct business effectively.*
- 11.2 The council has a wide range of member /officer working groups, many of which do not have a clear remit, and the meetings are not adequately minuted. This leads to a lack of clarity about decisions and direction.
- 11.3 The accounting treatment of the Shetland Charitable Trust resulted in the qualification of the financial statements in relation to group accounts for the fourth consecutive year in 2008/09. Group financial statements are required to present a complete picture of the council's activities and financial position. The council's group accounts do not include the Shetland Charitable Trust and its subsidiaries. It is the view of the appointed auditors that due to the

nature of the council's relationship with the trust their omission results in a material mis-statement of the group accounts.

- 11.4 In a report to council on the matter dated 28 October 2009 the Head of Finance described this situation as 'a total impasse' and noted 'the plain fact is that the council can do no more to make the grouping of accounts happen. The council had asked once again for Charitable Trust cooperation, and had once again been refused, it is powerless to act further.' At its meeting in October 2009 the council confirmed its view that it had now done all it could do on the matter.
- 11.5 At the end of 2009 the trust consulted on options to change its composition, including an option for the trust to be made up of 8 elected members and 7 other trustees. In February 2010 the trustees voted against the proposed changes to the trust composition.
- 11.6 The council is currently looking into this issue and is discussing the evidence to support its case with the appointed auditor. It is likely that there will be a further qualification on the 2009/10 financial statements. The appointed auditor will provide an update in the Report to Members and the Controller of Audit on the 2009/10 Audit.
- 11.7 The accounts were also qualified due to the council's failure to account for its financial assets in accordance with accounting requirements. The Head of Finance has given assurances to the appointed auditor and to meetings of the council in December 2009 and March 2010 that this issue will be resolved for the 2009/10 accounts. The appointed auditor has confirmed that whilst the head of finance is still intending to resolve the issue for inclusion in the 2009/10 accounts, progress has been slow. This issue will be considered as part of the audit of the 2009/10 financial statements.
- 11.8 Good governance and accountability requires that decisions are made in a clear and transparent way and it is entirely appropriate that decisions are reported publicly. However, leaks have occurred during the decision-making process, for example relating to confidential information which formed part of the negotiations between the council, and the former chief executive, and there is a real risk that this may compromise the council's ability to achieve satisfactory outcomes.
- 11.9 This use of the media to further particular viewpoints is not unique to the Shetland Islands, but its extent has had a negative impact on the council's ability to conduct business effectively, on the reputation of the council and on working relationships.
- 11.9.1 The issues raised in this report highlight shortcomings in the way Shetland Islands Council conducts its business. It is important that the council addresses these issues to ensure that it is able to act in the best interests of the people of the Shetland Islands.

CAROLINE GARDNER

CONTROLLER OF AUDIT
05 May 2010

Appendix 2

SELECTED STATUTORY PROVISIONS FOR REPORTS BY THE CONTROLLER OF AUDIT AND PROCEDURE OF THE ACCOUNTS COMMISSION

AN AMALGAMATION OF EXCERPTS FROM THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973, THE ETHICAL STANDARDS IN PUBLIC LIFE ETC (SCOTLAND) ACT 2000 AND THE LOCAL GOVERNMENT IN SCOTLAND ACT 2003

NOTE: THIS DOES NOT COVER SPECIAL REPORTS. THERE IS A SIMILAR BUT MORE DETAILED STATUTORY PROCEDURE FOR SPECIAL REPORTS

S102 1973 Act - Reports by the Controller of Audit

(1) The Controller of Audit and may if so required by the Commission, shall make reports to the Commission with respect to -

- (a) the accounts of local authorities audited under this Part of this Act;
- (b) any matters arising from the accounts of any of those authorities or from the auditing of those accounts being matters that the Controller considers should be considered by the local authority or brought to the attention of the public;
- (c) the performance by a local authority of their duties under Part 1 (best value and accountability) and Part 2 (community planning) of the Local Government in Scotland Act 2003.

(2) The Controller of Audit shall send a copy of a report made under subsection (1) above to

- (a) any local authority named in the report; and
- (b) any other person the Controller thinks fit.

(2A) A local authority shall, forthwith upon their receiving a copy of a report sent to them under subsection (1) or (2) above, supply a copy of that copy report to each member of the authority and make additional copies available for public inspection.

S3 2003 Act - Action by Accounts Commission following report by Controller of Audit

On a report being made to it by the Controller of Audit under section 102(1) of the Local Government (Scotland) Act 1973 the Accounts Commission may do, in any order, all or any of the following, or none of them –

- (a) direct the Controller of Audit to carry out further investigations;
- (b) hold a hearing;
- (c) state its findings.



DRAFT REPORT

To: Shetland Islands Council

19 May 2010

From: Depute Chief Executive

Strategic Planning, Service Planning and Budget Savings: Progress Report

1 Introduction and Key Decisions

- 1.1 This report provides an update on the system agreed in March 2010 to adopt a more joined up approach to planning and budgeting. The information is for noting at this stage but Members are invited to comment on any aspect of the work-in-progress, insofar as it will assist them to take decisions on strategic priorities and resource allocation for next financial year and beyond.

2 Links to Corporate Priorities

- 2.1 This report links to the Council's corporate priorities in relation to prioritising and planning so the Council can sustain the services it wants to provide and help develop our economy and, in particular, to keep revenue budgets within sustainable limits.

3 Risk Management

- 3.1 Establishing an effective framework for linking corporate priority setting with service planning, asset investment, workforce development and financial resources will go a long way to addressing the key risks identified and reported through Audit Scotland's Strategic Audit Risk Assessment and the Annual Audit Plan for 2010/11.
- 3.2 Specifically in relation to financial matters, securing a balanced budget in accordance with the Council's financial policy framework is one of the most important components of corporate planning, management and governance.
- 3.3 The Council recognised these difficulties and pressures in December 2009 and appointed a Senior Member/Officer Liaison Group to work towards meeting the challenges.

4 Background and Progress Report

4.1 The Council systems which need to connect better are: -

- The Single Outcome Agreement
- The Corporate Plan
- Service Planning
- Revenue budgeting
- Capital budgeting

4.2 The Single Outcome Agreement was approved at the Council meeting on 24 March 2010. The key strategic objective is to, “maintain an economically active population”.

4.3 Eighteen Members attended the Corporate Plan Renewal session on 22 April 2010. The general feedback from that day was positive with plenty of ideas which Members wished to take forward over the remaining term of this office, and into the next Council. The broad structure of the plan will remain the same, with sections on society, economy and the environment. There will be clear links to the targets already set in the Single Outcome Agreement. The ideas put forward are included at Appendix 1, as a “work in progress” for discussion.

4.4 Work has started on developing the high level service plans. Several workshops have been held, with the focus on what needs to change in the future, and why. The topics will cover:

- Transport and Infrastructure
- Economic Development
- Health and Care
- Housing
- Environment
- Skills and learning, and
- Corporate Services

4.5 In particular, the plans seek to capture: -

- Statutory and discretionary services
- Budget predictions (this year, next year and provisional for 3 years ahead)
- Capital investment plans
- Workforce plans
- ICT systems
- Ideas for future service reviews to meet best value requirements

4.6 A list of the questions which each service is asked to consider is set out at Appendix 2.

4.7 The question of statutory and discretionary services is an area of considerable discussion and debate. A summary of the overall position for the services so far reviewed is set out below:

Transport and Infrastructure

Transport – statutory duty to provide public transport where transport is not provided by some other means but discretion over the level of service to be provided.

Roads – statutory duty to manage and maintain the road network but discretion over the level of maintenance

Ports - no statutory duty to provide ports but where do so, duty to comply with relevant ports, shipping, and safety legislation.

Economic Development

Discretionary service, no statutory requirement to provide.

Health and Care

The Chief Social Work Officer role is a statutory function of the Council.

Statutory duty to assess care needs, make arrangements for adults requiring protection, including certain mental health functions.

Statutory Corporate Parenting duty for Looked After Children, to make arrangements for children requiring protection and undertake certain functions for pupils who require Additional Support for Learning

Discretion over level of care services to be provided including: permanent care places; day care services; short breaks and respite services; care at home; supported accommodation and supported employment; equipment and adaptations; and social / recreational activities.

Housing

Requirement to provide assistance for people who are homeless.

Environment

Predominantly statutory functions: planning; building control; cleansing; waste management; environmental health; trading standards and burial grounds. Some discretion over the level of service to be provided.

Building Maintenance: statutory duties regarding Health and Safety matters and accessibility.

- 4.8 The Executive Team are working on re-presenting the budget data, using a statutory or discretionary spend distinction. Where the Council has choice

over the level of service, a national standard, amended for Shetland factors, will be used, to give Members an idea of the scale of the choice it has over the level of spend on statutory and discretionary services. A work in progress layout is included at Appendix 3 and Members are invited to comment if they feel this approach would be useful in making choices on spend for future years.

- 4.9 The Council agreed an overall target for revenue budget savings of £9.9m. The Head of Finance has prepared an update Report on progress, which is included as a separate item on today's agenda.
- 4.10 A separate report on today's agenda by the Head of Organisational Development provides more detailed analysis of the staffing costs and options, as a key cost element to target savings. Earlier in the cycle, Members of the Audit and Scrutiny Committee received a report on the growth in staffing numbers and Members expressed a willingness to investigate how the historic growth patterns could be better controlled. At the moment, savings are targeted at vacant posts for non front line staff, overtime, use of consultants and temporary posts. Members have agreed that all growth items will be presented to Council in June 2010, for consideration.
- 4.11 The Human Resources policy framework to support structured changes to secure ongoing savings through retirement or redundancy is robust and policies are available to Heads of Service to deploy on a targeted basis.
- 4.12 The Head of Capital Programming has prepared a progress report on implementing the gateway approach to capital budgets (separate report on today's agenda). The framework draws on the corporate and service planning processes, as it develops.
- 4.13 The Financial Resources Member / Officer Working Group met on 10 May 2010, to discuss progress on all these topics and provide guidance to the Executive Team on the way forward. Further meetings have been planned, for the Working Group to receive detailed proposals, prior to presentation to the Council meeting on 30 June 2010.

5 Financial Implications

- 5.1 There are no specific financial implications associated with implementing this Report beyond the ambition to secure savings of £9.9m on the running costs of the Council, which represents 7% of the gross annual budget and will be a significant challenge.

6 Policy and Delegated Authority

- 6.1 Authority to implement the savings required of £9.9m is the responsibility of the Council.
- 6.2 Responsibility for updating the Corporate Plan rests with the Council.
- 6.3 Establishing effective management systems, to join up the decision making structure of the Council is the responsibility of the senior staff, supported by

clear political direction on corporate priorities and financial resource allocation.

