



REPORT

To: Audit & Scrutiny

7 June 2010

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

REPORT NO: LA-19-F

Risk Management Development Plan – Update Report

1 Introduction and Background

- 1.1 As Members will already be aware, the Council has in place a Risk Management Development Plan designed to assist in meeting the principles of the CiPFA Checklist, British Standard for Risk Management – code of Practice BS31000, and taking account of the recommendations in Audit Scotland's SARA report, as well as being in keeping with the Single Shared Outcome Agreement.
- 1.2 The Development Plan is a living document allowing for the changing demands placed on the Council, and details the areas where most work is required. The ultimate aim is to ensure that all categories are marked green as opposed to amber or red.

2 Links to Corporate Priorities and Risk

- 2.1 This report supports Corporate Priorities in relation to the following sections of the Corporate Plan 2008:
 - Section 3 – Sustainable Organisation – Ensuring we are being efficient in everything we do.
- 2.2 Failure to progress the actions listed on the Development Plan will incur further criticism from Audit Scotland as well as creating strategic risks which would mostly fall into the Corporate Governance Risk Category including Performance Management, Service Delivery, Strategic Vision, Partnership Working, Community Engagement, and Strategic Leadership and Direction.

3 Current Position

- 3.1 Work is ongoing in some categories and completed in others. The appendix attached to this report shows, in the final column, the updated position in relation to the various actions listed and is written in red for ease of reference.

4 Financial Implications

- 4.1 There are no additional financial implications relating to this report.

5. Policy and Delegated Authority

- 5.1 The role of Audit and Scrutiny Committee is to carry out a corporate scrutiny role to evaluate the effectiveness of the Council as an organisation and ensure that effectiveness is actively monitored and measured, as detailed in Section 11 of the Scheme of Delegation.

6 Recommendations

- 6.1 I recommend that Members note the content of this report.

Report no: LA-19-F
Our Ref: SP/RMB

26 March 2010

Category	Outstanding Issues	Short Term Action	Medium Term Action	Long Term Action	Other Relevant Information
1. RM Strategies	None at present		Review Strategy 2014	Maintain Forward-looking stance to meet future aims	
2. RM Structures & Processes	Elected Members to consider risk in decision making process	Inclusion of a Risk Management Section with Committee Reports	Risk Management Training for Members	Maintain Forward-looking stance to meet future aims and consider the long-tail impact of decisions taken now.	Short and medium actions achieved
	RM to be written in job descriptions for Operational Managers & above	Liaise with HR	Amend JD's as necessary		Short and medium actions awaiting implementation
	RM to be included within Performance Management & Review & Development	Liaise with Org Dev & HR	Amend Performance Management & Review & Development		
	RM embedded in Change Programmes	Create policy	Implement policy	Monitor Policy	Policy document started.
3. Risk Identification & Evaluation	Define SIC's Risk appetite	Liaise with Executive	Liaise with Partner Organisations	Monitor and refine as appropriate	Scheduled for discussion at Executive
	Feedback from Tenants/citizens forums to identify public perception & identify risks	Collate all existing information centrally	Improve SIC consultation process	Monitor, review and refine as appropriate	
4. Risk Recording,	None at present		Review annually		

Tracking & Reporting					
5. Risk Financing	None at present		Review annually		
6. RM Communication & Training	RM included in Induction Training	Liaise with HR Set up training to include this.			Action achieved
	Quality of Training well regarded & feedback informs content & style	Review Training needs and offer corresponding training opportunities	Monitor, review and refine training to meet maturing understanding		Action achieved. Process ongoing.
	Facilities for self-training & reference	Establish online options	Monitor effectiveness		
	Training as part of the response when things go wrong	Carry out occasional but specific training as appropriate	Monitor feedback		
	Individual's RM's training reviewed regularly	Ensure RM staff receive continual professional development	Monitor through Performance Appraisal		
	Corporate RM training needs assessment	Devise training needs at HoS level and above	Monitor feedback and effectiveness		Action being addressed
	RM policies systems & processes communicated, followed & understood by all relevant staff	Incorporate into induction training	Ongoing interaction with staff throughout the Council		Short term action achieved. RM Manual under construction.
	Committee Reports contain RM Implications section	Write report to Committee	Converse with report authors to assist them with this section		Short and Medium term actions achieved.
	Formally defined levels of RM competencies for Managers & staff	Develop a set of core competencies	Implement and monitor achievement		Action being addressed

6. Communication & Training (continued)	Competencies reviewed & tested through performance appraisal	Incorporate into existing performance appraisal process	Monitor standards and achievements		
7. RM Board	None at present		Review Strategy 2014		
8. Corporate Risk Officer	None at present				
9. Managers' Accountability for RM	Guidance for Managers, e.g. RM Manual, timetable for Risk Identification	Develop a Risk Management Manual	Distribute to all staff and make accessible on intranet.	Ensure working practices adhere to manual. Monitor, review and refine content as appropriate.	Short term action under construction.
	RM included in Managers performance appraisals	Incorporate into existing performance appraisal process	Monitor standards and achievements		
	Managers able to explain how they manage risks	Incorporate into existing performance appraisal process	Monitor standards and achievements		
	Risks Identified, assessed & documented in accordance with timetable.	Higher focus on Risk Register process.	Spotlight on internal timescales. Regular reports to Executive and Audit & Scrutiny		
10. Embeddedness of RM within SIC	General culture of RM at all levels driven by the Executive	Initiate acceptance and understanding across all levels	Test embeddedness regularly and report same to Executive and Audit & Scrutiny		Scheduled for discussion at Executive
	Managers understand RM in their own area & have appreciation of wider RM arrangements	Work with colleagues across departments to assist	Single/joined up approach driven by Executive via RM Board		Scheduled for discussion at Executive

Embeddness of RM within SIC (continued)	RM accountabilities & performance embedded in Managers recruitment & performance appraisal	Liaise with HR to implement process	Monitor effectiveness		
	Competence in managing risk recognised & important for career progression, Service Managers attuned to RM implications of their decisions	Work with colleagues across departments to assist	Single/joined up approach driven by Executive via RM Board		Scheduled for discussion at Executive
	Managers think about the RM implications of the way they do business	Work with colleagues across departments to assist	Single/joined up approach driven by Executive via RM Board		Scheduled for discussion at Executive
	Control strategies appropriate	Evaluate existing control measures	Refine and improve controls as necessary	Move predominantly towards proactive stance across SIC with minimal levels of reactivity	
	RM a regular agenda item at team meetings and Executive meetings	Work with colleagues across departments to assist	RM Staff in attendance at team meetings to assist where appropriate		
	RM incorporated into quality measures, e.g. investors in people, etc.	Determine areas where RM stream is absent	Work with colleagues across departments to ensure RM thread is an integral part of activity		
	Managers required to self-certify performance of RM & internal control in their areas	Increase focus of risk based approach	Implement Risk based approach as a standard practice		

Embeddness of RM within SIC (continued)	Departmental teams agree budgets for risk control projects	Encourage 'spend to save' approach to budget use	Work with departments to assist in risk identification & controls		
	Cost benefit analysis carried out on risk control measures	Establish this as routine practice	Implement as integral part of departmental activity		
	Early warning mechanisms adequate	Test and assess existing mechanisms	Identify weakness and galvanise accordingly		Scheduled for discussion at Executive
Projects & Partnerships	Risk assessment carried out before every major project	Formalise the risk based approach used for AHS review	Implement Risk Based approach	Monitor, review and refine as appropriate	Short term action being addressed with Capital programmes
	Risk assessments review regularly throughout project risk assessment before entering into new partnership	Formalise and improve on existing process			Short term action being addressed with Capital programmes
	Potential partners required to produce risk assessments	Establish procedures and implement	Maintain risk assessments on JCAD system		
	RM performance of partners reviewed regularly	Create standard for regular submission by partner orgs.	Implement regular review procedures		Short term action achieved.
	Partnership arrangements reviewed regularly	Establish periodic Review dates	Harmonise RM arrangements between partner orgs and SIC	Monitor, review and refine as appropriate	Work ongoing on short and medium terms actions
	Effective arrangements on risk sharing	Devise process for spreading risk across partners orgs & SIC	Cost/benefit analysis and risk reviews	Monitor, review and refine as appropriate	Work ongoing on short and medium terms actions

Projects & Partnerships (continued)	Review existing contracts to highlight risks retained by the organisation	Carry out audit of existing contracts	Address any unacceptable level of risk		
	Risk Assessment carried out when entering into new contractual arrangements	Formalise as an integral part of tendering process and input on JCAD system	Review as appropriate and assess ongoing effectiveness		
	All Risk assessments fully documented	input on JCAD system	Review as appropriate and assess ongoing effectiveness		
RM Information Systems	Finalise implementation & roll out of new system	Resolve teething problems	Roll out training at various levels	Monitor outputs	Short term actions still being worked on



REPORT

To: Audit and Scrutiny Committee

7 June 2010

From: Head of Finance
Executive Services Department

Report No: F-021-F

OVERTIME EXPENDITURE 2009/10 COMPARED TO 2008/09

1. Introduction

- 1.1 The Chairperson of Audit and Scrutiny Committee has requested an update on overtime. The purpose of this report is to provide Members with the 2009/10 overtime figures and compare this with the 2008/09 actual previously reported.

2. Links to Corporate Priorities

- 2.1 It is a Corporate Improvement Plan aim that we will further develop Member engagement in systematic performance reporting, review and scrutiny. This report contributes to that aim.

3. Risk

- 3.1 This is an information report so there are no risks associated with the recommendations.

4. Summary of 2009/10 Actual compared to 2008/09 Actual Overtime

- 4.1 The following table shows a summary of overtime incurred by the Council in 2008/09 and 2009/10. The total in 2009/10 is £2,849,090 out of a total employee cost of £98,247,688 (2.9%). As you can see from Table 1 below, Infrastructure Services incurs the majority of overtime, most of which is on Transport Services.

Table 1 Summary of Overtime by Department	2008/09 Actual £	2009/10 Actual £	Variance under/(over) £
Executive Services	95,302	124,351	(29,049)
Education & Social Care Services	487,455	492,467	(5,012)
Infrastructure Services	1,448,824	1,799,892	(351,068)
Ports & Harbours	437,036	425,299	11,737
Economic Development Unit	4,750	7,081	(2,331)
TOTAL	2,473,367	2,849,090	(375,723)

4.2 Table 2 below, shows in more detail the service areas where overtime is incurred.

Table 2 Overtime by Service Area	2008/09 Actual £	2009/10 Actual £	Variance Under/(Over) £
Administration & Legal Services	15,310	17,329	(2,019)
Finance	31,933	66,868	(34,935)
Capital Projects	1,586	0	1,586
Chief Executive (inc Org Dev)	46,473	40,154	6,319
Total Executive Services	95,302	124,351	(29,049)
Community Care	79,175	89,178	(10,003)
Schools	143,066	168,130	(25,064)
Childrens Services	41,371	32,385	8,986
Housing	3	1,310	(1,307)
Housing Trading	149,402	117,175	32,227
Criminal Justice	2,125	8,469	(6,344)
ED & SC Directorate (inc. leisure svcs/library)	68,408	72,914	(4,506)
Adult Learning/Train Shetland/Comm Work	533	492	41
Shetland College	3,372	2,414	958
Total Education & Social Care Services	487,455	492,467	(5,012)
Environment	179,290	191,325	(12,035)
Transport	626,401	940,931	(314,530)
Infrastructure Directorate	2,560	611	1,949
Roads	36,523	44,572	(8,049)
Planning	5,490	1,742	3,748
Trading - Building Services	355,493	279,655	75,838
Trading - Roads	243,067	341,056	(97,989)
Total Infrastructure Services	1,448,824	1,799,892	(351,068)
Towage Service	368,536	347,322	21,214
Engineering Service	25,291	31,634	(6,343)
Other Ports Services	43,209	46,343	(3,134)
Ports & Harbours	437,036	425,299	11,737
Economic Development Unit	4,750	7,081	(2,331)
TOTAL	2,473,367	2,849,090	(375,723)

4.3 Overtime has increase by £375,723 or 15% from 2008/09. Most of this increase is due to the annual wage award and single status cost increases. Explanations have been provided by the Heads of Service where overtime costs on a service are over £50k.

