

Shetland Islands Council

Statutory follow-up report



Prepared for the Accounts Commission
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Commission's Findings

1. The Controller of Audit made this report to update the Accounts Commission on the progress made by Shetland Islands Council on its improvement plan. The council had approved its improvement plan on 10 November 2010 when it accepted the Commission's recommendations arising from a public hearing which the Commission held in June 2010.
2. The Commission accepts the report by the Controller of Audit. It welcomes the prompt action and progress made by the council with its improvement plan. It is encouraged that the council has now put in place many of the basic but essential building blocks of Best Value, including new political and management arrangements.
3. The Commission emphasises the need for this positive direction and change to be sustained and consolidated, especially in the context of some considerable challenges to be faced by the council in the near future. The Commission believes that these challenges include: a continuing need to address financial constraints; the need to appoint a new Section 95 officer; the longer term appointment of a chief executive; and forthcoming council elections.
4. There are positive indications that the council is developing a culture of continuous improvement: this change needs to be continued and the council needs to ensure that it has the capacity to do this.
5. The council also needs to do more to demonstrate more effective strategic financial management and to improve the capacity of its finance function, for example to avoid similar difficulties that were experienced this year in the timely and accurate preparation of accounts.
6. The Commission is seriously concerned to note that the auditors have given a qualified opinion on the council's financial statements, due to the omission of the Shetland Charitable Trust results from the group accounts. This is the sixth year in succession that there has been a qualification of those statements. This means that, in the year to 31 March 2011, the council's grouped financial statements did not include some £220 million of public funds, which raises the risk that the people of Shetland are not presented with a comprehensive picture of public resources. But the Commission notes that the council is committed in its improvement plan to addressing this situation during 2012.
7. The Commission requests that the Controller of Audit provides it with a further report in approximately 12 months' time, to enable the Commission to review the council's progress in implementing actions and in maintaining the improvements it has made over the last 12 months.

Introduction

1. The purpose of this report is to update the Commission on the progress Shetland Islands Council has made on its improvement action plan. The report includes the outcome of the further audit work requested by the Commission in August 2010 following the Public Hearing in June 2010.
2. On 9th December 2009, the Accounts Commission considered a report¹ under Section 102(1) of the Local Government Scotland Act 1973 on the Shetland Islands Council Annual Audit 2008/09. The report noted that the council's financial statements had been qualified for the fourth consecutive year and highlighted concerns about working relationships in the council, governance and accountability, and strategic leadership.
3. The Commission requested that I carry out further focused audit work and report on the council's actions to address the issues which led to the qualifications of the financial statements and the financial challenges it faces. The work would also assess the current position on member/ member and member/ officer working relationships and the impact on strategic leadership within the council.
4. On 13th May 2010 the Commission considered the resulting report². In light of the nature of the issues covered in the report, the Commission decided to hold a public hearing. The public hearing was held in Lerwick on 28th and 29th of June 2010.
5. Following the hearing the Commission published its findings³ on 16th August 2010. In the findings the Commission recommended:

"The council must put in place a comprehensive programme of improvements as a matter of urgency to address the issues we have identified. The programme should set clear objectives, milestones and timescales for delivery.

This programme of improvements should ensure that:

- *the council can develop the leadership, governance and strategic direction it requires*
- *there is the basis for effective working relationships among councillors and between councillors and officers*
- *all procedures for decision-making are robust and transparent, and can command public confidence*
- *the council has the capacity to deliver its financial strategy.'*

¹ http://www.audit-scotland.gov.uk/docs/local/2009/sr_091209_shetland.pdf

² http://www.audit-scotland.gov.uk/docs/local/2010/sr_100506_shetland.pdf

³ http://www.audit-scotland.gov.uk/docs/local/2010/ac_100816_shetland_findings.pdf