7 Recommendations

8.1 I recommend that the Council note the progress made on developing a more systematic and joined up approach to planning and budgeting and invite comment and consideration of the work in progress, as follows:

(a) refreshing the Corporate Plan (Appendix 1); and

(b) the information being captured by the High Level Service Planning process (Appendix 2); and

(c) the proposed presentation of revenue budget information, based on statutory and discretionary services (Appendix 3).

Our Ref: HAS/sa

Report No: ESCD-14-F

SECTION 1: Maintaining a Sustainable Economy

This section links to the “*Wealthier*” and “*Smarter*” part of the Single Outcome Agreement. As a key Community Planning Partner, the Council has a pivotal role in ensuring that these outcomes are delivered.

Table 1 in Appendix A shows how these actions will be achieved.

Economic Development

We will seek to improve economic opportunities in Shetland by encouraging the development of newer emerging industries alongside growth and essential retention projects in our more traditional sectors. We will seek to concentrate economic development services and investment on projects that create wealth through high quality production and innovative services, which are responsive to market demand. For these ambitions to be sustainable they must be achieved in ways that strengthen Shetland’s society and minimise impacts on the environment.

Strategic Statement

It is our intention to create a more vibrant private sector in Shetland with better career opportunities for the local population and incoming workers. An important part of this is to strengthen the links between business demand for skills improvement and learning provision in Shetland.

Wealthier: Develop the telecommunications network throughout Shetland to offer high level broadband services for business development in all areas of Shetland

In the next two years we will:

- Complete the provision of a resilient broadband link to Lerwick;
- Equip a Point-of-Presence service in Lerwick;
- Encourage existing telecommunication companies to make full use of the new telecommunications infrastructure;
- Produce a costed-plan to provide high-speed broadband to benefit peripheral communities; and
- Facilitate the development of a data-centre in Lerwick.

Wealthier: Our renewable energy resources will be used as a stimulus for economic growth

In the next two years we will:

- Apply continuous pressure in seeking a decision to be made for the provision of an inter-connector between Shetland and Mainland Scotland;
- In the interim, negotiate better access to the local grid, for the benefit of individuals and communities involved in generating renewable energy;
- Develop marine renewables, including negotiation with the Crown Estate regarding access and cost; and

- Maximise opportunities for servicing off-shore renewables, including the development of infrastructure (ports and vessels) and skills.

Wealthier: Shetland's reputation for sustainable practices and quality products will be strengthened

In the next two years we will:

- Assist 20 businesses to develop quality products;
- Support adding value in all main production sectors;
- Maximise production and quality of output from all progressive agricultural holdings;
- Lengthen the duration of the tourist season;
- Continue to develop the role of Promote Shetland as the main promotional tool for Shetland;
- Work with the oil industry and other marine sectors to identify future opportunities and diversification for Sullom Voe Terminal;
- Encourage 400 businesses and individuals to use the Business Gateway service;
- Encourage sustainable fisheries by Shetland vessels under the terms of the Common Fisheries Policy; and
- Encourage firms operating in Shetland to develop strict environmental criteria, in order to ensure Shetland's renowned environment is retained.

Wealthier: Strengthening the Economy: Businesses will be supported to overcome barriers to growth thereby improving profitability and longer-term performance

In the next two years we will:

- Assist four businesses with Research and Development projects, including maximising opportunities with relevant higher education bodies;
- Assist 40 businesses to improve their marketing activities;
- Work with the aquaculture sector to investigate new ways to organise site management and different types of production; and
- Encourage the introduction of more efficient practices in all productive sectors.

Wealthier: Strengthening the Economy: Peripheral communities will be assisted to improve the economic sustainability of their areas

The Council will continue to recognise that the operation of SVT in the northern part of Shetland and of Sumburgh airport in the southern part of Shetland helps to counterbalance the development of the central part of Shetland. These activities and other industries such as aquaculture, agriculture, fisheries and tourism form the backbone of the rural economy. Renewable energy projects and better broadband connectivity will also make essential contributions to wealth creation in these areas.

In the next two years we will:

- Support four community inspired economic regeneration projects under the Shetland regeneration policy;
- Support six projects to improve non-public service provision in remoter areas; and
- **Support the development of six new businesses in remoter areas.**

Smarter: We will work to match Shetland's skills with Shetland's economic need.

In the next two years we will:

- Assist in re-skilling people to meet the current and future needs of the economy; and

- Investigate and provide a vocational and graduate traineeship scheme for wealth creating businesses.

SECTION 2: Maintaining a Sustainable Society

This section links to the “*Smarter*”, “*Stronger*”, “*Safer*” and “*Healthier*” parts of the Single Outcome Agreement. As a key Community Planning Partner, the Council has a pivotal role in ensuring that these outcomes are delivered.

We will balance investment in care with keeping young people and their families in Shetland.

Recognising the links between land use and delivering these services, we will ensure the Local Development Plan process, developments in Community Care and the Blueprint for Schools are aligned.

Table 1 in Appendix A shows how these actions will be achieved.

Schools

Our challenge is to develop a modern “Blueprint” for the shape of education across Shetland for the next 10 years. This will be carried out with the knowledge that Shetland’s population projections anticipate a substantial reduction in pupils within a relatively short period of time.

Lifelong Learning

Lifelong Learning makes a major contribution to the local economy, individuals and communities. We therefore want to maximise the opportunities for further, higher and vocational learning opportunities, both for school leavers and for people returning to learning.

Smarter: We provide a person-centred approach to ensuring positive learning pathways for the long-term, focusing on the long-term unemployed, the 18-24 age group, those misusing substances and winter school leavers.

Smarter: We recognise each person’s strengths, building on these to ensure everyone can achieve their potential through learning opportunities that build capacity, increase confidence and encourage participation and responsible citizenship.

Smarter: We take a proactive approach to ensuring Shetland’s skills match Shetland’s economic need.

In the next two years we will:

- Implement Curriculum for Excellence;
- Reduce P1 class size, where necessary;
- Consider Blueprint proposals and implement decisions;
- Ensure implementation of the ASL Act;
- Increase the level of vocational pathway opportunities between schools and colleges providing young people with the skills and competencies necessary to match economic needs;
- Ensure more joined up “learning” between schools and all community learning partners;
- Ensure that there are appropriate opportunities to upskill the workforce (around employability and vocational skills) through providing vocational training, short courses and access to national programmes, such as Modern Apprenticeships;

- Engage with the business and commercial sector around current and future skill needs which will allow them to adapt to changing circumstances and be able to demonstrate high quality standards in their workforce;
- Engage people less likely to take part in learning; and

Housing

We currently have a waiting list for affordable housing (900 and growing) and an outstanding debt of £48 million. We feel that this must be addressed.

Stronger: We will ensure the right house is available in the right place at the right price.

In the next two years we will:

- Produce a new Local Housing Strategy in line with Government guidance for 2010-2015
- Meet the SHQS quality standard on SIC housing stock by 2015
- Meet the national targets on homelessness by 2012
- Investigate future options for increasing housing supply across all tenures
- Continue to seek solutions to Fuel Poverty in Shetland, across all tenures
- Investigate and develop a better understanding of the private sector housing in Shetland
- Continue to work in partnership with agencies on the housing and housing support needs for a projected ageing population

Childcare

Stronger: We will sustain and, where necessary, grow the number of childcare places, to meet identified need.

In the next two years we will:

- Improve links between Childcare and Schools;
- Implement the Childcare Strategy: increasing the sustainability of childcare and equalising the cost between the public and private sector;
- Work with North Isles Childcare to develop a viable model of Childcare for the North Isles; and
- Complete the scoping study on options for growing Childcare in Lerwick.

Community Care

Delivering a modern, affordable Community Care service across Shetland is a major challenge for the Council. Increasing needs, together with population projections, combine to make a compelling case for service redesign.

Healthier: We will support and protect the most vulnerable members of the community, promoting independence and ensuring services are targeted at those that are most in need.

In the next two years we will:

- Continue to deliver on current projects and plans, as set out in the Community Health and Care Partnership Agreement;
- Maximise technological opportunities, including the use of telecare for preventative care;
- Continue to develop more local management of services, including the development of 24/7 care services and rolling out the extra care housing model developed at Brucehall Terrace in Unst;

- Undertake an options appraisal for the level and quality of services provided for a range of services, including permanent care, respite care, learning disabilities and drugs and alcohol services; and
- Work with partners to take the Community Health and Care Partnership to the next stage of joint management, to ensure that all resources can genuinely be shared in the interests of service users.

Deprivation and Social Exclusion

The recent study on deprivation and social exclusion highlighted the difficulties which some individuals and families face in participating fully in employment and social activities within the islands. The Council must embrace these individuals when designing services and strive to promote equality of access to all.

Fairer: We have reduced levels and the impact of poverty, deprivation and social exclusion in Shetland.

Fairer: Socio-economic disadvantage does not impact on the opportunities people have.

In the next two years we will:

- Reduce the number of people in Shetland experiencing fuel poverty.

Health Improvement

We agree that health improvement and tackling health inequalities is everyone's responsibility and will therefore treat it as core business.

Healthier: Maintain a healthy life expectancy, focusing on early years, healthy weight, alcohol, drugs and mental health.

Healthier: Tackle health inequalities ensuring that the needs of the most vulnerable and hard to reach groups are recognised and addressed

In the next two years we will:

- Implement the Drink Better campaign.

Community Safety

We must ensure people in Shetland feel safe and protected. We recognise there are significant challenges in tackling social and cultural issues associated with drugs and alcohol misuse and anti-social behaviour. We will therefore seek to tackle these challenges as a lead partner in the Shetland Community Safety Partnership.

Safer: We will retain the current high level of community safety, but will continue to a) reduce crime; b) tackle serious crime; c) make the roads safer; d) maintain public order; and e) protect adults and children from harm and exploitation.

In the next two years we will:

- Road safety (driver development training);
- Support the implementation of the Adult Protection Procedures;
- Continue to implement a joint approach to domestic abuse;
- Implement the actions from the Child Protection inspection;
- Support the work of Criminal Justice to implement re-offending programmes.

Children's Services

Children and young people should be encouraged and supported to enjoy being young. Child protection will remain one of the Council's main priorities.

In the next two years we will:

- Implement a child and family centred approach to meeting needs (Getting it Right for Every Child);
- Increase the number of available foster placements;
- Make sure that the services and transition arrangements for young people with Additional Support for Learning needs are effective, when moving from the Schools Service into adult community care services.

Culture, Recreation and Community Development

We must support individuals and communities to help them reach their full potential, cherish and promote our traditions and seek to promote cultural activities.