Finance

The main areas where overtime has been worked are Payroll and Pensions (£39,195) to implement single status, which has also required upgrades to payroll electronic interfaces, implementation of a new Pension Scheme and 'Ports for the Future' project. Revenues (£16,762), staff work overtime during at least two weekends a year to complete the Revenues annual billing/year end tasks. During March of each year Revenues produce in the region of 17,000 Council Tax/Non-Domestic Rates/Council House Rent 'bills' and Benefit notification letters and overtime is essential if we are to meet the statutory deadlines set for the issue of these documents. During 2009-10 additional overtime was worked in Income and

Recovery to cover three members of the section on long term sick leave and to successfully implement a new income system module that has allowed the Council to offer more/easier ways to pay Council charges, which has also improved the level of service offered to our customers.

Community Care

Overtime expenditure of £89,178 is due to the inability to recruit in all areas of activities, both in management/administration and in care staff, to allow the continuation of service provision. Part of the overtime claims for this area (for children's svs and criminal justice) is the operation of the standby system. Social Work provides a 24 hour service which requires social workers and some service managers to operate this service over and above the normal 37 hour week.

Schools

Overtime expenditure of £168,130 is largely due to overtime worked by janitors in schools. We have janitorial staff in 14 of our schools and at present, they are required to work overtime to support evening and weekend usage of school premises. A limited amount of overtime is also required of staff working in the Janet Courtney Hostel, when pupils are resident at weekends and a small amount of overtime is worked by the catering and cleaning staff, covering for vacancies and leave.

Housing Trading Services

The Housing DLO (£117,175) is required to deliver repairs to Council houses outside of office hours. This repair period includes, evening, night time, weekend and holiday periods. These repairs are usually repairs of an emergency or statutory nature. Similarly, some of this expenditure relates to out of office activity making temporary homeless accommodation available during weekend, evening and holiday periods. Therefore, the current level of homeless services, urgent and emergency repairs cannot be achieved without paying overtime for such activities. A reduction in overtime expenditure would result in a reduced out of hours service for SIC tenants.

Education & Social Care Directorate

Islesburgh Complex - The overtime costs for Islesburgh of £41,319. The reason for this level of overtime is that Islesburgh Community Centre is open for a minimum of 105 hrs per week, 7 days per week, 50 weeks per year. Therefore to maintain this level of opening hours and service, a minimum of two shifts of staff are required each day. During periods of staff absences, vacancies or annual leave, where no relief staff are available then existing staff are required to work overtime to maintain service levels, particularly in areas such as the Café, reception, cleaning and stewarding.

Islesburgh Community Centre also hosts a number of large annual festivals such as the Shetland Folk Festival, which require the centre to be open for almost 24 hours a day. Therefore, to accommodate these festivals large amounts of overtime are required of staff. However, this overtime cost is more than compensated for by the additional income that is generated over these weekends. As an example, the Shetland Folk Festival in 2009 generated an income of over £20,500 for Islesburgh, from room hires, cafeteria income and hostel bookings, where as a normal weekend might generate no more than £4,000.

Parks Staff - Overtime cost - £30,320 – The expenditure on this budget is significantly higher than normal for 2009-10. This is because parks staff, were

initially required to work as attendants, in addition to their normal duties, in the Scalloway and Sandwick Games Halls when the Council took over the management of these games Halls from Shetland Recreational Trust in 2009. Games Hall attendants have now been appointed to supervise these facilities at basic rates of pay.

During the main outdoor activities season from April to September each year, parks staff are required to maintain all Sport and Leisure Service outdoor areas e.g. Clickimin, Seafield, Gilbertson Park, Knab Golf Course and Jubilee Flower Park etc. All of this work is done during the normal working day from 7.30am to 3.30pm, Monday to Friday. However, virtually all of the use of these facilities is at night times and at the weekends. Therefore, parks staff are required to work some overtime to be in attendance when the various facilities are being used by the public e.g. to set up and take down goals, supervise the changing rooms and use of the facilities, and to be available in the event of an emergency.

Environment

The overtime for Environment Service is £191,325. The Landfill is open to contractors for 50 hours a week whereas standard working week is 37, Staff also have to work occasional evenings and weekends to meet ongoing site development works.

Overtime at the Energy Recovery Plant relates to cover for sick leave, additional maintenance when shut down and there is contracted overtime as part of shift pattern.

Overtime in burial grounds relates to grass cutting particularly in the summer months and in response to funerals as and when required.

Overtime is scheduled for street cleansing particularly at the weekends in Lerwick.

Some refuse collection routes on particular days incur overtime to complete the routes. Vehicle safety checks are carried out during overtime by drivers to ensure collection of refuse, is carried out by crews during normal working hours.

Transport

Overtime for Transport Services amounted to £940,931. Tingwall Airstrip (£13,119) - Staff contracted for 37 hours per week but the airport is open 42.5 hours per week on winter and 53 hours per week in summer. All out of hours emergency flights incur overtime as they do unscheduled inter island flights at weekends in winter. Cover for periods of leave, sickness, training, etc incur overtime costs as Fleet Management Unit (FMU) Garage staff are used to provide cover and overtime is needed to deliver duties of the Garage which have increased due to specialist vehicle inspections. This is under review as part of the Transport Service Redesign.

Bus Service Whalsay (£3,610) – Overtime incurred in covering leave, sickness, training, etc. Viking Bus Station (£12,251) - only one permanent member of staff so overtime incurred covering leave, sickness, etc. At the moment cover is provided by a range of staff including Engineers from the FMU. This is an expensive way to provide cover and is under review. Special Needs School Transport and Social Work Transport (£17,981) – Overtime paid to cover leave, sickness, training and cover out of contracted hours.

Ferry Crewing on all routes (Total £729,981). We incur overtime when any of the crew not available e.g. for leave (incl. compassionate leave, medicals, etc), sickness, training, vacancies (the service still has several long term vacancies which haven't been able to be filled due to lack of applications), breakdowns, dockings and hires. Vessels have minimum crewing levels and cannot sail shorthanded so have no option (other than tie up the vessel). Now that staff resources are finally in place the Resources Manager is undertaking a review of the entire manning system for the ferries. Ferries Engineering Service (Shore based maintenance team & apprentices) (£50,317) Overtime incurred in covering dockings and breakdowns on the ferry fleet.

The overspend of sea staff overtime budgets is partly due to the way salary costs are allocated post Single Status. Previously, sea staff were paid a consolidated salary for an average 42 hour week. They are now paid a basic rate for 37 hours and overtime at enhanced rates thereafter. The new Unsocial payments are now included as overtime. Sea staff overtime costs appear to have risen by some £45k per month since Single Status was introduced in October 2009. There is no compensating decrease in basic pay because generally this has risen also under single status. This would account for most of the increase. An element of the current year's overtime is due to long term sickness cover and vacant posts. As part of the review of the manning system work is being carried out currently to better understand the reasons for the overtime costs.

Ferry Ops Manager (£24,467) – Previously all Ferries superintendents were contracted for a 42 hour consolidated week. Single Status has meant that they now work 5 hours contracted overtime per week. Prior to Single Status this was included in Basic salaries and no overtime was paid. There has also been overtime incurred to resolve unforeseen incidents such as “Linga's” collision with Laxo terminal. Having only one Engineering Superintendent he had to work significant extra hours for this and to cover dockings (the working day is generally longer than contracted hours) and breakdowns. Also overtime for callouts and to provide cover to support Transport staff in Lerwick while three post vacant (one post still vacant). Ferry Booking Service (£3,370) – In the first half of the year staff were still on a contract to work 32 hours per week but had to work 34 hours per week to cover the booking office hours. Therefore 3 staff were paid 2 hours per week at overtime rates. With the introduction of Single Status all staff are working 37 hours per week on a modified rota therefore overtime payments no longer take place.

Trading Services - Building Services

There has been a 21% reduction in overtime working by Building Services as shown in table 2 above. This was achieved by the introduction of a cap on overtime. While this has resulted in reduced availability to carry out certain functions particularly statutory testing, discussions are on ongoing with staff and trade unions to explore flexible working arrangements which include options for shift arrangements and annualised hours to be tried over a six month period.

Trading Services - Roads

The overtime total for the Trading Account – Roads was £341,056. The largest single reason for overtime by Roads staff is to provide the Winter Service, which accounts for about £186,013 of that figure.

The next largest is the Scord Quarry which accounts for a further £27,222. The operational hours of the quarry are somewhat dictated by customer demand, for example to be able to start mixing bitmac or to send out materials before the normal start time of other staff so that they can be available on site in time for other staff starting. There is also a need to carry out essential maintenance outwith normal working hours to avoid impacting on production.

There are various reasons for overtime in other areas of our operations. One of these is work outwith normal hours, for example doing work that requires the road to be restricted or closed at times to minimise traffic disruption, or at times to minimise the disruption to shops or businesses.

In all areas, other than the Winter Service, overtime in the Trading Account (Roads) was below the budgeted figures.

Towage Service

Overtime amounted to £347,322. Overtime within the towage operation has always been high due to the current:-

- service level,
- staffing arrangements,
- remuneration of the staff and
- rate of overtime payable.

The towage operation currently operates with 4 tugs and maintains a service 24 hours a day for 365 days a year. The manning levels are set by the Maritime and Coastguard Agency. Each Voith tug has a crew of 4 whilst in harbour limits, however, if the tug proceeds beyond the harbour then the manning level increases to six, two of which are on overtime. The older tug Stanekhakker is occasionally used to cover for maintenance periods, when it is in use it has a crewing level of six, (2 of which are on overtime). If any of the duty crew is absent, the only option available at present is to cover with overtime. A tug with a crew of three cannot sail.

The staff onboard the tugs are still under TUPE terms and conditions and currently enjoy more favourable recompense than an individual on a standard SIC contract (e.g. overtime is paid at 2 times the average hourly rate). The approximate percentage breakdown of reasons for tug overtime are shown below.

Reason	%
Training	14.18
Maintenance	1.94
Meetings	0.16
Extra manning eg Stanekhakker	8.94
Call out because of illness	24.47
Call out because of poor weather	0.00

Call out for compassionate leave	5.32
Call out because of union	0.11
Call out to cover drydock	16.70
Continuation	0.52
To cover vacant post	17.29
Push Up etc.	0.00
Misc / other	7.49
New Tugs	2.90

The Ports for the Future project is currently working towards bringing the marine staff into Single Status and to make the operation more efficient.

- 4.4 To provide you with further detail Appendix A shows overtime expenditure by cost centre.

5. Financial Implications

- 5.1 There are no financial implications arising from this information report.

6. Policy & Delegated Authority

- 6.1 In accordance with Section 11.0 of the Council's Scheme of Delegations, the Audit and Scrutiny Committee is responsible for reviewing all aspects of corporate performance.

7. Recommendation

- 7.1 I recommend that the Audit and Scrutiny Committee note the information contained in this report.

Report No: F-021-F
Ref: Accountancy/HKT

Date: 24 May 2010

EXECUTIVE SERVICES						
Cost Centre	Code Description	Legal and Admin	Finance	Capital Projects Unit	Chief Executive	TOTAL
GRB5010	Emergency Planning	37				
SRB2000	Admin Srv Man	665				
SRB2200	Committee Services	128				
SRB3200	Legal Services	12,024				
SRB4000	Service Manager - Insurance & Risk	2,504				
SRB4200	Safety	143				
SRB6001	Land Surveyor	1,824				
SRB7000	Contract Standards	3				
SRF0100	Finance Office Services		2,986			
SRF2200	Rents & Benefits		5,154			
SRF2300	Income & Recovery		8,783			
SRF2900	Local Taxation		2,825			
SRF3100	Management Accountancy		1,725			
SRF3400	Financial Accountancy		1,908			
SRF3500	Exp Manager (inc payroll/pensions)		12,893			
SRF3501	Pensions		2,177			
SRF3502	Payroll		24,125			
SRF3600	Payments		4,282			
SRX0150	Chief Executive Office				18,319	
SRX4100	Personnel P/A/S				1,676	
SRX4101	Psnl-Job Evaluation				1,410	
SRX4302	ICT Operations				171	
SRX4303	ICT Ntwrk & Technicians				2,645	
SRX4304	ICT Elec Technicians				8,032	
SRX4307	ICT Technicians				7,901	
TOTAL EXECUTIVE SERVICES		17,329	66,858	-	40,154	124,341

PORTS		
Cost Centre	Code Description	TOTAL
PRM0150	Ports Canteen Service	75
PRM2110	Marine Officer	12,249
PRM2111	Launch Crews	6,796
PRM2112	Towage Crews	347,322
PRM2200	Blacksness	10,843
SRM0100	Port-Support Services	691
SRM2000	Port-Ops Management	15,689
VRM3200	Port Engineering Service	25,769
TOTAL PORTS		419,434

ECONOMIC DEVELOPMENT UNIT		
Cost Centre	Code Description	TOTAL
RRD5042	Tall Ships	326
SRD0000	EDU Management and Administration	1,126
SRD1000	Head of Business Development	370
SRD1020	Marketing Support	5,258
TOTAL ECONOMIC DEVELOPMENT UNIT		7,081

EDUCATION & SOCIAL CARE SERVICE										
Cost Centre	Code Description	Comm Care	Schools	Childrens Services	Housing & Housing Trading	Criminal Justice	ED&SC Directorate (including leisure/ library)	Adult Learning/ Train Shetland/ Com Wk	SCOFE	TOTAL
GRA4100	CCFW	2,177								
GRA4120	Mental Health Officer	398								
GRA4161	Substance Misuse	248								
GRA5100	EGRC	541								
GRA5200	ILP - Project Manager	1,142								
GRA5210	ILP - Central	1,144								
GRA5220	Stocketgaet	386								
GRA5250	Mental Health Community Support Svs	2,291								
GRA5600	Banksbroo	1,291								
GRA5622	Int Sup Svcs	1,535								
GRA6100	Taing House	37,263								
GRA6110	Viewforth	10,231								
GRA6120	Edward Thom Hs	3,603								
GRA6130	Handypersons	3,244								
GRA6141	Central - Care at Home	379								
GRA8100	North Haven	908								
GRA8110	Overtonlea	1,436								
GRA8120	Wastview	1,477								
GRA8130	Fernlea	910								
GRA8140	Isleshavn	60								
GRA8150	Nordalea	15,725								
SRA1000	CC Srv Managers	348								
SRA6000	Older People Management	2,440								
GRE1121	Mossbank NS		126							
GRE1204	Bells Brae PS		14,613							
GRE1210	Dunrossness PS		5,623							
GRE1221	Mossbank PS		5,940							
GRE1231	Skerries PS		37							
GRE1232	Sound Primary		6,123							
GRE1237	Whiteness PS		3,601							
GRE1301	Aith Secondary		5,184							
GRE1302	Anderson HS		35,280							
GRE1303	Baltasound SS		5,839							
GRE1305	Brae Secondary		29,590							
GRE1320	Mid Yell SS		3,607							
GRE1328	Sandwick SS		16,017							
GRE1329	Scalloway SS		4,609							
GRE1334	Whalsay SS		9,897							
GRE1360	Halls of Residence		5,285							
GRE1412	Staff Development		53							
GRE1444	Inter Educ		216							
GRE1522	Blueprint		568							
GRE1602	Youth Workers		4,093							
GRE1606	Bridges Project		1,837							
GRE3470	Support for Learning		872							
GRE4410	Library		1,941							
SRE6901	Admin Education		510							
SRE9305	DSMO - Brae		199							
SRE9329	DSMO - Scalloway		186							
VRE4001	Aith Catering		273							
VRE4009	Cunningsburgh Catering		323							
VRE4016	Hamnavoe Catering		199							
VRE4029	Scalloway School Catering		365							
VRE4037	Whiteness Catering		54							
VRE5002	AHS Cleaning		37							
VRE5005	Brae Cleaning		123							
VRE5016	Hamnavoe School Cleaning		8							
VRE5017	Happyhansel Cleaning		357							
VRE5028	Sandwick Cleaning		24							
VRE5029	Scalloway School Cleaning		1,706							
VRE5030	Skeld Cleaning		41							
VRE6001	Office Cleaning		1,117							
VRE6002	Public Conveniences		1,658							
GRG2001	Laburnum			4,182						
GRG2002	Leog			3,658						
GRG2009	Fostering			2,442						
GRG3001	Family Support			14,420						
GRG4001	Psychological Services			825						
GRG5009	Inclusion Project			1,354						
GRG6002	Child Care Strategy			526						
GRG6004	Family Centre Services			2,315						
GRG6008	Out of School Care			2,664						
GRH1270	Sheltered Housing				73					
GRH2098	Outreach Services				657					
SRH1000	Operational Services				428					
SRH2000	Business Support				153					
TRH6001	Trading Revenue Housing				117,175					
GRI0001	Offender Service					8,469				
GRJ3100	Islesburgh Café						11,613			
GRJ3101	Islesburgh						29,705			
GRJ3107	Parks General						30,320			
SRJ2200	Staff Management						493			
SRJ2300	Administration						782			
GRL4125	Adult Literacy Plan							319		
SRL6006	Short Courses Management							173		
URL5100	Student Service								1,224	
URL5101	IT Technicians								989	
URL5340	Health & Care								201	
TOTAL EDUCATION & SOCIAL CARE SERVICES		89,178	168,130	32,385	118,486	8,469	72,914	492	2,414	492,467

INFRASTRUCTURE SERVICES									
Cost Centre	Code Description	Environment	Transport	Infrastructure Directorate	Roads	Planning	Trading Building Svcs	Trading Roads	TOTAL
GRY5101	Landfill Disposal	34,133							
GRY5102	Waste to Energy	52,421							
GRY5104	M.Recycle Facility	1,357							
GRY5113	Burial Ground Operations	12,853							
GRY5129	Waste Prevention	80							
GRY5131	Kerb Scheme	2,194							
GRY5133	Glass Re-use	1,958							
GRY5201	Public Toilets	8,645							
GRY5211	Street Cleaning General	26,072							
GRY5221	Refuse Coll General	34,497							
GRY5224	Skip Contract	6,891							
GRY5225	Community Council Skip Contract	197							
SRY5200	Cleansing Service	4,060							
SRY5400	Environmental Health	466							
SRY5501	Tch/Mn Sup-Building Services	5,502							
GRY7207	Tingwall Airstrip		13,119						
GRY7209	Baltasound Airstrip		3						
GRY7232	Bus Service Whalsay		3,610						
GRY7233	Lerwick Bus Station		12,251						
GRY7253	Special Needs School Transport		9,829						
GRY7254	Social Work Transport		8,152						
GRY7502	STP Admin Costs		4,591						
GRY7601	Bressay Service		133,842						
GRY7602	Fair Isle Service		3,488						
GRY7603	Fetlar Service		19,446						
GRY7605	Papa Stour Service		9,005						
GRY7606	Skerries Service		60,105						
GRY7607	Unst Service		68,596						
GRY7608	Whalsay Service		246,142						
GRY7609	Yell Service		189,359						
SRY7600	Ferry Ops Manager		24,467						
SRY7699	Ferry Book Service		3,370						
SRY0400	Infrastructure Administration			611					
GRY6711	Surveys & Inspections				23,492				
GRY6721	Winter Service				4,216				
SRY6100	Roads Network				1,963				
SRY6300	Maintenance				14,901				
SRY8200	Development Management					1,528			
SRY8300	Development Plans					214			
TRY2301	Maintenance Sch/Bldn						237,921		
TRY2302	Maintenance Street Lighting						15,762		
TRY2344	Care Homes-Fire/Upgrade						10,864		
TRY2345	Baltasound JHS						349		
TRY2346	Mid Yell Workshop						106		
TRY2347	JCH Refurb						7,886		
TRY2600	Gremista store						7,465		
TRY9101	Maintenance Surface Dressing							2,913	
TRY9102	Maintenance Winter Gritting							186,013	
TRY9103	Signs Manufacture							515	
TRY9104	Miscellaneous Contracts							9,076	
TRY9106	Maintenance Contract							10,193	
TRY9107	Capital Maintenance Contract							10,944	
TRY9108	Non-Competitive Work							7,079	
TRY9199	Highways DLO Overheads							32,932	
TRY9216	Whitenss Cemetery							5	
TRY9217	N Voe Whalsay							10	
TRY9219	Bixter l/change							429	
TRY9301	Small Plant							5,111	
TRY9402	3 Way Tipper Crane							7,827	
TRY9403	16 Tonne Truck							3,446	
TRY9405	Foden Unibody							5,949	
TRY9408	Seddon Unibody							18,508	
TRY9409	Gritting/Tanker Truck							414	
TRY9420	Road Rollers							49	
TRY9424	Bmg Rlr L885HPS							638	
TRY9426	Dynapac Roller							280	
TRY9440	JCB 3S							1,799	
TRY9451	Truck Excavator-11t							395	
TRY9453	Case WX90 Excavator							600	
TRY9454	N/Holland Excavator							669	
TRY9461	Truck Sprayer							944	
TRY9462	Bitmac Pavers							735	
TRY9463	Biteeli Planer							318	
TRY9464	Chipping Spreader							670	
TRY9471	Johnston Sweeper							729	
TRY9499	Transport Man							4,645	
TRY9500	Scrod Quarry							6,923	
TRY9501	Scord Quarrying							368	
TRY9502	Scord Crushing							12,195	
TRY9503	Scord Mixing							7,737	
PRM0150	Ports Canteen Service								
PRM2110	Marine Officer								
PRM2111	Launch Crews								
PRM2112	Towage Crews								
PRM2200	Blacksness								
SRM0100	Port-Support Services								
SRM2000	Port-Ops Management								
GCD1570	Wind Farm Development								
SRD0000	EDU Management and Administration								
SRD1000	Head of Business Development								
SRD1020	Marketing Support								
VRM3200	Port Engineering Service								
VRM3200	Fleet Management Unit		81,242						
VRM3200	Ferries Engineering Service		50,317						
TOTAL INFRASTRUCTURE SERVICES		191,325	940,931	611	44,572	1,742	279,655	341,056	1,799,892



REPORT

To: Audit and Scrutiny Committee

7 June 2010

From: Policy Manager

Diesel Usage Update

Report No: CE-17-F

1 Introduction

- 1.1 This report provides Members with an update on diesel usage across all service areas.

2 Link to Corporate Priorities

- 2.1 The Corporate Plan 2008-11 includes an aim to “ensure we are being efficient in everything we do”. This report, which sets out savings in diesel usage across the Council, contributes to that aim.
- 2.2 The Council’s Budget Strategy sets out a commitment to reducing the draw on reserves to support General Fund revenue spending, each year, eliminating this altogether by 2012-13. The Council is also committed through the Single Outcome Agreement to reducing carbon emissions. There is a risk that these commitments may not be fulfilled if we do not take a systematic approach to reducing things like diesel usage.

3 Background

- 3.1 The Audit and Scrutiny Committee carried out an extensive study into the private use of Council vehicles during 2008. Upon conclusion of that study, the Committee recommended to Council that services reduce their diesel usage by 5% for each of the next 4 years. This was endorsed at the Council meeting on 22nd October (min ref: 143/08) and is therefore current Council policy.
- 3.2 The requirement for services to make the 5% reduction in diesel was communicated to Service Managers after the Council meeting in late 2008.
- 3.3 The Appendix to this report details the diesel consumption rates across Council services for the 2009-10 financial year. This follows

on from the report that was at this Committee in November 2009, showing the half-year position.