Strengthening Communities & Culture

In the next two years we will:

- Promote more joined up work between the Council and Shetland Recreational Trust to maximise the use of all recreation resources, to ensure more people have active lifestyles; and
- Maximise use of community facilities.

SECTION 3: Maintaining a Sustainable Environment

This section links to the “Greener”, and “Stronger” parts of the Single Outcome Agreement. As a key Community Planning Partner, the Council has a pivotal role in ensuring that these outcomes are delivered.

Table 1 in Appendix A shows how these actions will be achieved.

Given our remote location and dispersed population, self-sufficiency and proximity principles must underpin the delivery of our services.

Greener: We will move towards sustainable and efficient consumption and production

In the next two years we will:

- Reduce carbon emission within the Council;
- Promote carbon reduction across communities through education;
- Reduce waste going to landfill; and
- Take lead role in co-ordinating agency support for community renewable energy schemes.

Shetland’s unique and important natural environment is one of its most valuable assets. The protection and maintenance of the natural resources, as well as enhancement of the built and natural environment, are regarded as priority areas.

Greener: We will protect Shetland’s renowned natural and built environment

In the next two years we will:

- Complete the Local Development Plan;
- Be one of the top three cleanest places in Scotland;
- Maintain air quality;
- Continue support for KIMO; and
- Continue support for NFLA.

Shetland’s communities are scattered and have a diverse set of needs. To best address those, we must have sustainable road, sea and air transport systems, both internal and external, that ensure everyone is able to access the places, services and opportunities they need.

Stronger: We will improve the availability, accessibility, affordability and usage of internal and external public transport

In the next two years we will:

- Respond to the Scottish Ferries review to maximise opportunities for Shetland;
- Work in partnership with the Scottish Government to ensure Shetland’s economic and social objectives are met in the next generation of public service ferry contracts and air service contracts;
- Maintain the standard of Shetland’s roads and transport infrastructure;
- Introduce new bus contracts to improve accessibility for all purposes.

Appendix 2
Developing High Level Service Plans
Questions for Workshop Sessions

What services must you provide and what legislation supports that analysis?

How does the level of service you provide compare with other local authorities?
Please provide evidence, including SPIs, benchmarking, etc.

What services do you choose to provide? What legislation supports that analysis?

How do you determine the level of service required? What evidence can you provide on service users needs / demands, to support that level of service?

How do you determine the quality to which your service is provided? Is that quality supported by any national standards or guidelines?

How do you benchmark your discretionary services with other authorities? How do we compare with other areas?

What ideas do you have to change the way you provide you service to save money?

Have you thought about different models of service delivery eg in-house, out-sourcing, partnership working, use of voluntary sector or social enterprises? What might the impact be?

What support do you need to make any changes (eg finding out about different ways of doing things, project management skills, involving Members in difficult decisions, etc)?

Are there any areas where you have under-utilised assets? What do you plan to do about it?

Are there any areas where you have under-utilised staff? What do you plan to do about it? Are you aware of all the options available to you under the HR policies?

Do you have vacant posts which do not need to be filled at this time?

Would there be opportunities for Spend to Save, ie where a new capital investment would save revenue funding year on year?

Are there areas where new technology or self-service provision, would reduce the running costs of your service?

Do you consider your structure appropriate to the services you deliver and if not how do you think we could improve them?

What areas of growth do you foresee for next financial year? What new legislation or regulation has caused this increase or what evidence of service need / demand do you have to support any service increases?

What areas of corporate business systems do you consider would be suitable to review for efficiency savings?

**Appendix 3
Statutory and Discretionary Services
Work in Progress Analysis**

	2010/11 £m	2010/11 £m
Total Available Funding for Services 2010/11 (Estimated) (note using current year estimates for now)		
General Fund		
Fees and Charges	20.4	
Government Grant	85.9	
Council Tax	8.3	
Rates	8.8	
Trading Account Surplus	0.7	
Interest Earned on Reserves	2.0	
Total General Fund		126.1
Reserve Fund		
Interest Earned on Reserves		9.6
Total Available for General Fund and Reserve Fund		135.7

Note: Housing Revenue Account and Harbour Account are ring fenced for specific purposes and are not included in this analysis.

**Appendix3
Statutory and Discretionary Services
Work in Progress Analysis**

	2010/11 £m
Total Available Funding for 2010/11 (Estimated)	135.7
<p><u>Less:</u> Top Slice for Statutory Functions</p> <p>Head of Paid Service Monitoring Officer Section 95 Officer and Financial Accounting Function Chief Social Work Officer Statutory Education Officer Trading Standards Officer ETC</p>	
<p><u>Less:</u> Top Slice for Statutory Services</p> <p>Health and Safety Licensing Functions Environmental Health Planning Building Control Public Health Homelessness Additional Support for Learning Assessment of Care Needs Statutory Care Services Adult Support and Protection Mental Health Looked After Children Education of Pupils Psychological Services Library Archivist Public Transport Services Roads Authority functions ETC</p>	
<p><u>Less:</u> Top Slice for Contractual Obligations</p> <p>Pension Contributions for Staff Retired Early Statutory HR requirements eg maternity leave, sick pay, etc External Audit ETC</p>	

Amount Remaining for Discretionary Services	?

**Appendix 3
Statutory and Discretionary Services
Work in Progress Analysis**

	2010/11 £m
Total Available Funding for Discretionary Services 2010/11 (Estimated)	?
Community Work Adult Learning Youth Work Sport & Leisure Active Schools Teaching Costs beyond normal pupil: teacher ratios Library Halls of Residence Knitting Instruction Music Instruction Global Classroom Creative Links Economic Development Grounds Maintenance Public Conveniences Air Services Bus Services Ferry Services Ports & Harbours Cleaning Bridges Project Islesburgh Complex Sensory Service Family Centre Services Residential Care establishments Day Care Care at Home Independent Living Occupational Therapy Housing Shetland College (property costs) Train Shetland Neighbourhood Support Workers KIMO Energy Building Services Roads network & design	

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**Appendix 3
Statutory and Discretionary Services
Work in Progress Analysis**

	2010/11 £m
Total Available Funding for Discretionary Services 2010/11 (Estimated)	?
Community Safety Community Councils Garage Anti Social behaviour NAFC All of support services (except Section 95 responsibilities and Monitoring Officer functions): <ul style="list-style-type: none"> Legal and Admin Safety and Risk Asset and Properties Capital Programme Service Laboratory Finance Organisational Development – ICT, Policy & HR Resources (E&SC Dept) Schools Service Management ETC 	

Note: some services will appear in both statutory and discretionary sections, as there are elements of choice over the level of service to be provided.

5. GENERAL EFFICIENCY SAVINGS

Item 1.1 Insurance Cover (£100,000 saving): The Council has gone some way along the road to self-insurance in recent years (carrying risks itself rather than buying external insurance cover for those risks). This strategy has been aided by a programme of Risk Management in the Council which has reduced our claims history quite significantly. In 2010/11 Jan Riise and Graham Johnston will work with the Safety & Risk Services Manager, Sandra Pearson, to go further along the road of self-insurance by reducing external cover and thereby reducing premium payments. The target saving is £100,000, but the actual saving will be determined by objective analysis and professional judgment of how far it is prudent to go. Future progress reports will set out the analysis and recommendations for Member Officer Working Group comment and Council approval.

Item 1.2 Savings Register (£291,000 saving): The current Savings Register contains two main ongoing items. First is a proposed savings programme of £51,000 from making increased use of the Council's investment in Video Conferencing (saving travel and subsistence costs which would otherwise be incurred, which requires an estimated substitution of ten south trips per month with ten video conferences). The second is the saving of £240,000 as a consequence of the introduction of the on-line Integra E-Series financial management system, which reduces staff time processing orders and invoices as compared to the previous paper-based systems. Graham Johnston is to monitor and report progress on implementation of these measures, and is to promote the creation of further items on the Savings Register in collaboration with Management Accounting and Budget Responsible Officers around the Council.

Item 1.3 Other Operating Costs (£946,000 saving): The target is £289,000 higher than approved by Council because there was an overestimate to that amount in the target saving for travel and subsistence costs (basically a range of other operating costs were included in the calculation of the possible travel and subsistence costs target in error). Graham Johnston, in conjunction with Management Accounting, is to produce analysis across the Council to develop proposals for where savings might be made to the Executive, and to monitor progress and report back in future cycles.

Item 1.4 Travel and Subsistence (£81,000 saving): The target has been reduced by £289,000 to a more realistic level (see Item 1.3 above). Graham Johnston, in conjunction with Management Accounting, is to produce analysis across the Council, to develop proposals for where savings might be made to the Executive, and to monitor progress and report back in future cycles.

Item 1.5 Other General Savings/Vacancy factor (£763,000 saving): This general savings target is the equivalent of just under 26 Full Time equivalents for the year. This is significantly lower than the levels of vacancy experienced across the Council in recent years, giving reason to expect that the target is readily achievable. Graham Johnston, in conjunction with Management Accounting, is to produce analysis across the Council, to develop proposals for where savings might be made to the Executive, and to monitor progress and report back in future cycles.

6. STAFFING CHANGES, INCLUDING SINGLE STATUS

Item 2.1 Restrict Recruitment (£650,000 saving): This is the equivalent of 22 FTE posts held vacant for the whole year. The Head of Organisational Development is reporting to Council on this in the current cycle in a separate report. In the short term managers are being urged to examine all recruitment decisions very critically to determine whether they are absolutely essential before proceeding.

Item 2.2 Single Status (£1,500,000 saving): This is the equivalent of 50 FTE posts. The Head of Organisational Development is reporting to Council on this in the current cycle in a separate report. Single Status “Cost Recovery” options will be the subject of workshops with all managers over the next few months to raise awareness and identify specific opportunities. There may be significant long term options generated through service reviews but most short term gains would have to come from something other than “like for like” recruitment or other reductions in hours.

Item 2.3 Service Redesign (£300,000 saving): The Council is being asked to commit to a programme of comprehensive service reviews by the Head of Organisational Development in the current cycle in a separate report. It is also envisaged that all members of the Leadership Team will identify services for redesign with a view to achieving cash savings in the short term.

Item 2.4 Targeted Projects (£400,000 saving): The Council is being asked to commit to a programme of comprehensive service reviews by the Head of Organisational Development in the current cycle in a separate report. It is also envisaged that all members of the Leadership Team will identify services for redesign with a view to achieving cash savings.

Item 2.5 Reduce Overtime Working (£240,000 saving): Graham Johnston, in conjunction with Management Accounting, is to produce analysis across the Council, to develop proposals for where savings might be made to the Executive, and to monitor progress and report back in future cycles.

Item 2.6 Cut Allowances, such as Essential Car Users Allowance (£398,000 saving): John Smith is to prepare proposals, conduct consultations and pursue implementation of a new allowances framework which eliminates anomalies and inequities and provides cash savings to the Council.

7. PROCUREMENT

Item 3.1 Reduction in Procurement Costs (£1,000,000 saving): Robert Sinclair is to prepare proposals for all goods and services procurement contracts and arrangements with a view to achieving cash savings.

8. SERVICE SPECIFIC ITEMS

Item 4.1 Use of SRT Facilities by Schools (£400,000 saving): Graham Johnston is to conclude a negotiation with Shetland Charitable Trust with a view to the Charitable Trust continuing funding for this in 2010/11 on an interim basis. It is conceded that a different arrangement will be needed in future years, but this interim arrangement (which can be funded by the Charitable Trust out of the newly mandated Shetland Development Trust surpluses) will give all parties enough time to work out suitable long term arrangements.

Item 4.2 Finance Single Status Implementation (£60,000 saving): It has long been envisaged that Payroll administration costs would be reduced by natural wastage when Single Status implementation is complete (simplified terms and conditions and reduced transaction numbers when everyone is on monthly salaries will reduce workloads). Graham Johnston will pursue these savings when Single Status is fully implemented. The fact that the timetable for that has not yet concluded reduces the scope for savings, however. A future progress report will re-set the prospects for this in the coming financial year.

Item 4.3 Finance Additional Vacancy Factor (£100,000 saving): Graham Johnston will initiate and monitor additional staff and associated savings in the Finance Service.

Item 4.4 Reduce Discretionary Grants (£186,000 saving): Graham Johnston will initiate and monitor savings in conjunction with Neil Grant and Hazel Sutherland in respect of discretionary grant budgets around the Council.

Item 4.5 Chief Executive Department (£87,000 saving): Hazel Sutherland will initiate and monitor additional staff and associated savings.

Item 4.6 Education and Social Care Discretionary Services (£484,000 saving): Hazel Sutherland will initiate and monitor additional staff and associated savings.

Item 4.7 Organisational Development (£100,000 saving): John Smith will initiate and monitor additional staff and associated savings.

Item 4.8 Community Care (£1,165,000 saving): Christine Ferguson will initiate and monitor additional staff and associated savings.

Item 4.9 Community Care – Increase Meals on Wheels Charges by 20p (£6,000 extra income): Christine Ferguson will initiate and monitor.

Item 4.10 Children’s Service (£126,000 saving): Stephen Morgan will initiate and monitor additional staff and associated savings.

Item 4.11 Curtail repairs and Maintenance Programme (£195,000 saving): Gordon Greenhill will initiate and monitor.

Item 4.12 Increase Infrastructure Charges (£74,000 saving): Gordon Greenhill will initiate and monitor.

Item 4.13 Schools Service Targeted Savings (£81,000 saving): Helen Budge will initiate and monitor.

Item 4.14 Increase School Meals Charges by 15p (£20,000 saving): Helen Budge will initiate and monitor.

Item 4.15 Introduce Instrumental Lessons Charges (£130,000 saving): Helen Budge will initiate and pursue the relevant policy decision from the Council.

Item 4.16 Schools Additional Vacancy Factor (£60,000 saving): Helen Budge will initiate and monitor additional staff and associated savings.

9. FINANCIAL IMPLICATIONS

- 9.1 Successful implementation of the programme of £9.9 million of revenue budget cuts will ensure Council adherence to its financial policy framework for 2010/11.
- 9.2 That is unlikely to represent the end of the financial challenges for the Council, however. The prospects for support from the Scottish Government for 2011/12 and beyond are for substantial cuts in funding (something of the order of 3% per annum of real cuts has been forecast by the most knowledgeable commentators). That background makes it all the more important that the initial objectives in 2010/11 are achieved, as a foundation for the further savings that will be necessary in future years.

10. POLICY AND DELEGATED AUTHORITY

- 10.1 Responsibility for overall budget setting and monitoring are matters for full Council, but the Financial Resources Member Officer Working Group has been given a role by the Council to oversee the 2010/11 budget cuts process.

11. CONCLUSIONS

- 11.1 The programme of revenue budget cuts set out in paragraphs 5 to 8 and in Appendix A are essential to the achievement of the Council's financial policy framework and to prepare for the many years of cuts in funding from the Scottish Government which is anticipated. Achievement of the programme of cuts will require concerted attention and action from both officers and members.

12. RECOMMENDATIONS

- 12.1 I recommend that the Financial Resources Member Officer Working Group should scrutinise the detailed programme of revenue budget cuts with the relevant officers, directing the process and making its views known to the Council as appropriate.
- 12.2 I recommend that the Council should note the contents of this report and any feedback from the Financial Resources Member Officer Working Group and provide further direction to the conduct of the programme of revenue budget cuts as it sees fit.

Date: 5 May 2010
Ref: GJ/DS

Report No: F-023-F

Approved Savings Areas 2010/11: Progress Report

Agreed Savings Heading	Lead Officer	Savings Not Included in Budgets	Savings Incl. in budgets Non Specific	Specific Savings to be Actioned	Adjustments	Total	Current Position: 10 May 2010
		£	£	£	£	£	
1 General Efficiency Savings							
1.1 Insurance Cover	Head of Legal and Administrative Services			100		100	J.Riise/G.Johnston to adjust insurance level with S. Pearson
1.2 Savings Register	Head of Finance	291				291	G.Johnston to pursue new items and monitor progress on implementation
1.3 Other (Operating Costs)	Head of Finance	657			289	946	G.Johnston to produce analysis and proposals for Executive, and to monitor progress
1.4 Reduce Travel and Subsistence Budgets	Head of Finance	370			(289)	81	G.Johnston to produce analysis and proposals for Executive, and to monitor progress
1.5 Other (vacancy factor)	Head of Finance	763				763	G.Johnston to produce analysis and proposals for Executive, and to monitor progress
2 Staffing Changes, including Single Status							
2.1 Restrict Recruitment	Head of Organisational Development	650				650	J.Smith reporting to current cycle
2.2 Single Status	Head of Organisational Development	1,500				1,500	J.Smith reporting to current cycle
2.3 Service Redesign	Head of Organisational Development	300				300	All to identify services for redesign and cash savings
2.4 Targeted Projects (eg using LEAN)	Head of Organisational Development	400				400	All to identify processes for redesign and cash savings
2.5 Reduce Overtime Working	Head of Organisational Development	240				240	G.Johnston to produce analysis and proposals for Executive, and to monitor progress
2.6 Cut allowances (eg essential car users)	Head of Organisational Development	398				398	J.Smith to prepare proposals (incl. alternatives)
3 Procurement							
3.1 Reduction in procurement costs	Head of Capital Programming		1,000			1,000	R.Sinclair to prepare proposal for Goods and Services contracts
4 Service Specific Items							
4.1 Use of SRT Facilities by Schools	Head of Finance			400		400	G.Johnston to complete negotiation for SCT to continue on interim basis in 2010/11
4.2 Finance - Single tatus Implementation savings	Head of Finance		60			60	G.Johnston to initiate and monitor
4.3 Finance - Additional Vacancy Factor	Head of Finance		100			100	G.Johnston to initiate and monitor
4.4 Reduce Discretionary Grants	Head of Finance	186				186	G.Johnston to initiate and monitor with N.Grant/H.Sutherland
4.5 Target Savings across Chief Executive Department	Depute Chief Executive		87			87	H.Sutherland to initiate and monitor
4.6 Education and Social Care Discretionary Services	Executive Director Education and Social Care	484				484	H.Sutherland to initiate and monitor
4.7 Target Savings across Organisational Development	Head of Organisational Development		100			100	J.Smith to initiate and monitor
4.8 Target Savings across Community Care	Head of Community Care		1,165			1,165	C.Ferguson to initiate and monitor
4.9 Community Care - Increase Meals on Wheels by 20p	Head of Community Care	6				6	C.Ferguson to initiate and monitor
4.10 Target Savings across Childrens Services	Head of Childrens Services		126			126	S.Morgan to initiate and monitor
4.11 Curtail Repairs and Maintenance Programme	Executive Director Infrastructure Services	195				195	G.Greenhill to initiate and monitor
4.12 Increase Infrastructure Charges	Executive Director Infrastructure Services	74				74	G.Greenhill to initiate and monitor: partially implemented
4.13 Target Savings across Schools	Head of Schools		81			81	H.Budge to initiate and monitor
4.14 Schools - Increase School Meals by 15p	Head of Schools	20				20	H.Budge to initiate and monitor
4.15 Schools - Charge for Instrumental Lessons	Head of Schools	130				130	H.Budge to initiate and monitor
4.16 Schools - Additional Vacancy Factor	Head of Schools	60				60	H.Budge to initiate and monitor
Total		6,724	2,719	500	-	9,943	



REPORT

To: Shetland Islands Council **19 May 2010**

From: Head of Capital Programming

Report No.: CPS-11-10-F

Subject: Capital Programme Prioritisation Process

1.0 Introduction

- 1.1 On 28 October 2009 members approved a report setting year 1 of the proposed 5 year Capital Programme, noting progress on a 'gateway' approach.
- 1.2 Further reports were to be presented from the Finance Review Working Group to the Council. The Finance Review Working Group considered this report on 10 May 2010.
- 1.3 The Council considered and approved a report that explained the principles of the 'gateway' process on 24 March 2010 (Min Ref: 47/10). That report presented a process and documents for assisting in the assessment of capital projects.
- 1.4 This report sets out the process for prioritising projects that have been through the above 'gateway' process.

2.0 Links to Corporate Plan 2008–11 and Risk Analysis

- 2.1 This contributes to the efficient operation of the Council's business. It also develops proposals for a system to ensure that the Council can meet its overall financial objective of maintaining reserves at £250m.
- 2.2 The Gateway Process and Prioritisation Process are key steps in developing a 5-year Capital Programme. The absence of an agreed Capital Programme has been identified as a strategic risk in recent reports by Audit Scotland.

3.0 Background

- 3.1 Members of the Finance Review Working Group have been presented with an outline framework to ensure the robustness of capital projects. This is referred to as a 'gateway' process, and draws on national and best practice guidance. It is also complementary to the Council's existing Capital Procurement guidance.
- 3.2 Councillors agreed at the meeting of 24 March 2010 to adopt the Gateway Process as the first step towards setting a sustainable 5-year Capital Programme.
- 3.3 Work on preparing Service Need Cases (SNCs) for projects currently planned for years 2011/ 12 through to 2014/ 15 is already underway.
- 3.4 This report brings forward a process for prioritising those projects that have been assessed under the 'gateway' process and it takes into account the views expressed by members at the Financial Resources Member/ Officer Working Group on 10 May 2010.