4 Results

4.1 In order to provide some trend data, the rates for the financial year 2007-08 are also provided as that was the year that the policy decision was taken to reduce diesel usage.

4.2 The figures are taken direct from the Council's 'Triscan' fuel system and are collated by the Energy Unit. They show that a saving of 6.04% has been achieved compared to 2007-08. This equates to a saving of 41,751 litres.

4.3 There are a few notable examples of service areas that have achieved considerable savings in their diesel usage:

Building Services – who are one of the main areas with vans – have reduced their usage by over 12%. This may in part be due to the LEAN exercise that was carried out in January 2009 try to streamline processes for building maintenance

Roads Services – who have most vehicles – total diesel usage over the period has reduced by almost 18%

4.4 There are a few areas that have increased their diesel usage:

Waste Services – up almost 45%. This is due to 2 new vehicles that were introduced to the fleet to carry out the kerbside collection of recyclables and commercial and bottle bank collections, since 2007-08.

Social Work – up by 13%. This seems to be due to the fact that care centres registered a '0' usage rate in the baseline year. Criminal Justice usage is up by 80% over the period.

5 Financial Implications

5.1 There are no financial implications arising from this report. However, the reduction in fuel will represent a saving to the Council in its operational budgets.

6 Policy and Delegated Authority

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

7 Conclusion

- 7.1 This short report has sought to update Members on the diesel usage rates across the Council, as a further update to the study carried out in 2008 for the Audit and Scrutiny Committee.

8 Recommendations

- 8.1 I recommend that members of the Audit and Scrutiny Committee review the attached figures, highlighting the areas which have made the biggest savings and asking managers for further information to recognise the efforts that they have made to meet the policy target.

Date: 27 May 2010
Ref: PP

Report No: CE-17-F

Service	Site	Consumption				Energy Savings	
		Ultra Diesel Plus					
		Litres		kWh		%	kWh
		2007/08	2009/10	2007/08	2009/10		
AHS Technician	AHS Technician	2,179	2,185	23,058	23,117	-0.26	-59
AHS Technician Total		2,179	2,185	23,058	23,117	-0.26	-59
Building Serv	Building Serv - Building Maint DLO	56,944	51,588	602,465	545,803	9.41	56,662
Building Serv	Building Serv - Catering	1,169	0	12,367	0	100.00	12,367
Building Serv	Building Serv - Cleaning	1,196	0	12,657	0	100.00	12,657
Building Serv	Building Serv - Cleaning2	0	0	0	0	#DIV/0!	0
Building Serv	Building Serv - Gremista Stores	90	34	952	354	62.78	598
Building Serv	Building Serv - Liftecs	6,089	5,837	64,418	61,751	4.14	2,667
Building Serv Total		65,488	57,458	692,860	607,909	12.26	84,951
Chief Exec	Chief Exec	1,579	1,388	16,707	14,681	12.13	2,026
Chief Exec Total		1,579	1,388	16,707	14,681	12.13	2,026
Cleansing Serv	Cleansing Serv - Cleansing Support	2,392	1,162	25,311	12,289	51.45	13,022
Cleansing Serv	Cleansing Serv - Community Skips	3,021	2,763	31,960	29,233	8.53	2,728
Cleansing Serv	Cleansing Serv - Public Toilets	821	724	8,685	7,664	11.76	1,021
Cleansing Serv	Cleansing Serv - Refuse Collection	71,870	68,381	760,379	723,475	4.85	36,904
Cleansing Serv	Cleansing Serv - Skip Contract	12,142	12,118	128,461	128,206	0.20	255
Cleansing Serv	Cleansing Serv - St Cleaning	17,872	20,024	189,085	211,856	-12.04	-22,771
Cleansing Serv Total		108,117	105,172	1,143,881	1,112,723	2.72	31,158
Community Services	Community Services	3,860	3,409	40,837	36,068	11.68	4,768
Community Services Total		3,860	3,409	40,837	36,068	11.68	4,768
Education	Educ - Catering	0	1,165	0	12,325	#DIV/0!	-12,325
Education	Educ - Cleaning	0	913	0	9,662	#DIV/0!	-9,662
Education	Educ Services	0	0	0	0	#DIV/0!	0
Education Total		0	2,078	0	21,986	#DIV/0!	-21,986
Env Services	Env Serv - ABS-NSW	511	965	5,407	10,205	-88.73	-4,798
Env Services	Env Serv - Pest Control	6,247	3,788	66,092	40,078	39.36	26,014
Env Services Total		6,758	4,753	71,500	50,284	29.67	21,216
Ferry Services	Ferry Services	0	21,573	0	228,243	#DIV/0!	-228,243
Ferry Services Total		0	21,573	0	228,243	#DIV/0!	-228,243
Finance	Debt Collector	460	0	4,862	0	100.00	4,862
Finance Total		460	0	4,862	0	100.00	4,862
FMU	FMU - Fame Mini Bus	398	0	4,206	0	100.00	4,206
FMU	FMU - Gremista Garage	3,877	3,873	41,018	40,971	0.11	47
FMU	FMU - Social Work Transport	0	0	0	0	#DIV/0!	0
FMU	FMU - Special Needs Buses	7,229	8,969	76,484	94,888	-24.06	-18,404
FMU	FMU - Tingwall Airstrip	492	379	5,207	4,010	23.00	1,198
FMU	FMU - Vehicles	3,974	4,955	42,046	52,419	-24.67	-10,373
FMU	FMU - Walls Buses	40,570	46,299	429,233	489,839	-14.12	-60,606
FMU	FMU - Whalsay Buses	414	370	4,382	3,910	10.77	472
FMU Total		56,954	64,843	602,575	686,037	-13.85	-83,461
Housing	Housing Serv - DLO	54,881	50,181	580,643	530,914	8.56	49,729
Housing	Staney Hill Hostel	0	555	0	5,874	#DIV/0!	-5,874
Housing	Housing Services	0	0	0	0	#DIV/0!	0
Housing Total		54,881	50,736	580,643	536,788	7.55	43,855
ICT	ICT	4,213	5,159	44,570	54,578	-22.45	-10,008
ICT Total		4,213	5,159	44,570	54,578	-22.45	-10,008
Library	Library	6,889	6,058	72,881	64,089	12.06	8,792
Library Total		6,889	6,058	72,881	64,089	12.06	8,792
Marine Ops	Marine Ops	52,471	28,078	555,140	297,061	46.49	258,079
Marine Ops	Boats	759	144	8,032	1,519	81.09	6,513
Marine Ops Total		53,230	28,221	563,172	298,580	46.98	264,592
Roads Serv	4 Wheelers	27,993	22,039	296,168	233,177	21.27	62,991
Roads Serv	6 Wheelers	28,363	22,152	300,082	234,369	21.90	65,712

Service	Site	Consumption				Energy Savings	
		Ultra Diesel Plus					
		Litres		kWh		%	kWh
		2007/08	2009/10	2007/08	2009/10		
Roads Serv	CAT 307	6	0	65	0	100.00	65
Roads Serv	DLO Overheads	36,232	25,713	383,337	272,039	29.03	111,297
Roads Serv	DLO Small Plant	26	12	279	125	55.30	154
Roads Serv	Grit-Tankers	5,393	3,221	57,060	34,073	40.29	22,987
Roads Serv	Group 6	0	0	0	0	#DIV/0!	0
Roads Serv	Highway Pick-ups	69,724	40,687	737,676	430,468	41.65	307,207
Roads Serv	HINO Tipplers	0	19,584	0	207,202	#DIV/0!	-207,202
Roads Serv	JCBs	0	0	0	0	#DIV/0!	0
Roads Serv	Johnson Sweeper	7,276	5,210	76,979	55,126	28.39	21,853
Roads Serv	Lab - Hayfield House	677	550	7,158	5,822	18.67	1,336
Roads Serv	MF 650 Tractors	0	0	0	0	#DIV/0!	0
Roads Serv	Roads Job	1,665	1,885	17,620	19,944	-13.19	-2,324
Roads Serv	Scord Admin	547	376	5,789	3,977	31.30	1,812
Roads Serv	Scord Drilling	3	0	26	0	100.00	26
Roads Serv	Survey&Inspection	8,356	8,579	88,409	90,766	-2.67	-2,357
Roads Serv	Transport Mgmt	1,430	1,754	15,126	18,555	-22.67	-3,429
Roads Serv	Truck Sprayer	2,530	0	26,767	0	100.00	26,767
Roads Serv	Unibody - Fodden	10,244	11,822	108,385	125,075	-15.40	-16,690
Roads Serv	Unibody - MAN	33,545	43,365	354,910	458,799	-29.27	-103,888
Roads Serv	Unibody - Sedden	25,112	10,509	265,689	111,184	58.15	154,505
Roads Serv	Unst Airport	27	401	280	4,244	-1,413.58	-3,963
Roads Serv	Winter Service	5,301	382	56,082	4,039	92.80	52,043
Roads Serv Total		264,451	218,241	2,797,888	2,308,984	17.47	488,904
Social Work	Social Work	1,351	1,440	14,294	15,233	-6.57	-940
Social Work	Criminal Justice	411	740	4,349	7,830	-80.03	-3,481
Social Work	Isleshaven CC	0	726	0	7,682	#DIV/0!	-7,682
Social Work	Laburnum	0	1,318	0	13,940	#DIV/0!	-13,940
Social Work	Leog	0	645	0	6,826	#DIV/0!	-6,826
Social Work	New Craigielea	0	826	0	8,734	#DIV/0!	-8,734
Social Work	North Haven CC	0	1,571	0	16,622	#DIV/0!	-16,622
Social Work	Occup Health	0	1,689	0	17,870	#DIV/0!	-17,870
Social Work	Overtonlea CC	0	943	0	9,979	#DIV/0!	-9,979
Social Work	Shetland Family Services	494	588	5,231	6,220	-18.91	-989
Social Work	Stocketgaet	0	362	0	3,825	#DIV/0!	-3,825
Social Work	Taing House	0	326	0	3,447	#DIV/0!	-3,447
Social Work	Transport	34,254	27,103	362,406	286,751	20.88	75,655
Social Work	Wastview CC	0	1,412	0	14,939	#DIV/0!	-14,939
Social Work	Viewforth	0	1,581	0	16,729	#DIV/0!	-16,729
Social Work Total		36,510	41,269	386,280	436,627	-13.03	-50,347
Trading Standards	Trading Standards	165	50	1,746	528	69.76	1,218
Trading Standards Total		165	50	1,746	528	69.76	1,218
Waste Services	Burial Grounds	12,844	12,486	135,894	132,101	2.79	3,793
Waste Services	Glass Re-use	0	9,847	0	104,184	#DIV/0!	-104,184
Waste Services	Kerb Recycling	2,302	5,065	24,352	53,585	-120.04	-29,233
Waste Services	Rova Head	9,968	9,102	105,466	96,299	8.69	9,167
Waste Services	Waste Prevention	0	0	0	0	#DIV/0!	0
Waste Services	Waste to Energy	280	285	2,959	3,014	-1.86	-55
Waste Services Total		25,394	36,785	268,671	389,183	-44.86	-120,513
Grand Total (Council Use)		691,128	649,377	7,312,131	6,870,407	6.04	441,725

Saving 41,751 litres of diesel compared to the same period in 2007/08.



REPORT

To: Audit & Scrutiny Committee

7 June 2010

From: Service Manager – Internal Audit

**INTERNAL AUDIT – Annual Report 2009/10
Report No: F-028-F**

1. Introduction and Key Decisions

- 1.1 This report is being presented to the Audit & Scrutiny Committee, as one of the Committee's roles is to act as the Audit Committee of Shetland Islands Council.
- 1.2 This report presents Members with an Annual Report (Appendix 1) of the activity of the Internal Audit Service for 2009/10.
- 1.3 The Annual Report is for noting.