4.0 Proposal

- 4.1 I have attached the core proposals for prioritising the Council's capital programme as Appendix 1. If approved by Council, Capital Programme Service will add this procedure to the suite of documents that form their Quality Management System (QMS). The documentation relating to the 'Gateway' process already forms part of that QMS.
 - 4.2 By setting out this procedure as a separate QMS document, any revisions can easily be incorporated and referred to by staff without the need to follow a sequence of Council decisions.
 - 4.3 I am proposing a two-stage process as follows:
 - Production of a draft 5-year capital programme based on service delivery requirements only
 - Production of a rationalised version, taking into account external factors and constraints
- These stages are detailed in Appendix 1.
- 4.4 This process would be repeated on an annual basis, in line with the Council's timetable for Strategic Planning, Service Planning and Budget Planning.
 - 4.5 In terms of developing the capital programme for years 2011/12 through to 2014/15 it must be recognised that the scale of the approved programme for 2010/11 (current value £36.3 million excluding HRA, Harbour Account and AHS) will be very challenging to deliver. It is therefore expected that, for this year, the rationalisation process at Stage 2 will involve significant re-programming of projects currently in year 2010/11, based on evidence of slippage at that time.

5.0 Member Involvement

- 5.1 Upon completion of each stage of this process, the developing programme will be presented to Members with a covering report for information and approval.
- 5.2 At each stage, the covering report will set out the progress made up to that point and will explain the reasoning behind the timing and sequencing of projects within the programme.
- 5.3 These reports will initially be presented to the Finance Review Working Group. Feedback from the Finance Review Working Group will be incorporated into the report to Full Council.

6.0 Timing

- 6.1 Subject to Council approval of this process, the proposed timing of the stages is as follows:
 - Draft programme based on service delivery requirements to be reported to Full Council on 30 June 2010
 - Rationalised version to be reported to Full Council on 27 October 2010

7.0 Financial Implications

- 7.1 There are no direct financial implications arising from this report but the 'gateway' process will enable appropriate scrutiny of projects and this prioritisation process will ensure that the Capital Programme is managed to enable the Council to maximise the benefit for use of its financial resources.

8.0 Policy and Delegated Authorities

- 8.1 Section 8.0 of the Council's Scheme of Delegations state that there is no delegation of matters relating to the approval of the Capital Programme so a decision of the Council is required.

9.0 Recommendations

- 9.1 I recommend that the Council approve the Prioritisation Process as described in this report.

Our Ref: RMS/RS/CPS-11-10-F

29 April 2010

Encs. Appendix 1 – OP2-5-1 Capital Programme Prioritisation

Operational Procedure 2.5.1

Procedure for Capital Programme Prioritisation

Responsible Officer							
Issue No.	1	Revision No.	?	Revision Date:		Doc Ref:	

Amendment and Authorisation Record
Procedure for Capital Programme Prioritisation

Date	Author	Paragraph ref:	Nature of change	Authorised by
		n/a	First dated Revision	

Responsible Officer							
Issue No.	1	Revision No.	?	Revision Date:		Doc Ref:	

QMS Procedure for Capital Programme Prioritisation

1.0 Introduction

Capital projects that have passed through the gateway process to the point where a feasibility study has been completed, will again be presented to councillors. If Councillors remain satisfied that the project objectives and financial conditions have been satisfied, the project will be subject to a prioritisation exercise to ensure that is programmed so as to maximise its value to strategic, corporate and service plans.

Bearing in mind financial restraints, workload implications, lead times for preparatory work and the possible impact on other projects already programmed, the prioritisation exercise will be carried out annually. The timing should be arranged so as to ensure that the capital programme for the incoming financial year is finalised and agreed by October each year, in line with the Council's timetable for Strategic Planning, Service Planning and Budget Planning.

This document sets out the procedure for executing this prioritisation. It also highlights the factors that must be considered at each stage of the process and provides guidance as to how any unforeseen circumstances are dealt with.

2.0 Responsibility

The Head of Capital Programming is responsible for managing and administering the prioritisation process, however the final decision as to the content of the programme, and the timing of the individual projects within it, must be taken by Full Council.

3.0 Overall Strategy

The purpose of the Council's capital programme is to deliver projects in a planned way that facilitates effective delivery of the Council's strategic objectives.

Initially this programme will cover the incoming 5 years.

In practical terms the capital programme should focus on delivering the assets that are identified in each department's Service Plans, which will in turn be prepared in line with the Corporate Plan and the Single Outcome Agreement.

This process will be integrated with the development and management of a Council-wide asset strategy.

Responsible Officer							
Issue No.	1	Revision No.	?	Revision Date:		Doc Ref:	

The prioritisation process will incorporate two key stages as follows:

- Development of asset plans for each service area
- Rationalisation and adjustment

These stages are described in more detail below.

4.0 Development of Asset Plans for Each Service Area

The first stage in the prioritisation process is to produce an asset plan for each service. Key assets that are to be acquired, disposed of, refurbished, developed, etc. should be identified in all Service Plans.

These asset plans should address the following issues in relation to each asset:

- An indication of the it's relative importance
- Preferred timing from a service delivery perspective
- Timing constraints, for example due to the availability of external funding
- Risks to service provision if the project was to be delayed or abandoned
- Highlight cases where timing is not critical, with an indication of the available timing window
- Highlight 'spend to save' projects and quantify 'loss of opportunity' as a result of delay
- Where projects are to be progressed under a partnering arrangement, highlight timing issues relating to the partner's funding streams

These individual asset plans will then be consolidated, and a draft capital programme produced, based on ideal timing from a service delivery perspective.

This draft capital programme will then be presented to Councillors as work-in-progress for comment.

5.0 Rationalisation and Adjustment

As indicated above, the draft capital programme will be based on ideal timing from a service delivery perspective. It will be necessary to review this draft programme in the light of external factors and any flexibility in timing identified as part of the process above. This review will be carried out by staff within Capital Programme Service and will consider issues such as:

- Consent implications
- Land purchase
- Lease expiry dates
- External funding
- Availability of resources
 - Design

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- Construction
- Impending strategic initiatives
 - Audit recommendations
 - Service level reviews
- Impending political changes
- Impending legislative changes
- Market conditions
- Potential for slippage
- Overall affordability (£100m over 5 years)

This rationalised version will become the adopted 5 year Capital Programme, subject to Council approval.

6.0 Variations

Once approved, officers should make every effort to ensure that projects are delivered in accordance with the 5-year capital programme, however situations invariably occur that are outwith the control of either members or officers and there is every likelihood that some reprofiling will be necessary through the year, either from a financial or a timing perspective.

It is impossible to set out clear guidance as to how each scenario could be dealt with and cases will have to be assessed on an individual basis. The examples below will give an indication of the options that could be explored when dealing with unforeseen circumstances.

- May be insurable
- Consider funding from slippage
- Reprofile asset plan within service to bring forward

Slippage within the capital programme should be minimised by rigorous review at the Rationalisation and Adjustment stage, however some slippage is inevitable. The following principles should be applied to ensure the integrity of the prioritisation process.

- Early reporting of suspected slippage to Capital Programme Service
- Proactive approach to identifying potential slippage by CPS staff
- Fix an annual review date for reporting potential slippage. This should be early enough in the year to allow this to be included in the Rationalisation and Adjustment stage.
- Projects should not be brought forward to take advantage of slippage unless in exceptional circumstances – the sequence must be maintained until the next annual programme review.

Responsible Officer							
Issue No.	1	Revision No.	?	Revision Date:		Doc Ref:	



REPORT

**To: Audit & Scrutiny Committee
Shetland Islands Council**

**26th April 2010
19th May 2010**

From: Head of Organisational Development

CE-12-F1 - Staffing Numbers

1 Introduction

1.1 This report gives members information about the growth of actual and projected employee numbers between 2006/7 and 2010/11.

2 Priority and Risk

2.1 The Council can only provide the wide range of high quality services we do by having the right staff, with the right skills in the right place at the right time. Effective planning and workforce management systems are needed to ensure this continues.

2.2 Our Council, along with all other public bodies in the UK, is facing increasing cost pressures this year which will most likely continue for a number of years. Employee costs are the biggest element of Council spending, unless those costs are managed well there is a risk that financial targets will not be met.

3 Background

3.1 The Council asked for a report on the growth in staffing numbers and employee budgets during the life of this Council at its meeting of 24th March 2010 (min ref.: 56/10).

3.2 This report sets out information on changes in "Establishment" levels i.e. The number of posts approved by the Council, and information on employee numbers i.e. staff actually in post at the checkpoint dates.

- 3.3 The main source of information on Establishment is the Council Tax Information leaflets produced when budgets are set by the Council. A summary of the information from these is attached as Appendix A.
- 3.4 The main source of information on staff employed are “Joint Staffing Watch” reports. These reports, going back to 2006, are submitted to the Scottish Government quarterly, they are published on the at <http://www.sic.gov.uk/services/personnel/statistics/>. Numbers of staff, broken down the same way as posts, is attached as Appendix B.
- 3.5 Figures in this report are “Full Time Equivalents”. The Council has many part-time, job share and relief posts and employees, but it is more consistent to talk about how many Full Time staff that adds up to. As a rule of thumb there are about half as many again more individuals employed by the Council than Full Time Equivalents (FTE’s). (For example in December 2009 there were 2774 FTE – 4250 Head Count).

4 Posts Budgeted For

- 4.1 “Establishment” is the number of posts which the Council has approved budgets for. This tends to be higher than the number of staff employed as there are always some vacancies. It also reflects plans for growth in the coming year if additional posts are budgeted for, but will only be filled during the year.
- 4.2 Appendix A shows an overall growth of 440 FTE posts between financial year 2006/07 and the budget approved by Council for 2010/2011. Growth of 124 posts for 2010/11 from 2009/10 was approved in February 2010. Most of this growth has been in Education and Social Care.
- 4.3 The approval of additional posts generally requires a Council decision. This can either be a specific approval of one or more additional posts, or the approval of new or changed service with a more general explanation of how that will affect staff numbers.
- 4.4 Some Establishment growth would however appear to be principally authorised through the approval of the Council’s overall annual budget rather than specific reports on particular post changes.

5 Number of Staff Employed

- 5.1 The number of staff actually employed by the Council fluctuates a little throughout the year with some seasonal employment. This

report uses the position in March each year as the point where plans approved in the previous year's budget are most likely to have been implemented.

- 5.2 Appendix B shows overall growth of 230 FTE staff employed between March 2007 to March 2010.
- 5.3 The pattern of increase is similar to budget growth. The majority is in the Education and Social Care Department, with the biggest share in Community Care. Much of the apparent growth in Schools is due to transfers of 120 Cooks and Cleaners, 20 Youth Workers and 30 Library staff into that service due to departmental restructuring.
- 5.4 Recruitment is delegated to management, generally Heads of Service. Given there is a sufficient budget approved by Council, recruitment can be undertaken at Head of Service discretion.

6 Financial Implications

- 6.1 More staff means higher employee costs. The average employer cost of an FTE post in 2010/11 is around £30k.
- 6.2 The General Fund (including Support/Recharges/Trading) budget for employee costs in 2006/07 was £69m. This has increased by £30m to £99m in 2010/11. This increase is due to the growth in establishment of 440 FTEs (£13m), 4 years inflation (£12m) and re-grading through single status (£5m).

7 Policy and Delegated Authority

- 7.1 The Council asked for a report on staffing numbers at its meeting on 24th March 2009. This report is in response to that request.
- 7.2 The Audit & Scrutiny Committee is asked to consider the report in line with its remit (Section 10 of the Council's Scheme of Delegations)..
- 7.3 The Council is asked to consider the report as part of the fundamental background information around cost management to support its monitoring and decision making activity relating to meeting its financial targets. These matters of overall Financial and Workforce strategy are not delegated to any committee.

8 Conclusions

- 8.1 The Council has approved budgets for 316 FTE additional posts between 2006/07 and 2009/2010.
- 8.2 The number of staff employed by the Council has risen by 230 FTE between March 2007 and March 2010.
- 8.3 The Council has also approved budgets for 124 more posts in 2010/2011.

9 Recommendations

- 9.1 I recommend the Audit & Scrutiny Committee and Council note, and discuss, the information provided in this report.

JRS

14th April 2010

Appendix A - Budgeted Posts	2006/07	2007/08	2008/09	2009/10	2010/11		Change
Economic Development Unit	30	19	15.9	19	21	-	9
Ports & Harbours (M)	127	124	120	131	133		5
Chief Executive (X)	8	9	10	10	11		2
Org Dev (X)	44	47	53	54	54		9
Legal & Admin (B)	42	43	43	43	42	-	0
Finance (F)	74	71	69	73	74		0
Capital Projects Unit (K)	-	21	22	20	23		23
Executive Services	169	191	198	201	203		35
Directorate	37	32	21	20	21	-	17
Environment	94	99	104	107	107		14
Roads	31	31	30	30	28	-	2
Transport	211	193	188	192	195	-	17
Planning	21	27	34	34	39		18
Trading (TRY)	263	262	259	123	121	-	143
Infrastructure Services	658	643	635	505	511	-	147
Community Care (A)	567	572	652	696	789		222
Children's Services (G)	-	125	144	153	138		138
Criminal Justice (I)	-	6	6	6	7		7
Schools (E)	692	689	695	827	891		199
College (URL)	52	52	53	59	60		8
Housing (H)	102	100	98	96	96	-	7
Exec Dir Education & Social Care (J)	121	91	93	93	90	-	31
Lifelong Learning (L)	-	45	46	47	19		19
Education & Social Care Services	1,536	1,681	1,786	1,978	2,091		556
Overall Totals	2,519	2,659	2,754	2,835	2,959		440

Appendix B - Staff Employed	Mar-07	Mar-08	Mar-09	Mar-10		Change
Economic Development Unit	17	16.0	15	16	-	1
Ports & Harbours (M)	130	122	124	124	-	6
Chief Executive (X)	9	9	10	10		1
Org Dev (X)	46	53	49	50		4
Legal & Admin (B)	39	38	38	37	-	2
Finance (F)	59	60	62	62		3
Capital Projects Unit (K)	18	18	18	18		-
Executive Services	171	178	177	177		6
Directorate	30	31	17	20	-	10
Environment	85	89	87	94		9
Roads	113	111	105	104	-	9
Transport	192	188	189	193		1
Planning	20	23	32	37		17
Trading (TRY)	171	169	58	59	-	112
Infrastructure Services	611	611	488	507	-	104
Community Care (A)	497	522	563	652		155
Children's Services (G)	93	107	121	105		12
Criminal Justice (I)	7	7	6	7		0
Schools (E)	714	707	828	894		180
College (URL)	57	58	61	65		8
Housing (H)	86	85	84	91		5
Exec Dir Education & Social Care (J)	96	98	98	96		-
Lifelong Learning (L)	45	45	47	19	-	26
Education & Social Care Services	1,595	1,629	1,808	1,930		335
Overall Totals	2,524	2,556	2,613	2,754		230



REPORT

To: Shetland Islands Council

19th May 2010

From: Head of Organisational Development

**CE-15-F
Employee Cost Management**

1 Introduction

1.1 This report discusses the options the Council has available to it around the overall management of Employee Costs in the medium and longer term and makes proposed options to deliver short-term savings in 2010/2011.

2 Priority and Risk

2.1 The Council can only provide the wide range of high quality services we do by having the right staff, with the right skills in the right place at the right time. Effective planning and workforce management systems are needed to ensure this continues.

2.2 The Council, along with all other public bodies, is facing increasing cost pressures this year and over the next number of years. Employee costs are the biggest element of Council spending and unless those costs are managed well there is a risk that financial targets will not be met.

3 Background

3.1 Over the life of this Council employee numbers and employee budgets have both grown considerably. Further analysis of that growth is contained in a separate report on this agenda.

3.2 The Single Status settlement among other developments has also increased the employee cost base, particularly in caring and technical roles, which had been historically underpaid.

- 3.3 The Council requested a report on the options for managing employee costs at its meeting of 24th March 2010 building on the options described in the Single Status Update report at that meeting. Appendix 1 summarises activity in line with the guidance on priority given by Council at that meeting.

4 Employee Costs

- 4.1 Employee Costs are a product of the number of staff employed x their pay. Given that we have recently concluded Single Status and that most pay negotiations are dealt with nationally, there would seem to be very limited scope for any blanket changes to pay levels.
- 4.2 A number of “allowances”, Car, Clothing and Telephone are the subject of a review at the moment and proposals for updating these will be developed in consultation, staff and Unions and reported to Council.
- 4.3 Employee numbers is the area where overall costs can be affected most. If the same service level is to be provided by fewer staff in any area that needs improved efficiency. If service levels can be changed then that creates other opportunities or issues.

5 Framework for Medium / Long Term Options

- 5.1 Medium and long term options for significant redesign of service are being considered as part of the “Blueprint” for the future of Education and the “Ports of the future” review. When there is potentially a significant impact and substantial change it is very important to consider and consult thoroughly. This sort of fundamental “service reviews” will have to be carried out in other areas if significant economies are to be achieved. This unavoidably takes much time and effort and will have to be planned and delivered over an extended period. It is expected that a comprehensive review programme across all services will be put in place shortly.

5.2 These reviews need to consider;

- greater efficiency;
- better targeting of services;
- alternative delivery models;
- changes to service levels;
- reductions in bureaucracy;
- new technology options etc.

as options to deliver more efficient and effective Services in the medium and long term.

5.3 The reviews will also consider the options and consequences for staffing in different service areas. That could include

- restructuring;
- redeployment;
- retraining;
- early retirements;
- changes to working hours;
- voluntary exit;
- redesign of jobs.

5.4 The “Blueprint” and “Ports of the Future” are going through this kind of exercise, tools like benchmarking, option appraisal, value mapping and service redesign are being employed. Results and options from these exercises will be reported to the Council soon.

5.5 In addition to managers investigating options and alternatives there has been very significant staff, union and customer consultation throughout. This is a critically important part of making long-term fundamental change in a way that is understood by everyone.

5.6 The “High Level Service Planning” activity described in the overview report has already generated a number of potential ideas for further Service Review, proposals for a review programme will be reported to Council in June. Individual reviews will be taken forward as promptly as possible, with a target of having completed a comprehensive programme across the Council within 18 months.

6 Framework for Shorter Term Options

- 6.1 The Council needs to find ways to meet its £10 million savings target for this year. It is theoretically possible for medium / long term fundamental redesign options to be implemented quickly. But that implies doing them without the substantial review activity and consultation which the Blueprint and Ports for the future have seen as essential. This would be unlikely to be acceptable to the Council or the community, and is not a recommended way forward.
- 6.2 However in any area where a obvious and relatively easy to implement efficiency improvement can be identified, managers will continue to be encouraged to take that forward as rapidly as possible. Support in the use of efficiency tools like Lean and Kaizen will be targeted on these areas when they are identified.
- 6.3 Managers will also be encouraged to identify opportunities for employee cost savings where they arise as part of natural turnover or the individual wishes of staff. While it is hard to predict where these individual based opportunities will arise support and training will be provided to managers to understand what their options are and how best to choose and deploy them.
- 6.4 This will included running a series of workshops for all Heads of Service and Service Managers on the Councils policies and procedures for recruitment, restructuring, redeployment, exit and efficiency during June. That will ensure that all managers have an up to date awareness of the Councils policy and procedural framework and a better common understanding or where and when the different policy options would be best used. I would also seek to include Unions in this awareness raising exercise to ensure they are equally up to date and aware of the Councils HR policy framework. If gaps or shortcomings are identified in Employee Management policies during these events, or from the Blueprint or Ports of the Future exercises, then formal consultation will be carried out on updating the relevant area.
- 6.5 It is difficult to predict what level of saving will be generated this year through this opportunistic approach. It does depend on what comes up, and how far individual possibilities are successfully converted into cost saving action by each service. Therefore if there is judged to be a very pressing need to pursue large cashable saving across General Fund employee costs during this year we may need to consider ways to clarify managers understanding of the challenge they are being given.