2. Link to Council Priorities

- 2.1 Although not directly contributing to a specific corporate priority, this report, which provides Members with an update on audit activity, contributes to improving the arrangements for Member engagement in monitoring Council performance.
- 2.2 Whilst no specific risk can be attributed to this report, Internal Audit facilitates reduction of risks identified as a result of work undertaken. This can only be the case if Council management act as per action plans to deal with the issues identified by Internal Audit.

3. Background

- 3.1 The purpose of Internal Audit, as defined in the Audit Charter is to reassure Council Members that:

- there is adequate monitoring of the internal control environment throughout Council operations so that serious breakdowns are avoided, and
- the Council's system of internal control is both sound and effective so that its assets are safeguarded and its performance reporting can be accepted with confidence.

4. Annual Report 2009/10

- 4.1 Appendix 1 details the Internal Audit activity for 2009/10, with a brief description of key audit issues identified since the six monthly progress report to Audit & Scrutiny Committee on 25 November 2009. Full copies of Internal Audit reports, the strategic plan and the annual plan can be found on Internal Audit's site on the Council Intranet. (<http://www.shetland.gov.uk/internalaudit/>)
- 4.2 Managers have generally undertaken to rectify issues through the agreed action plans to a satisfactory degree. From time to time the Audit & Scrutiny Committee may be asked for support when management are slow to respond to reports.
- 4.3 However, in relation to the key issues identified in the original audits of Legal Services and Transport, follow up audit work has revealed that progress has not been in accordance with action plans submitted.
- 4.4 Within service areas subject to Internal Audit review, and assuming implementation of the recommendations made, reasonable assurance can be placed upon the controls in operation. Follow up audits will be performed during this financial year to ascertain whether recommendations have indeed been implemented in accordance with action plans.
- 4.5 Whilst there has been some improvement, pervasive Council-wide issues still include disclosure checks not always being in place, performance reviews not being performed on an annual basis and absence management requirements not being routinely performed. These and other areas will now be part of the corporate reviews Internal Audit have introduced with effect from 2010/11.
- 4.6 Risk Registers throughout the Council are still not completed. Completion of these is imperative for Internal Audit to fully assess risks faced by the Council. At present our Risk Based strategic plan is based upon our knowledge and experience, as up to date Risk Registers have not been available. A confirmed Council-wide completion date continues to be extended.
- 4.7 The audit of Economic Development highlighted a number of key audit issues. However commitment to address these has been given and will be subject to review at follow up audit this financial year.

- 4.8 Internal Audit also liaises with the Council's External Auditors, providing them with copies of all reports issued. This arrangement is reciprocated and is working satisfactorily.
- 4.9 Notwithstanding the issues highlighted in Appendix 1 from the work performed as part of the annual audit plan for 2009/10, Internal Audit concluded that the Council's system of internal control was generally adequate and effective to provide reasonable assurance that the assets were safeguarded, waste or inefficiency was avoided, reliable financial information was produced and that value for money was continuously sought. This assumes that issues identified and agreed are or have been addressed.
- 4.10 Any system of internal control can only provide reasonable, but not absolute, assurance against loss. Internal Audit can only provide reasonable comment that there are no major weaknesses in the systems they have reviewed.

5. Internal Audit Resourcing

- 5.1 The Internal Audit Service is fully resourced with staff progressing their individual training plans.
- 5.2 The Principal Internal Auditor, Anona Michael, has achieved the Institute of Internal Auditors QICA (Qualification in Computer Audit) qualification. The Technical Assistant, Ryan McNeillie, continues to progress well in his second year of study towards an HNC Business.

6. Internal Audit Performance

- 6.1 For 2009/10 Internal Audit has performed 94% of the Audit Plan. This compares to 88% completion in 08/09. This is directly attributable to the hard work of Internal Audit staff.
- 6.2 The performance target of issuing final reports within 14 days of audit testing completion was achieved in 100% of cases.
- 6.3 Internal questionnaires completed and returned by auditees indicate a high level of satisfaction with the service received. A recent independent survey of Executive Services undertaken by Organisational Development indicated 100% of respondents were fairly or very satisfied with the service Internal Audit provided.
- 6.4 During 2009/10 Internal Audit once again retained ISO 9001:2000 quality accreditation standard.

7. Financial Implications

7.1 There are no financial implications arising from this report.

8. Policy and Delegated Authority

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

9. Recommendations

9.1 I recommend that the Audit & Scrutiny Committee:

- (a) note with concern the issues identified in the Annual Report 2009/10, set out at paragraph 4 and Appendix 1, particularly in relation to Economic Development, outstanding issues in Transport and Legal Services and also disclosure check matters.

Date: 26 May 2010

Our Ref: CMcl/DS

Report No: F-028-F

Audit	Auditee	Progress Report / Key Audit Issues
ICT	ICT Unit Manager	Reported to Audit & Scrutiny Nov 09.
Community Work	Community Work Manager	Reported to Audit & Scrutiny Nov 09.
Waste Services	Waste Services Manager	Reported to Audit & Scrutiny Nov 09.
Cleansing Services	Cleansing Services Manager	Reported to Audit & Scrutiny Nov 09.
Sport & Leisure / Islesburgh	Sport & Leisure Services Manager	Reported to Audit & Scrutiny Nov 09.
Members' Allowances	Administration Officer – Executive Office	Reported to Audit & Scrutiny Nov 09.
Asset & Properties	Asset & Properties Manager	Reported to Audit & Scrutiny Nov 09.
Economic Development	Head of Economic Development	<p>A significant number of audit issues were identified during the course of this audit, five of which were regarded as key audit issues:</p> <ol style="list-style-type: none"> 1. Management must put procedures into place to ensure that all equity dividends due are received. In addition, a review of previous financial years should be undertaken to ensure that all income due is received. 2. Tax implications concerning existing SDT loans portfolio, SIC new loans portfolio and all other assets transferring to the Council must be thoroughly investigated and understood prior to transfer. The main issue here is that the questions have not been asked and the answers are unknown.



		<p>3. Professional advice must be sought in relation to all VAT issues.</p> <p>4. In order to ensure completeness of income, procedures must be put in place to ensure that the income due can be reconciled to independent/back up documentation.</p> <p>5. SDT surplus funds are being disbursed unconditionally, resulting in public funds not being appropriately accounted for. This is in conflict with the principles of following the public pound.</p>
Payments	Payments Manager	No key audit issues were identified with all other issues satisfactorily addressed within the agreed action plan.
Development Management	Development Management Manager	In consultation with the Head of Service this has been delayed until the first quarter of 2010/11.
Payroll & Pensions	Expenditure Manager	No key audit issues were identified. Commitment was given to resolve issues raised.
Trading Standards	Trading Standards Service Manager	<p>One key audit issue was identified:</p> <ul style="list-style-type: none"> A new employee was started in post before clearance had been received from Disclosure Scotland. In addition, disclosure for the remaining four employees lapsed in 2008 and had not been renewed. <p>Commitment was given to resolve this issue and the one other matter identified</p>
Environmental Health	Environmental Health Manager	<p>One key audit issue was identified:</p> <ul style="list-style-type: none"> Four posts within Environmental Health required to be disclosed by Disclosure Scotland. Whilst they have been disclosed in the past, their disclosure had not been renewed and they were



		<p>currently not disclosed in accordance with Council policy.</p> <p>Commitment was given to resolve this issue and the other matters identified.</p>
Shetland College	Director Shetland College	<p>Two key audit issues were identified:</p> <ul style="list-style-type: none"> ▪ An individual started in post before Disclosure Scotland check was received and a number of other staff at the College were not currently disclosure checked or their disclosure had lapsed. Some staff have been disclosure checked but were not on Staffing Section's database and, accordingly, will fall outwith their renewal procedure. ▪ The level of security and control surrounding information and technology at the College does not meet minimum recognised standards, in particular, access and password controls and internet access and filtering. In addition, the Council's ICT Security Policy is not applied within the College environment for either students or employees. Consideration should be given to the appropriateness of having a separate autonomous ICT Unit at the College or whether the support of the Council's ICT Unit would provide best value. <p>In addition a number of policy and control issues were identified many of which were resolved during the audit. Commitment has been received to address all issues.</p>



Follow up Audit	Auditee	Progress Report
Capital Programme Service	Capital Programme Service Manager	Reported to Audit & Scrutiny Nov 09.
Roads – Network & Design	Network & Design Manager	Reported to Audit & Scrutiny Nov 09.
Library	Library & Information Services Manager	Reported to Audit & Scrutiny Nov 09.
Legal & Admin - Legal	Acting Divisional Manager - Legal	<p>It was disappointing that the majority of the matters identified had not been adequately progressed to resolution including the two key audit issues:</p> <ol style="list-style-type: none"> 1. The situation with regard to the post of Acting Divisional Manager and other staffing arrangements are still not finalised. The Acting Divisional Manager has been in this situation for ten years. 2. Council house sales are still not being expeditiously processed. It is acknowledged that prolonged absence of a key member of staff may have contributed to this situation. <p>A response to the follow up audit has since been received which sets out specific target dates for resolution of these two issues and other matters outstanding.</p>
Ferries	Ferry Services Manager	Whilst a number of issues were outstanding, the Ferry Services Manager attributed this to a shortage of staff in Ferries and Transport as a whole. A number of posts have now been filled and commitment was given that, when the new incumbents are fully familiar with their duties, the remaining audit issues would be addressed.
Finance – Financial Accountancy	Financial Accountant	A number of issues were outstanding. However a commitment to address these has been received. Resourcing levels in the section



		have been highlighted recently in relation to issues with the final accounts. The Head of Finance has discussed these with the Financial Accountant and it has been agreed resource will be allocated to the section as required.
Ports & Harbours	Head of Ports & Harbours Operations	The majority of issues have been or are being addressed. Commitment was given to ensure outstanding matters were finalised.
Transport	Head of Transport	<p>Eight key audit issues were identified during the original audit and it is disappointing that most of them have not been resolved:</p> <ul style="list-style-type: none"> • Council Standing Orders are still not always observed. In one case the purchase of two buses was undertaken without a proper tender process. Due to the amounts involved (£195,900) this was also in breach of EU Regulations. <p>Three second hand gritters were purchased totalling £155,211. Standing Orders permit the purchase of second hand items provided the Chair of the relevant committee authorises the purchase. If the sum is greater than five times the de minimis a report also requires to be submitted to Committee. In this case the total was £155,211. No authorisation or subsequent report was evidenced.</p> <ul style="list-style-type: none"> • Whilst there has been some improvement in relation to disclosures for internal staff it is apparent that not all disclosure checks required have been undertaken. This applies to both internal staff and also to drivers for external contractors. Details are not held by Transport of all external contractor drivers. However, it would appear the Transport service has been working with the Staffing Section at Hayfield House who have made concerted efforts to try and ensure all drivers are disclosed but it is still far from certain that all contractor drivers are disclosure



		<p>checked. Clear responsibilities in relation to disclosure for contractors require to be established.</p> <ul style="list-style-type: none"> • An accurate hourly charge out rate at the garage has still to be established. • Service Level Agreements with third parties have not been developed although the Service Manager Air, Bus and Fleet has recently completed training to enable this now to be undertaken. • A review of the budgets for 2009/10 identified that a number of anomalies still existed in the budgeted figures as opposed to actuals. <p>The following key audit issues have been partially addressed:</p> <ul style="list-style-type: none"> • It was apparent from conversation there is a greater awareness of Council policy and procedure. However Corporate Induction Training was not attended by a member of staff new to the Council. • Procedural documentation for the service has been developed in some but not all areas. • Contracts are still not in place for the majority of bus services. However all routes and contractors have now been identified and a project set up to address the matter over the next 2 years. There was also evidence of contracts awarded since the original audit being tendered appropriately. However certificates of vehicle fitness and evidence of adequate insurance cover is not in place for a substantial number of contractors. In addition a revised
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		<p>select contractor list for ASN Transport was not evident. These issues will require addressed as part of the aforementioned project.</p> <p>Contracts held are now appropriately stored however criteria for award and retention and destruction issues require documented</p> <p>In addition a significant number of other issues identified during the original audit had not been resolved.</p> <p>The Head of Transport has responded to the report and acknowledges the situation. He attributes the situation down to staff shortages which will be fully resolved from 7th June and he intends to have all matters addressed by the end of the financial year. He will provide Audit & Scrutiny with a progress report in 2011 with a further Internal Audit due in 2012/13.</p>
Finance – Income & Recovery - Cashiers	Income & Recovery Manager	All issues had been or were being addressed.
Finance – Benefits & Rents	Benefits Manager	With the exception of one issue all matters within the control of Benefits & Rents had been resolved. Commitment was given to finalising the outstanding issue.
Youth Work	Youth Services Manager	Reported to Audit & Scrutiny Nov 09.