- 6.7 Performance against the budget targets will be monitored and reported monthly by Management Accountancy to the Executive and, the Finance Review Group. Monitoring overall Employee costs at Service Level would also allow for other elements of Employee costs, such as overtime or temporary staff to contribute to Services savings performance if that was appropriate.
- 6.8 Managers will be required to critically review all vacancies, as they occur, with a particular focus on non front line posts. The effectiveness of this approach will largely still depend on managerial action to reduce recruitment when posts become vacant. However it would still allow management to do their job when essential posts have to be filled.
- 6.9 It will be important for managers, at all levels, and members to share a sense of common purpose and responsibility in implementing this “recruitment squeeze”. By setting a shared overall objective across the whole Council members can contribute to a clear statement of what it is expecting from everyone, but do that without removing management discretion and flexibility completely.
- 6.10 It will also be essential for managers to have access, to good support and expertise when required. That could be input in deciding when vacancies can be held open, where posts could be recruited to part-time or at a lower level or where recruitment really needs to proceed. The workshops proposed above are part of that support, the HR and Single Status Teams will be available to discuss options and issues with managers when they are considering recruitment. This would help managers consider 34/37 hours opportunities, further Job Redesign or other options as an alternative to “like for like” recruitment.
- 6.11 I would also expect Service, Departmental and Leadership management teams to be a very significant peer review and support group during such an exercise. These management teams also have the potential to identify shared solutions or discuss alternative approaches.
- 6.12 This approach does not necessarily change the devolved arrangements for authorisation of recruitment. Indeed it clarifies the responsibility of Heads of Service to operate within their available resources as their prime responsibility. Other authorisation steps could be added but this adds more bureaucracy and rigidity and should be avoided if possible. It is better to give managers a clear statement of the job that the Council wants them to do and let them get on with it.

- 6.13 For this to work there needs to be a determination that the issues it may highlight will be overcome, and for obstacles to be dealt with without abandoning the overall approach. Monitoring of performance and any issues, will be a standing item on the Executive Agenda and on the Financial Resources Members/Officer Working Group and Audit & Scrutiny agendas. Service Committees and Council would be expected to receive reports on Service growth or proposed changes to Service levels by June 2010 for the 2011/12 budget. I would also expect open dialog to be maintained with staff and Unions during this process, and issues arising discussed and dealt with.
- 6.14 The effectiveness of the overall approach in delivering Employee Cost savings would be reviewed periodically, and adapted if required to improve effectiveness.

7 Financial Implications

- 7.1 The Council has to make significant savings, most probably year on year for the foreseeable future. The wage bill is the biggest element of Council Costs. In March we paid 2,754 FTE staff against a budget for 2,835 posts, this year's budget allows for 2,959 FTE posts.
- 7.2 Fundamental service reviews are the structured approach to make medium and long term sustained savings, but these reviews take time to deliver properly. While big changes can be made in future years through those fundamental reviews the Council needs to make very significant savings in 2010/2011 to meet its financial targets.
- 7.3 The average total cost of a Council post, including Employers Costs, is £30,000. If we didn't recruit to any of the extra posts budgeted for we would save about £3.7 million. Achieving something like the same level of savings around vacancies as they arise, approximately 50 per month, would require about half of those vacancies to be held open as they arose.
- 7.4 The items in this report requiring immediate attention will be reported on each cycle by the Head of Finance as part of the progress reports on implementing the budget savings of £9.9m.

8 Policy and Delegated Authority

- 8.1 The Council requested a report on the HR policy framework to support staff savings at its meeting on 24th March 2010. This report is in response to that request.

9 Conclusions

- 9.1 The Council needs to make £9.9 million savings on its 2010/2011 budget, if that is going to be achieved a significant share will need to come from Employee Costs.
- 9.2 Structured reviews of whole service areas, like “The Blueprint for Education” and “Ports of the Future” allow us to look at radical change options, however these exercises take time to work through and make decisions on.
- 9.3 The Council needs action to be taken immediately, and needs this action to be effective in 2010/2011. This short-timescale restricts the options available and means anything we do has to be simple and readily understood, but with enough flexibility built in to allow services to continue to be delivered with as little disruption as possible.
- 9.4 My analysis is that critically reviewing recruitment to vacant posts is the only way that significant short-term savings could be realised. For that to work it needs a clear signal to be given by Council members that all areas will need to share the impact. Community Care, Schools and Ports have already declared their intent to deliver significant “Vacancy” savings.
- 9.5 It will be vital to support managers as they try to meet these targets, and it will be vital for management and members to monitor the effectiveness of the approach and adapt it as issues arise.
- 9.6 The Council would also need to acknowledge that if savings are to be “banked” then extensions of service levels or additional services need to be considered very carefully for their financial implications. If growth has to be accommodated in some areas then even larger savings will have to be generated elsewhere or financial targets cannot be met.

10 Recommendations

- 10.1 I recommend the Council require a programme of service reviews to be planned and carried out over the next 18 months to consider opportunities and issues for fundamental service redesign, to protect service levels and generate efficiency savings. Ideas will be identified through the High Level Service Planning process and reported for approval in June 2010.
- 10.2 I recommend the Council require that all managers make every effort to find short term cost savings around the opportunities that can arise with natural staff turnover and seek out and implement other short term efficiency measures.

Appendix 1 – Member Guidance on Prioritisation

1. A) Deletion of Current vacant posts
The analysis required should be carried out immediately and as many deletions made as feasible without affect on front line services.

Heads of Service have been tasked with identifying vacant posts which can be deleted as part of the High Level Service planning exercise.

2. B) Non recruitment to vacant posts.
Non recruitment to new posts to be implemented and a further report on the future handling of vacant posts with a report on future vacant posts and how decision to recruit is made for which there needs to be a formal agreed method.

Proposals on limiting recruitment through managerial action are contained in this report.

3. F) Reduced Overtime.
Should be introduced immediately.

The Head of Finance will report overtime cost analysis to the next Audit & Scrutiny committee.

4. H). Review of essential car user payments, telephone allowances and clothing allowances, this review should be delivered by March 2011

Employee consultation is currently in progress,

5. E) Reduced Consultancy Costs must be delivered over the next 6 months and wherever possible during that time and in future our partner organisations who can offer these services should be considered first before any outside consultancy can be considered.

Managerial action ongoing to implement.

6. D) Increased Hours/ Fewer posts.
This will take time to deliver therefore not the highest priority.

Linked to managerial action on recruitment described in this report.

7. G) Higher Efficiency / Productivity of Redesign Posts.
This should happen anyway in normal course of events.

Linked to managerial action where opportunities arise around vacancies. Key element of service review activity.

8. C) Regrading downward of posts as they become vacant.
This will be part of the treatment of vacant posts recruitment process in future.



REPORT

To: Shetland Islands Council

19th May 2010

From: Head of Organisational Development

Report No: CE-14-F

Shared Opportunities: Public Sector Sustainability Project

1 Introduction

1.1 This report provides information on the Community Planning Delivery Group (CPDG) sponsored project for 2010/11, called Shared Opportunities: Public Sector Sustainability.

2 Link to Priorities and Risks

2.1 This project will assist the Council to deliver on required budget savings.

2.2 It will also ensure the public sector, collectively and consistently, keep the public informed about the implications to Shetland of predicted reduction in national public sector spend over the coming years.

3 Background

3.1 At the last meeting, Council were informed of the CPDG Priority Area for 2010/11.

3.2 The role of the CPDG is to take forward the priority areas set by the Community Planning Partnership (CPP) each year. A priority area needs to be one that will assist in sustaining Shetland's future and would not happen without the seniority of the CPDG. It is essential that the CPDG provides added-value to the Shetland community.

3.3 Given the inevitability of public sector funding cuts over the short and medium term, the priority area for 2010/11 focuses on this issue, in relation to how Shetland agencies can, together, tackle the challenges ahead.

4 Shared Opportunities: Project Proposal

4.1 Appendix 1 provides more detail about how the project will proceed.

4.2 At this time the Council, Charitable Trust, NHS Shetland, Highlands and Islands Fire and Rescue Service and Northern Constabulary, as the organisations with the largest amount of direct spend per year, are collating background information on:

- Financial Planning Assumptions (for short-term (2010/11) and medium term (3-5 year))

- The funding gap between these positions and current plans and policies
- Financial implications of these projections: impact on services, assets, jobs, contracts/procurement
- Proposed opportunities/constraints (e.g. what unable to examine): Shared Services (locally, or not)/Shared Assets/Shared People

- 4.3 A key stage of the project will be an event to be held on 1st June, at the Town Hall, to which all CPDG members have been invited. This includes the Convenor, and Chairs of the Economic Development, Services and Infrastructure Committees. The purpose of this event will be to:
- Enable Shetland to have a clear picture of the public sector financial situation for the short to medium term, which can be clearly articulated to the community;
 - Ensure a clear understanding of the impacts of this on the approach taken by each organisation and / or the likely impacts on the Shetland community;
 - Provide clarity about the extent to which community planning can assist in reducing public sector spend, whilst minimising the impact on the community; and
 - To agree work streams for delivery.

- 4.4 The event will cover the following:
- National Context and Projections
 - Information Sharing on Financial Projections, their impact and what opportunities and constraints each organisation has for joint-working
 - Criteria for option appraisal
 - An examination of potential options in the following areas:
 - a. Shared Services
 - b. Shared Assets
 - c. Shared People
 - d. Strategic Prioritisation of activity
 - e. Communication /Information Sharing with the Public

- 4.5 As a result of this event, it is hoped that a clear message on the local public funding situation can be developed, in line with the national information. This can then be used to ensure a consistent message is provided across the public sector, as we move into a period of reduced public sector funding.

- 4.6 Information developed at the event will also enable a detailed project plan for delivery in each relevant area to be finalised.

5 Financial Implications

- 5.1 There are no direct financial implications associated with this project. However, it is anticipated that it will assist the Council in achieving reductions in budgetary spend.

6 Policy and Delegated Authority

- 6.1 The Council has a duty to lead community planning within Shetland. Responsibility for this is not delegated to any committee, therefore responsibility for this matter remains with full Council.

7 Conclusion

7.1 This report provides information on the Community Planning Delivery Group Priority Area for 2010/11, which aims to assist the Council in its ongoing commitment to improve efficiencies and reduce costs across the public sector, rather than moving money between organisations.

8 Recommendation

8.1 I recommend that Council note this project.

Appendix 1: Shared Opportunities: Public Sector Sustainability Project Championed by: Convenor, Shetland Islands Council and Chair, NHS Board

Background to Current Context of Public Sector Cuts

All evidence suggests that allocation of public sector funding will become more limited over the coming years: believed to be in order of 3% real reductions in spend, year-on-year for the next five years. Currently, SOLACE is suggesting (in consultation with CoSLA and CIPFA), a 12% real terms reduction in spending over the next Spending Review period.

Nationally, there is continued recognition of the value of efficiency savings and shared resources, but the scope for continued or large savings is now small. There is, therefore, the need to begin to debate and re-examine the role of the public services, and therefore public sector organisations, building a consensus for a sustainable future.

To date, organisations in Shetland have been approaching and addressing the public sector financial situation in relative isolation, and are at different points in reducing financial spend. The Council and Charitable Trust have reserves, but are currently working hard to ensure there are not unsustainable draws on these reserves, in addition to preparing for a reduction in allocation of funding to local authorities.