Investigations / Reviews	Requested by	Progress Report
Corporate Review – Single Status	Strategic Audit Plan	Reported to Audit & Scrutiny Nov 09.
SUMS College	College Principal	Reported to Audit & Scrutiny Nov 09.
Performance Indicators	External Audit	Reported to Audit & Scrutiny Nov 09.
ICT Network Review	Strategic Audit Plan	<p>One key issue was identified:</p> <p>Security issues are a standing item for consideration on the project initiation document (PID) for each project. However, the section normally states 'in accordance with the ICT Security Policy'. The details regarding the ongoing application, monitoring and review of internal security arrangements concerning the network such as privilege access, password control, configuration and activity logs are not clearly defined or documented.</p> <p>A number of other matters were reported on. Satisfactory commitment to address these was received. A number have involved Project Boards being set up.</p> <p>This report is not on the intranet due to security issues.</p>
Remote Working Review	Strategic Audit Plan	Reported to Audit & Scrutiny Nov 09.
LEADER	Economic Development	This work was undertaken as part of a Service Level Agreement put in place with Economic Development.





REPORT

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

7 June 2010
30 June 2010

From: **Policy Manager**

CE-18-F

Annual Audit and Scrutiny Committee activity report

1 Introduction

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

2 Links to Corporate Priorities

- 2.1 This report does not directly contribute to the priority areas set out in the Council's Corporate Plan 2008-11. However, the audit and scrutiny function is an important part of ensuring that the Council is challenging itself and delivering continuous improvement.
- 2.2 Ensuring that there are mechanisms in place for delivering effective governance and accountability are fundamental Best Value 2 characteristics which all Councils in Scotland are required to meet. At the moment governance and accountability are seen as risk areas for the Council by Audit Scotland, so it's perhaps more important than ever that Audit and Scrutiny is carrying out its role effectively.

3 Work carried out

- 3.1 The following section seeks to show the value added by the Committee, by listing a few of the main areas of activity and the changes that have resulted in performance levels.
- **Annual Efficiency Statement – 2009**
The Committee considered the Council's Efficiency Statement, which is required by the Scottish Govt each year. This showed that the Council had made almost £700,000 in efficiency savings during 2008-09.

The main value added by the Committee is the fact that it provides a forum for discussing the savings, highlighting good practice and seeking to share this wherever possible.

- **Housing Voids Investigation - Update Reports**

The Committee have had regular updates on this item during the year. Since the Audit and Scrutiny Committee carried out its investigation into Council house voids in 2008, the performance has improved almost threefold from 22% of high demand houses re-let within 4 weeks to 64%.

- **Promoting Attendance update**

Sickness absence was highlighted at the Committee in April 2008 as an area that the Council needed to target. At that time it was recognised that the overall sickness absence rate had increased from 5.2% in 2005-06 to over 6% by 2008. This was well above the corporate target of 4.5%.

In the current financial climate, getting more employees to turn up to their work more of the time is a key efficiency saving. Therefore, the Committee sought to work with Human Resources to raise awareness of the fact this was important and highlight this as a priority for managers. Update reports were provided in September 2009 and March 2010.

Since the Committee first considered this, there have been notable examples of absence being tackled across Council services (Community Care – down from 11.41% to 8.48%, the whole Executive Services Dpt – down almost 2%, Sport and Leisure – down almost 2%). As shown at the recent service performance reviews, the overall rate of sickness absence in the Council is now 5.6%, which is moving in the right direction, but still above the corporate target.

- **Strategic Audit Risk Analysis**

With the Council being classed as a “high risk” Council by Audit Scotland, ways in which the Council can demonstrate that it is taking a proactive role in managing and dealing with strategic risks is of vital importance. The Committee received a report in September 2009 setting out the strategic risk analysis carried out by Audit Scotland, together with an action plan as to progress in dealing with these. That Plan is now reported to the Executive on a quarterly basis.

- **Statutory Performance Indicators (SPIs)**

The SPIs are not everyone’s favourite way of monitoring performance. Very often the indicator is not that suitable for a Council this size, with indicators being skewed by small numbers. However, on the other hand, they do allow us comprehensive benchmark data to compare ourselves against other Councils – with Orkney and the Western Isles being key comparator authorities.

The Audit & Scrutiny Committee has played a key role in monitoring these indicators, scrutinising good and bad performance and speaking to officers to understand the reasons behind these. It can be useful to have at least recorded the reasons why an indicator is a poor measure of this Council’s performance.

Reports were presented to the Committee in October and November 2009, with a report showing how we compared with the rest of Scotland being at the Committee in January 2010. This showed that the Council was in the top 10 Councils in Scotland on 36 of the 106 indicators; best performing Council on 16 of the indicators; in the bottom 10 Councils in Scotland on 48 of the 106 indicators and poorest performing Council on 7 of the indicators.

- **Risk Implications in Committee reports**

The Risk Management Strategy aims to embed risk management into the way business is carried out across the Council. A way to achieve this is to have report authors considering risk implications when drafting their reports. This was agreed by the Committee and subsequently incorporated into the Committee report template. Feedback suggests that this is a very useful way of getting risk management into officers' thinking when putting together proposals in reports.

- **Diesel usage**

Update reports were provided to the Committee in November 2009 and June 2010. Since the Committee first looked at this and set a corporate target of reducing diesel ultra usage by 5% each year for 4 years, there has been an overall decrease of 6.06%. (See separate report on this agenda)

- **LEAN – Recruitment admin and Building Maintenance**

The Committee received 2 reports outlining the outcomes from the pilot LEAN exercises in Building Maintenance and Staffing Recruitment. These projects applied the LEAN methodology to eliminate waste from processes. An important element of the methodology is that it gives the staff at the frontline the responsibility to come up with solutions. Both projects reported very positive outcomes to the Committee and as a result, LEAN is now being incorporated into the Council's efficiencies work as part of seeking to deliver on the £9.9million saving agenda.

- **Staffing numbers**

The Head of Organisational Development provided a report showing where the main areas of growth in staffing numbers has occurred over the lifetime of this Council. This provided a useful forum to discuss the reasons for the growth and how this might be controlled going forward. Performance management of staffing numbers to ensure that growth is curtailed will be key to achieving savings targets.

- **Improving Sector Efficiency and an Overview of Local Govt in Scotland**

The Audit & Scrutiny Committee was presented with two reports that had been prepared by Audit Scotland on behalf of the Accounts Commission early in 2010. These reports provided important observations on the local government environment in Scotland, with a focus being on the impact that economic downturn is having and will have on Councils in years to come. Being able to have a discussion with Members on the key messages from national reports like these is important in showing that the Council is aware of and responding to national developments.

5. Financial Implications

5.1 There are no financial implications arising from this report.

6. Policy and Delegated Authority

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

7. Conclusion

7.1 This report has summarised the key areas of Audit and Scrutiny Committee activity between August 2009 and June 2010. It's sought to show the value that has been added by the Committee during the past year.

8. Recommendations

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

June 2010

CE-18-F



REPORT

To: Audit and Scrutiny Committee

22 June 2010

From: Depute Chief Executive

UPDATE ON AUDIT QUALIFICATION WITH REGARD TO GROUPING ACCOUNTS

1. Introduction

- 1.1 This Report presents an update on the work being done to address the Audit Qualification regarding the Council grouping its accounts with Shetland Charitable Trust.

2. Links to Corporate Priorities

- 2.1 There are no explicit links to the Council's Corporate Plan.

3. Risk Assessment

- 3.1 Addressing this risk and securing a resolution to the satisfaction of all parties is a key risk management action, to address the ongoing concerns as described in the recent Report by the Controller of Audit to the Accounts Commission, under Section 102 (1) of the Local Government (Scotland) Act 1973, which states that, "the Council's financial statements had been qualified for the fourth consecutive year ..."

Specifically, the Report by the Controller of Audit states: -

"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 misstatement of the group accounts. 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. 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. 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.”

4. Background

- 4.1 An Extract from the Shetland Islands Council Report to Members and the Controller of Audit on the 2008/09 Audit is included at Appendix 1. This describes Audit Scotland’s concerns over the Council’s position with regard to grouping accounts.
- 4.2 The Council at its meeting of 28 October considered a report on this subject and approved the recommendations therein. These were that the Council’s previous request to the Shetland Charitable Trust for its accounts was simply an attempt to resolve the impasse and did not signify any acceptance of the need to group accounts, that the Council could do no more to resolve the impasse and that it called on the auditor to understand the Council’s impossible position and to remove the qualification from its Abstract of Accounts and any threat of other sanctions against the Council.

5. Progress Report

- 5.1 At the last Audit and Scrutiny Committee, this issue was discussed with the Council’s Audit Manager, Carol Hislop.
- 5.2 Further to that meeting, the Head of Finance and the Assistant Chief Executive have entered into a dialogue with Audit Scotland, to attempt to clarify Audit Scotland’s position. A letter was received by the Council dated 5 May 2010, copy attached in full at Appendix 2, from the Assistant Director (Local Government), Fiona Mitchell-Knight. That letter has raised some further issues, which the Head of Finance and the Assistant Chief Executive are exploring further with Audit Scotland. There remains some need for further clarification of Audit Scotland’s thinking, where clarification for both parties would be beneficial in moving things forward, and that is being sought in further correspondence..
- 5.3 Carol Hislop will be in attendance at the Audit and Scrutiny meeting, and may be able to provide Members with further clarity on Audit Scotland’s position.

6. Financial Implications

- 6.1 There are no financial implications associated with this Progress Report, beyond the staff time spent in attempting to resolve this matter.

7. Policy and Delegated Authority

- 7.1 The Audit and Scrutiny Committee's remit extends to expressing views on Audit Scotland's Report to Members. The final decision on Financial Policy and Governance issues rests with the Council.

8. Recommendations

- 8.1 I recommend that the Audit and Scrutiny Committee:

- (a) note that several issues remain to be clarified, between the Council and Audit Scotland, in order that it may be possible to determine the best way forward to resolve this issue; and
- (b) note that these issues are being actively pursued with Audit Scotland by the Head of Finance and the Assistant Chief Executive.

Appendix 1

Extract from
Shetland Islands Council
Report to Members and the Controller of Audit on the 2008/09 Audit

Audit Opinion

We have given a qualified opinion on the financial statements of Shetland Islands Council. The *Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice (the SORP)* requires group accounts to be prepared by local authorities where they have interests in entities meeting the definitions of subsidiaries, associates and joint ventures. Group financial statements are required to present a true and fair view of the authority's activity and financial position. The council has not included the results of the SCT in its group financial statements for 2008/09. In our opinion, the substance of the council's relationship with this body represents a significant interest and their omission results in a material mis-statement of the group accounts. Based on prior year financial statements, we estimate that this body would contribute:

- a deficit position of approximately £3.03 million to the Group Income and Expenditure Account (resulting from income of £13.17 million and expenditure of £16.20 million)
- net assets of approximately £219.51 million to the Group Balance Sheet (resulting from fixed assets of £23.02 million, investments and loans of £200.16 million, net current assets of £3.34 million and long term liabilities of £0.32 million).

Group accounts audit qualification

24. Following the qualification of the audit opinion on the 2007/08 financial statements, the Accounts Commission considered a report by the Controller of Audit under Section 102(1) of the Local Government (Scotland) Act 1973. The Commission reported that it expected the council to take all appropriate action to resolve this situation during 2008/09.
25. Following the Commission's report, council members, on the 18 February 2009, unanimously approved a recommendation from the chief executive for the results of the SCT to be requested from the trust for inclusion in the council's group accounts. We are pleased to note the council has consolidated the results of the SDT into the 2008/09 financial statements, with the exception of the group cashflow statement. However, on 26 March 2009 the same council members, acting as trustees of SCT, unanimously approved a recommendation not to make the SCT accounts available to the council for consolidation based on the conclusions of legal advice.
26. Following the appointment of the new chief executive in June 2009 the current view of senior officers is that the results SCT should not be included in the group's financial statements. We continue to disagree with this view and in our opinion, its omission results in a material mis-statement of the group accounts. We have therefore issued a qualified opinion on the

financial statements for the third consecutive year. (4th year of qualification on the group by us and the previous auditors).

27. We have not reviewed the structure of the trust or expressed any concerns about the trust's relationship with the council. Our concerns about SCT relate to the group accounting issue only. Whilst the trust is a separate entity, with its own status to consider, because of the nature of the council's relationship with the SCT we are of the opinion that in order to comply with accounting requirements, the financial results of SCT should be consolidated into the council's group accounts. We acknowledge that in reaching its decision not to provide the accounts for consolidation by the council, the trust's prime interest appears to be in preserving the monies it holds to be used for the benefit of the Shetland community. However as auditors we have a statutory responsibility to report our opinion as to whether or not the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the SORP. We are of the opinion that the following factors support the inclusion of SCT in the council's group accounts.
28. **Structure:** SCT has 24 trustees – the 22 SIC councillors, the Lord Lieutenant of Shetland and the head teacher of Anderson High School. The previous chief executive of the council was also chief executive of SCT until 2008. In 2008/09 there were some operational and managerial changes within the SCT, including the appointment of a trust general manager to replace the council's chief executive. In a report to the council on 4 July 2007 the chief executive acknowledged that the structure of the trust "provides a coordinated approach such that community benefits can be maximised and that clear accountability for performance is vested principally with the elected members, albeit in an extended and separate but related role".
29. **Purpose of SCT:** the purpose of the trust is to make grants or loans for any charitable purpose which benefits the Shetland Islands or its inhabitants. SCT provide services (arts and culture, amenity and environment, recreation and care facilities) which benefit the council community in addition to those services provided by the council. There is evidence that if the trust no longer existed the council would provide these services instead or subsidise the trust in providing the services:
- on 3 December 2008 a report was agreed by the council which discussed the impact of the world financial crisis on the council and the SCT. The report acknowledged the charitable trust relies heavily on investment income to fund its current service provision. The report stated "if the circumstances in the markets jeopardise the trust's ability to fund the various activities covered at present the council will need to consider whether it will need to provide alternative funding"
 - the charitable trust reduced costs by working with the council and transferring the funding of activities on 1 April 2006 from the Islesburgh Trust back to the council. The total funding that the charitable trust gave to the Islesburgh Trust in 2005/06 was £1.075 million
 - on 1 April 2005 the council took over the activities of the Shetland Welfare Trust, a recipient of grant funding from the Shetland Charitable Trust. The funding that the charitable trust previously provided was

£2.850 million. This is a transfer of activity back to the council to reduce the overall cost to the charitable trust.

-
30. **Financial relationships:** The SCT was created by SIC to receive the oil disturbance payments (until the agreement was terminated at 1 Sept 2000) which otherwise would have been received by the council. Total disturbance payments paid to SIC totalled £81 million. The trusts current sources of income are investment income and rental income with no ongoing financial support from/ to the council. However the following inter-related transactions that have taken place between the council and the SCT also support the inclusion of these bodies in the council's group accounts:
- Shetland Leasing and Property Developments Limited (SLAP), is a wholly owned subsidiary of the charitable trust, purchasing, developing and letting various properties throughout Shetland. SLAP purchased four ferries which it leased to the council. The council approached SLAP to enquire if it would consider selling the ferries directly to them. The board of SLAP considered this proposal and decided to concentrate on its core activities of leasing and property development and therefore agreed to the sale of the four ferries for £20 million to the council on 31 March 2006. This joint decision between the council and SLAP has had the beneficial effect of reducing lease payments on the general fund by £2.25 million per annum (although it had an immediate effect of reducing the available reserves by £20 million)
 - in February 2006, the council purchased all shares in Shetland Towage Ltd, a wholly owned subsidiary of the Shetland Charitable Trust, for a consideration of £3.6 million as part of the council's rationalisation of port activities. The assets received had a value of £5.5 million. The staff of Shetland Towage were subsequently transferred to the council which is now providing towage services at the Sullom Voe Terminal
 - in 1997 the council sold to and leased back from SCT the oil terminal. Rents for the oil terminal paid to the council and then paid onto SCT were £17m at March 08. Annual rental income approx £1.7m.
31. **Council involvement in the activities of the trust:** As part of joint working arrangements, council officers can influence how the funds of the SCT are distributed:
- council officers are included on a working group to review organisations funded by SCT. The council nominees were appointed to develop terms of reference for the group in March 2009
 - on 30 March 2000 trustees approved a report which authorised the Director of Education and Community Services to act on behalf of the SCT and approve applications from community development and community support grants to organisations operating in Shetland.
32. **Review of SCT:** on 25 March 2009 a report by the chief executive recommended approval be given to proceed with the engagement of Dundas and Wilson to undertake a legal review, on behalf of the council of its relationship with the SCT. The report highlights examples of the

considerable interaction between the council and the trust. It refers to the challenge to the trust by the Office of the Scottish Charities concern that an increased proportion of non-elected council member trustees could reduce considerably the benefits of close working. It further highlights the council has invested a considerable amount of community assets in the trust and has obviously interest in how these are managed. It proposes the council reviews alternative options and the implications of these to manage the funds currently within the remit of the SCT.

33. On 3 September 2009 a report asked members to agree to a number of service, management and budget changes as a result of the proposals made by the Shetland Charitable Trust Funded Bodies Review Group. The group has representation from both councillors, trustees, the general manager of the SCT, the council's head of finance, executive director of infrastructure and executive director of education and social care. The work plan of the group was to review all of the activity funded by the SCT. There are significant financial implications to the council arising from the proposals. It is estimated the cost to the council would be in the region of £1.27 million per annum, which equates to approximately 1% of the gross expenditure budget.
34. Discussions are ongoing with senior officers regarding the relationship between the council and SCT and its implications for the accounts.

Appendix 2
Letter from Audit Scotland dated 5 May 2010

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5 May 2010

Graham Johnston
Head of Finance
Shetland Islands Council
Town Hall
Lerwick
SHETLAND
ZE1 0HB

Dear Graham

Shetland Islands Audit Qualifications

I was surprised to see it reported that the council was unaware of the factors which influence our audit qualification, in particular in relation to our view that the council receives benefits in the form of services from the trusts operations. You have since sought clarification of our position and answers to some specific queries in an email to Carol Hislop on 24 April. Our response is detailed below.

Group accounts audit qualification 2008/09

On 21 May 2009, I sent a letter to the former Chief Executive, Morgan Goodlad explaining the factors which influenced our decision on the group qualification. This letter was copied to you. It contains an explanation of how our conclusions are reached, based on consideration of the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (known as the SORP). I have attached this letter at Appendix 1.

The appendix to my May letter explains that the SORP says that the determining factor for assessing the nature of a reporting authority's relationship with another body is control. Specifically a local authority should include in its group accounts as a subsidiary any bodies over which:

- the authority is able to exercise **control** over the operating and financial policies of the entity; and
- the authority is able to gain **benefits** from the entity or is exposed to the risk of potential losses arising from this control.

In applying these definitions the SORP says the council should have regard to the substance of the relationship being considered over the legal form.

The appendix to my May letter (paragraph 9) refers to one of the factors influencing the qualification being the evidence we have with regard to the council's access to benefits/ exposure to risks from its relationship with the SCT.

Our subsequent review and conclusion of the position was then included in our Report to Members and the Controller of Audit on the 2008/09 Audit. This details the range of factors which support our view on the inclusion of SCT in the council's group accounts. One of these factors reported is that "SCT provide services (arts and culture, amenity and environment, recreation and care facilities) which benefit the council community in addition to those services provided by the council. There is evidence that if the trust no longer existed the council would provide these services instead or subsidise the trust in providing the services."

Providing services to the Auditor General for Scotland and the Accounts Commission

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The correspondence referred to reflects our conclusions in relation to the 2008/09 accounts. We therefore feel it is now useful to layout our current position on both of the audit qualifications in advance of the 2009/10 financial statements audit. We have also answered your specific queries raised in your email.

Group accounts audit 2009/10

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. In a report to council on the matter dated 28 October 2009 you 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.' The council also clarified that it asked the Charitable Trust for cooperation in February 2009, but that the trust had chosen not to supply the information requested. At its meeting in October 2009 the council confirmed its view that it had now done all it could do on the matter.

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.

The assistant chief executive is currently looking into this issue and is discussing the council's evidence to support its case with us. It is likely that there will be a further qualification on the 2009/10 financial statements. We will provide an update in the Report to Members and the Controller of Audit on the 2009/10 Audit.

Our current position therefore remains as was reported in 2008/09.

Email queries

In response to your queries raised in your email of 28th April, we provide the following clarification.

"1.SCT Structure: I understand from what you said at the Committee meeting and in discussion with the Chair and Vice Chair afterwards that SCT structure is no part of your qualification to the accounts, and that it wouldn't matter if there were no Councillor Trustees. And yet in paragraph 27 of the attached that structure (paragraph 28) is one of the key factors supporting the inclusion of SCT in the Council's group accounts. This appears to me to be a contradiction, and I hope you can clear it up."

The audit qualification would be reviewed if the structure of the trust were changed. The impact on the qualification would depend on the remaining level of control that the council has the right to exercise over the trust. This is dependent on the proportion of trustees that are council members. The level of control that remains with the council would influence the accounting requirements prescribed by the SORP for the council's relationship with SCT.

However the structure of the trust is not the only factor relevant to our decision, other key factors that we consider are:

- benefits that the council gains from the services provided by SCT. SCT provides services (arts and culture, amenity and environment, recreation and care facilities) which benefit the council community in addition to those services provided by the council. Our evidence shows that if the trust no longer existed or was suffering financial difficulties the council would provide some services instead or subsidise the trust in providing these services
- any benefits obtained by the council through funding arrangements provided by the SCT
- any council officer involvement in the activities of the trust.

5 May 2010

We would consider all these factors and any other emerging facts to form a view as to whether or not the current evidence supports SCT as inclusion in the council's group accounts as prescribed by the SORP. Options to be considered would be whether the SCT should be accounted for as a subsidiary, an associate or not included in the group accounts.

"2. Most of the content of paragraphs 27-34 of the attached points to the close working relationship between the SIC and the SCT. This closeness is not in dispute, although both organisations would naturally argue that this is a direct consequence of their separate but common interests in serving the Shetland community. What are the factors in that close working relationship which distinguish it from other close working relationships in the common interests of Shetland, and therefore (due to specific provisions of the SORP) warrant the grouping of accounts?"

The key factor is that the majority of SCT trustees are council members, in our opinion the council therefore has the right to exercise control over the trust. As explained above, control is one of the two key factors in identifying a subsidiary for group accounts. The other key factor being benefits obtained by the council from its relationship with the trust.

"3. I understand from the Chair of the Committee that you indicated to her that some simple inclusion in the SIC accounts of a statement declaring SCT subsidies to the SIC would fulfil the requirements of group accounting. Can you please clarify what is meant by SCT subsidies, and what form of statement would be satisfactory?"

There appears to be a misunderstanding here as we are not aware of any "statement declaring SCT subsidies to the SIC." The required format of the group accounts is detailed in the SORP.