As the limited allocation becomes apparent, the impact on Shetland, including the number of people employed in the sector, needs to be understood and planned for. This includes the possible implications on population levels and structure in Shetland – already recognised as being particularly vulnerable for Shetland's future, and the key priority of Shetland's Single Outcome Agreement.

Each organisation will have in place its own mechanisms for dealing with any financial constraints. However, it is felt, by members of the existing CPDG, that there is merit in the CPDG becoming the community planning mechanism to assist Shetland in achieving the required efficiency savings.

In order to begin to address this, the intention is to undertake the following project, at the initial stages.

Project Scope

There are a number of areas this can be taken forward, in terms of partnership working. Below are set out some possible work streams.

1. Vision and Strategic Direction: Review of Policy Priorities

Shetland's Single Outcome Agreement (SOA) for 2010/11 provides an opportunity to review public sector activity against the key purpose and strategic outcomes and acknowledge the connectivity between a range of public services.

The SOA can be used as a tool for prioritisation and targeting, by assessing what services need to continue, and which are not essential for Shetland's future. This work-stream would ensure that public sector resources are aligned to Shetland's key priority areas.

Total Place is a process currently being piloted in a number of areas of England, where total public expenditure in an area is calculated, and an assessment is made

on how this aligns to strategic outcomes. Through joint commissioning and shared delivery, budgets can be better aligned to priorities and potential savings found.

2. Involving the Community

Initially, organisations must develop a shared understanding of the budgetary situation and challenges for each organisation, so that the public sector can establish a common message to the Shetland community regarding the financial situation.

There are two stages to this:

- communication on the situation
- involvement of communities in decision-making about service provision

The first stage will include the following key messages:

- the national financial situation means that real efficiency savings overall will need to be achieved;
- organisations are doing all they can, internally, to reduce costs without impact on services or employment;
- the challenges ahead.

The second stage will involve communities in understanding the situation and to be involved in the process of prioritising what is important for Shetland and it's communities. This may require a re-prioritisation of funding.

A Communications Strategy will be developed, which will include the communications and community involvement elements from other workstreams.

3. Shared Services

Nationally, there have been successes in Shared Services (traditionally back-office), both national aggregation and local cross-sectoral integration, however, they have played a limited role to date in efficiency savings.

SOLACE recognise that areas for potential sharing to provide further efficiencies still exist and should be pursued.

4. Models of Delivery and Shared Assets

Public sector organisations have a lot of built assets around Shetland. In order to reduce public sector spend, some of these assets and the services delivered from them will no longer be affordable.

The process of community planning can be used positively by ensuring agencies share information about possible intentions for each area of Shetland, and by involving communities together over decisions about future services and/or different ways of delivering services.

This would include sharing of buildings and should lever in opportunities for decentralised working and the potential to release buildings for housing in remote areas.

It is recognised that both the Scottish Government and Shetland's MP and MSP are key stakeholders, and should be kept fully informed.

Project Development

It is proposed that the process will follow these initial steps:

STEP 1: Individual Organisations Prepare Information (April-May): SIC, Charitable Trust, NHS, Fire, Police (and others)

- Determine realistic Financial Planning Assumptions (for short-term (1 year) and medium term (3-5 year))
- Identify the funding gap between these positions and current plans and policies
- Set out financial implications of these projections: impact on services, assets, jobs, contracts/procurement
- Set out proposed opportunities/constraints (e.g. what unable to examine): Shared Services (locally, or not)/Shared Assets/Shared People

STEP 2: Information Sharing and Project Planning Event (June).

The purpose will be to:

- have a clear picture of the public sector financial situation for the short to medium term, which can be clearly articulated to the community;
- have a clear understanding of the impacts of this on the approach taken by each organisation and or the likely impacts on the Shetland community;
- provide clarity about the extent to which community planning can assist in reducing public sector spend, whilst minimising the impact on the community; and
- to agreed work streams for delivery.

Structure:

1. National Context and Projections (+ Introductions etc. – 30 mins)
2. Presentations for each organisation on STEP 1 findings. (1.5hrs)
3. Agree criteria for investment/disinvestment decisions (based around SOA and Individual Corporate Plans)
4. Groups to discuss potential options under a number of areas, including:
 - Shared Services
 - Shared Assets
 - Shared People
 - Strategic Prioritisation of activity
 - Communication /Information Sharing with the Public

Groups will be asked to develop the scope and plan for delivery, including honest and open discussion about the extent organisations may be able to work with others.

- i. option generation
- ii. assessment against criteria

4. Agree how to deliver on the overall project and strands.

STEP 3

Finalise Detailed Project Plan & Inform all relevant parties. (June)

Project Governance

The Project will be overseen by the **Community Planning Delivery Group (CPDG)**

The role of the CPDG is to take forward the priority areas set by the Community Planning Partnership (CPP) each year. The membership of the CPDG is reviewed each year, with membership drawn from amongst senior politicians / board members and managers of partner organisations (membership for 2010/11 is attached as Appendix 1).

A priority area is one that will assist in sustaining Shetland's future and would not happen without the seniority of the CPDG. It is essential that the CPDG provides added-value to the Shetland community.

As such, their role in this project will be to:

- Agree the project and stages of development;
- Receive updates of progress at each meeting; and
- Provide advice as the project moves forward.

Any decisions made about change of policy and delivery of services will be that of individual partner organisations.

A Project Team will ensure the smooth running of the Project on a weekly basis. This team will be made up of the following:

- Executive Director, Education and Social Care
- Executive Director, Infrastructure
- Director of Public Health
- Chief Inspector
- Head of Organisational Development
- General Manager, Charitable Trust
- Fire



REPORT

To: **Shetland Islands Council**

19th May 2010

From: **Assets Services**
Legal & Admin
Executive Services

Report No LA-23-F1

Review of SIC Crofting Estates

1.0 Introduction

1.1 This report provides a strategic review of the Council's ownership of crofting estates ("the Estates").

2.0 Links to Corporate Priorities

2.1 Sustaining rural communities is a key Council priority within the Corporate Plan.

2.2 Delivering a more sustainable approach to Council spending and ensuring that it is being as efficient as possible in the way it procures goods and services is a key element of the Corporate Plan.

2.3 The Council is committed to reducing bureaucracy by making sure that the work that it does adds value and that any unnecessary or unproductive tasks are eliminated.

3.0 Background

3.1 The Council owns Estates at Busta (including Dale of Walls and Papa Stour), Gluss and Ollaberry ("the Busta Estates") and at Burra and Trondra ("the Burra Estate").

3.2 Management of the Estates is undertaken by the Asset and Properties Unit, with legal transactions being carried out by external solicitors, Inksters.

3.3 A strategic review of the Council's ownership of the Estates was last undertaken in 1996, with a report presented to Development Committee on

15 February 1996 (Report No 125.95). Following that report's recommendation, the Development Committee decided that the ownership and management of the Estates should remain under the Council's direct control.

- 3.4 In recent years community councils and individual customers have raised concerns with officers and elected members about the cost of legal transactions and the time taken to complete them.
- 3.5 As envisaged in terms of the report to the Council meeting on 17 February 2010 (minute ref 28/10), the Asset & Property Unit has already started a review of the Estates legal transactions by:
- * undertaking an audit of selected files.
 - * inviting customer input to the files being audited.
 - * implementing guides to help applicants understand the process of purchasing land and the timescales involved.

4.0 Proposal

4.1 **First stage:** To decide if the Council wants to be a landlord and owner of crofting estates in Shetland.

4.2 **Second stage:**

4.2.1 If the decision is "yes", then investigate ways to improve:

- a) the management of the Estates.;
- b) the delivery of associated legal services

4.2.2 If the decision is "no", then to consider options for disposing of the Estates.

5.0 Risk

5.1 If the recommendations in this report are carried out then there is a risk that a change in the provision of management or legal services may result in poorer service delivery or increased costs.

5.2 If the recommendations in this report are not carried out then there is a risk that the Estates may continue to operate at a loss, customer complaints may increase and there may be a loss of development potential.

6.0 Current Financial Position

6.1 After allowing for management costs, the Estates have run at a deficit for the last two years, producing losses of £11,000 and £20,000 in 2009-10 and 2008-09 respectively.

- 6.2 The figures do not include any capital cost recovery: £200,000 paid for Busta in 1975 and £20,000 paid for Burra in 1985. Through discussions with valuation professionals it is clear that crofting estates hold little value unless there are sporting/fishing rights or development potential through mineral extraction or other projects.
- 6.3 A regular source of income to the Estates has been from British Telecom who make a payment in return for a way-leave for plant and equipment. In recent years this has returned income of about £14,000 per annum. This rental payment stopped two years ago as the Council started negotiations with BT to receive a one-off capitalised payment. The value of this rental income, if recovered for the past two years, would bring the Estates closer to a cost neutral situation.
- 6.4 Income and costs from the Estates are incorporated into the Council's main accounts, so that any profit is paid into the general fund and any loss is absorbed by existing budgets.

7.0 Advantages to Retaining the Estates

- 7.1 Rental income and capital from sales.
- 7.2 Ownership of the Estates presents the Council with a number of development opportunities, which may yield significant income. They include the proposed development of a wind farm by Viking Energy and exploiting mineral resources on the Estates. Subject to agreement with tenants there may also be potential for social housing development
- 7.3 With improvements to the management, there should be sufficient income to secure a cost neutral outcome to the Council.
- 7.4 There will be a significant capitalisation payment from British Telecom.
- 7.5 Ownership of the Estates gives the Council the opportunity to engage directly with rural communities.

8.0 Advantages to Selling the Estates

- 8.1 The Council would lose the burden of loss and operating costs.
- 8.2 There would be a capital gain by selling, although this is unlikely to recover costs, or capital value.
- 8.3 There would be a loss of landlord's responsibilities and public liability.

9.0 Financial Implications

- 9.1 Retaining the Estates allows potential for future income and capital with the short-term losses expected to reduce through this review process.

9.2 Selling the Estates may produce a small capital sum.

10.0 Conclusion

10.1 In the absence of development the Estates have limited value – both capital and income. However, there is a realistic prospect that the Estates have significant development potential, particularly from renewables. On this basis, the Council may wish to retain the Estates.

10.2 In the immediate term the Council should seek to maximise its return from the Estates by reviewing the management and legal structure, which will allow the focus to be on service delivery in return for best value.

11.0 Policy and Delegated Authority

11.1 Management of the Estates is not delegated to any specific committee. Therefore this review is properly within the remit of this Council meeting.

12.0 Recommendation

12.1 I recommend that the Council decide to:

- a) retain ownership of the Estates and
- b) confirm that the Asset and Property Unit complete its review of the management of the Estates, including the current arrangement that legal work is provided externally, and report back to the Council after the summer recess.