To clarify our position on the group accounts issue we would like to suggest that Carol Hislop meets the Chair of the Audit & Scrutiny Committee or attends a committee meeting to provide any necessary clarification on all aspects of the group qualification.

Financial instruments audit qualification

The 2008/09 accounts were also qualified due to the council's failure to account for its financial assets in accordance with accounting requirements. You gave assurances to us and to meetings of the council in December 2009 and March 2010 that this issue would be resolved for the 2009/10 accounts. We have confirmed that whilst you are currently reviewing this with the intention of resolving the issue for inclusion in the 2009/10 accounts, progress has been slow. I understand however that you have recently engaged additional help with this issue. Could you please confirm that this work will be completed in time for the figures to be reviewed as part of the audit of the financial statements, starting 1 July 2010. We will report an update on this issue as part of the audit of the financial statements audit and in the Report to Members and the Controller of Audit on the 2009/10 Audit.

I hope this letter clarifies our current view on the accounts qualifications and enables you to clarify the position on this issue to officers and elected members. Due to the importance of these issues I have copied my response to Hazel Sutherland and Willie Shannon also.

Yours sincerely

Fiona Mitchell-King

Direct dial: 0131 625 1937

01 Local Government/Clients/Clients Councils/Shetland Islands Council/2009-10/Outputs/Financial statements/10-05-05 - Intra-council_opaccounts_SIC.doc

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Appendix 1

21 May 2009

Morgan Goodlad
Chief Executive
Shetland Islands Council
Town Hall
Lerwick
SHETLAND
ZE1 0HB

Dear Morgan

Shetland Islands Council Group Accounts 2008/09

As part of our annual audit for 2008/09 we have reviewed the council's proposed treatment of Shetland Development Trust and Shetland Charitable Trust in the Shetland Islands Council group accounts. I feel that it is appropriate that we share our conclusions on this issue with you at this stage so that the council can consider its response in advance of the financial statements being presented for audit.

Background

1. In 2005/06, PricewaterhouseCoopers (PwC) issued an adverse opinion on the council's financial statements due to the council's failure to include group accounts. The council has been preparing group accounts since 2006/07 but has not included the results of Shetland Charitable Trust (SCT) and its subsidiaries nor those of the Shetland Development Trust (SDT). On this basis the council's audit opinion has been qualified by us since 2006/07. In our opinion, the substance of the council's relationship with these trusts and its related subsidiaries represents a significant interest and their omission results in a material misstatement of the group accounts. We have reviewed the status of these relationships on an annual basis.
2. Following the qualification of the accounts in 2007/08 the Accounts Commission considered a report by the Controller of Audit under Section 102(1) of the Local Government (Scotland) Act 1973 on the 2007/08 Annual Audit of Shetland Islands Council. The Commission noted with considerable concern the continuing qualification and strongly urged the Council to take appropriate action to resolve this situation during the current year.

Shetland Development Trust (SDT)

3. Following some structural changes to SDT, we are pleased to note that the council has agreed to consolidate the groups of SDT into the 2008/09 accounts. The results of this consolidation will be reviewed by us as part of the audit of the 2008/09 financial statements.

Shetland Charitable Trust (SCT)

4. In February 2009 you accepted our view regarding the relationship of SCT with the council, and recommended to the council members that the results of SCT be consolidated into the council's group accounts. At a council meeting on 18 February 2009 the council accepted this recommendation.
5. On 26 March 2009 the same council members, acting as trustees of SCT, unanimously approved a recommendation not to make the SCT accounts available to the council for consolidation based on the conclusions of legal advice.
6. We acknowledge that in reaching its decision not to provide the accounts for consolidation by the council, the trust's prime interest appears to be in preserving the monies it holds to be used for the benefit of the Shetland community. However as auditors of Shetland Islands Council we have a statutory responsibility to report our opinion as to whether or not the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the SORP.
7. Whilst the trust is a separate entity, with its own status to consider, because of the nature of the council's relationship with the SCT we are of the opinion that in order to comply with these accounting requirements, the financial results of SCT and its subsidiaries should be consolidated into the council's group accounts. This remains our view. If the results of SCT and its subsidiaries are not consolidated into the council's 2008/09 group accounts, in our opinion there will be a material mis-statement of the group accounts which will attract another qualified audit opinion. The wording of the audit opinion is still to be determined.
8. A more detailed explanation of the factors which led to this conclusion are noted in **appendix 1**. In forming this opinion, we have not reviewed the structure of the trust or expressed any concerns about the trust's relationship with the council. Our concerns about SCT relate to the group accounting issue only.

Conclusion

9. In order to avoid a qualified audit opinion on the 2008/09 financial statements, the council will need to include the results of both SDT and SCT in its group accounts. The responsibility for resolving this issue lies with the council and the trust. In the meantime, we are arranging to talk to OSCR to discuss some of the trust's concerns about consolidation of its results into the council's group.

If you or your successor, David Clark, would like to discuss this matter further please do not hesitate to contact myself or Mark Ferris.

I would also like to take this opportunity to wish you well in the future.

Yours sincerely



Fiona Mitchell-Knight
Assistant Director of Audit (Local Government)

Enc
cc Graham Johnston, Head of Finance

Shetland Islands Council Group Accounts 2008-09

Audit requirements

1. We have a statutory responsibility to report our opinion as to whether or not the financial statements of Shetland Islands Council give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice* (known as the SORP).

Accounting requirements

1. The SORP notes that "for a variety of legal, regulatory and other reasons, undertakings, including local authorities, often choose or are required to conduct their activities not through a single legal entity but through several undertakings under the ultimate control of the parent undertaking of that group, ie the reporting authority. For this reason the financial statements of the reporting authority by itself do not present a full picture of its economic activities or financial position. Group financial statements are therefore required in order to reflect the extended service delivery and economic unit that conducts activities under the control of the parent reporting authority."
2. The SORP says that the determining factor for assessing the nature of a reporting authority's relationship with another body is control. Specifically a local authority should include in its group accounts as a subsidiary any bodies over which:
 - the authority is able to exercise **control** over the operating and financial policies of the entity' and
 - the authority is able to gain **benefits** from the entity or is exposed to the risk of potential losses arising from this control.

In applying these definitions a reporting authority should have regard to the substance of the relationship being considered over the legal form.

3. Applying the guidance in the SORP, we are of the opinion that the following are all examples of factors which support the inclusion of the SCT and its subsidiaries in the councils group.

Factors which indicate the council's control over the policies of the trust

Structure

4. The trust has 24 trustees – the 22 SIC councillors, the Lord Lieutenant of Shetland and the Head Teacher of Anderson High School. The Chief Executive of the council was Chief Executive of SCT until 2008. In 2008/09 there were some operational and managerial changes within the SCT, including the appointment of a trust general manager to replace the council's chief executive.
5. Audit Scotland auditors have consistently taken the view, that whilst councillors acting as trustees are acknowledged to have different roles with regard to their legal status and duties, the fact that they would not be trustees if they were not councillors, indicates control over the trust for accounting purposes. This reflects the fact that the SORP requires the substance of the relationship to be considered over the legal form.

6. This view is consistent with that expressed in a report to the council on 4 July 2007 where the Chief Executive acknowledges that the structure of the trust "provides a coordinated approach such that community benefits can be maximised and that clear accountability for performance is vested principally with the elected members, albeit in an extended and separate but related role."

Council involvement in the activities of the trust

7. Council officers are included on a working group to review organisations funded by SCT. The council nominees were appointed to develop terms of reference for the group in March 2009. This is evidence that the council officers can influence the strategic priorities of the SCT.
8. On 30 March 2009 trustees approved a report which authorised the Director of Education and Community Services to act on behalf of the SCT and approve applications from community development and community support grants to organisations operating in Shetland. Examples of where this authorisation has been used include:
 - the Council's Head of Service Community Development approved a range of grants, totalling approximately £20,000, for approval by the trustees on 26 March 2009
 - the Council's Head of Service Community Care approved a range of grants, totalling approximately £2,000, for approval by the trustees on 26 March 2009.

Whilst the total amounts of grant approved in these particular instances were not of significant value it is evidence of the council's influence in directing the use of trust funds.

Conclusion: The fact that the majority of trustees are council members and the involvement of council officers in strategic and operational activities in the trust indicate that the council can exercise control over the trust's activities.

Evidence of access to benefits / exposure to risks

Purpose of the trust

9. The purpose of the trust is to make grants or loans for any charitable purpose which benefits the Shetland Islands or its inhabitants. There is evidence that if the trust no longer existed the council would provide these services instead or subsidise the trust in providing the services. This is evidence of the benefits the council is receiving from the trust's operations and evidence of the exposure the council has if the trust cannot continue to operate its level of service:
- on 3 December 2008 a report was agreed by the council which discussed the impact of the world financial crisis on the council and the SCT. The report acknowledges that the charitable trust relies heavily on investment income to fund its current service provision. The report says that "if the circumstances in the markets jeopardise the Trust's ability to fund the various activities covered at present the council will need to consider whether it will need to provide alternative funding"
 - the charitable trust reduced costs by working with the council and transferring the funding of activities on 1 April 2006 from the Islesburgh Trust back to the council. The total funding that the charitable trust gave to the Islesburgh Trust in 2005/06 was £1.075 million
 - on 1 April 2005 the council took over the activities of the Shetland Welfare Trust, a recipient of grant funding from the Shetland Charitable Trust. The funding that the charitable trust previously provided was £2.850 million. This is a transfer of activity back to the council to reduce the overall cost to the charitable trust.

Financial relationships

10. The SCT was created by SIC to receive the oil disturbance payments (until the agreement was terminated at 1 Sept 2000) which otherwise would have been received by the council. Total disturbance payments paid to SIC totalled £81m.
11. The trusts current sources of income are; investment income and rental income there is no ongoing financial support from/ to the council. However the following inter-related transactions that have taken place between the council and the SCT also support the inclusion of these bodies in the council's group accounts:
- Shetland Leasing and Property Developments Limited (SLAP), is a wholly owned subsidiary of the charitable trust, purchasing, developing and letting various properties throughout Shetland. SLAP purchased four ferries which it leased to the council. The council approached SLAP to enquire if it would consider selling the ferries directly to them. The board of SLAP considered this proposal and decided to concentrate on its core activities of leasing and property development and therefore agreed to the sale of the four ferries for £20 million to the council on 31 March 2006. This joint decision between the council and SLAP has had the beneficial effect of reducing lease payments on the general fund by £2.25 million per annum (although it had an immediate effect of reducing the available reserves by £20 million)

- in February 2006, the council purchased all shares in Shetland Towage Ltd, a wholly owned subsidiary of the Shetland Charitable Trust, for a consideration of £3.6 million as part of the council's rationalisation of port activities. The assets received had a value of £5.5 million. The staff of Shetland Towage were subsequently transferred to the council which is now providing towage services at the Sullom Voe Terminal
- in 1997 the council sold to and leased back from SCT the oil terminal. Rents for the oil terminal paid to the council and then paid onto SCT £17m at March 08. Annual rental income approx £1.7m
- SCT has been approached by the SIC to invest in Anderson High School via SLAP in a sale & lease back arrangement. This is currently under consideration by both parties.

Conclusion: There is evidence that if the trust could no longer provided funding to the community, the council would instead subsidise this funding. This means that the council is currently benefitting from the services provided by the trust. The council also benefits from access to funding arrangements provide by the SCT. Both these areas provide evidence of the benefits the council is receiving from the trust's operations and evidence of the exposure the council has if the trust cannot continue to operate its level of service.

Overall conclusion

12. In our opinion the factors described above demonstrate that the council is able to exercise control over the operating and financial policies of the trust. Due to this control the council is able to gain benefits from the trust and is exposed to the risk of funding the trust's activities. Therefore to comply with the SORP the results of SCT and its subsidiaries should be consolidated into the SIC group. Due to the value of transactions going through the SCT group accounts the omission of these results is considered material to the group accounts of the council. As a result their omission in 2008/09 would require us to report a qualified opinion on the 2008/09 financial statements for Shetland Islands Council.