6. The Commission went on to make 13 specific recommendations and required me to provide a further report 'in around 12 months' time' on the progress made by the council. The Commission also stated that, on receipt of the report; it would 'give consideration at that point to any further measures that need to be taken.'
7. The Local Government (Scotland) Act 1973 (as amended) required the council to consider the findings at a meeting of the council within three months of receiving them, and to decide whether to accept any or all of these recommendations and what action to take in response to them.
8. Alistair Buchan, the Chief Executive of Orkney Islands Council took up post on a secondment basis as interim Chief Executive in August 2010 for a fixed term of two years and three months with an option to extend for a further six months until April 2013.
9. At a meeting on 10th November 2010 the council accepted the Commission's recommendations and approved an improvement plan. The improvement plan set out a range of work-streams and associated milestones which include the introduction of new political management arrangements, the development of a medium to long term financial strategy and the creation of a new chief officer structure during 2011.
10. In January 2011 the Commission considered a report on the 2009/10 audit which highlighted that the auditors had given a qualified opinion on the financial statements of Shetland Islands Council for the fifth consecutive year. The qualification related to the fact that the council has not included the results of the Shetland Charitable Trust (SCT) in its group accounts for 2009/10. The Commission also agreed to take an update report at its meeting in December 2011. This timing was informed by the milestones in the council's improvement plan.

Overall conclusions

11. The council has taken prompt action to address the issues highlighted in the audit reports and in the Accounts Commission's findings and has made good progress to date on implementing many important elements of its improvement plan.
12. Some aspects of financial management have improved; the council has introduced more effective financial planning and budget setting arrangements and agreed a strategic budget plan and principles to underpin its reserves policy. Budget monitoring reports to elected members have improved, but need to improve further.
13. Some aspects of financial management remain an area of significant concern however. The latest budget monitoring reports indicate that the council has significant challenges in delivering its 2011/12 budget. The process of finalising the annual accounts was problematic, the financial statements were qualified again due to the omission of the Shetland Charitable Trust results from the group accounts, and the annual audit report to the Controller of Audit and elected members raised concerns about the resourcing of the finance function.
14. In its findings the Accounts Commission recommended that:

'The council must put in place a comprehensive programme of improvements as a matter of urgency to address the issues we have identified. The programme should set clear objectives, milestones and timescales for delivery. '

And that

'This programme of improvements should ensure that:

- the council can develop the leadership, governance and strategic direction it requires
- there is the basis for effective working relationships among councillors and between councillors and officers
- all procedures for decision-making are robust and transparent, and can command public confidence
- the council has the capacity to deliver its financial strategy.'

15. Since August 2010 the council has:
 - accepted the Accounts Commission's findings and agreed an improvement plan
 - appointed an interim chief executive on a secondment basis on a fixed term contract, who has led the work on improving the council with considerable commitment and resilience, guiding the council through a series of important and difficult decisions
 - implemented new committee structures and appointed a council leader
 - implemented a set of supporting governance arrangements including new standing orders, schemes of delegation and codes of conduct

- implemented a new management structure which has resulted in a completely new management team at Director level
 - improved the working relationships between and amongst members and officers
 - adopted a longer term financial strategy and improved the budget setting process
 - engaged with a range of partners to improve capacity and support improvement
16. The full impact of the improvement action taken to date has yet to be realised and the council understands that there is still a long way to go before it can demonstrate all the attributes of a Best Value council. However, the changes to date do indicate a clear commitment to change and provide a solid foundation to support on-going improvement.
17. The council is moving in the right direction and there is a clear commitment to improve. The council's self awareness has improved and it understands that it must continue to focus on its priorities and what needs to improve for the future.

The improvement plan

The council has made good progress overall on its improvement plan, in particular by implementing new political management arrangements and a new management structure.

Some areas of financial management, including financial planning and budgeting, have improved. Significant concerns remain however about other aspects of financial management, including the process of finalising the financial statements, the qualification of the accounts and the resourcing of the finance function.

18. In its findings, published in August 2010, the Accounts Commission made a range of recommendations. In response, the council agreed an improvement plan in November 2010. The plan contains 38 action points to address the Commission's recommendations under the following headings:
 - leadership, vision and strategic direction
 - governance
 - financial management and accountability
 - community planning
 - asset management
19. The council has made good progress overall on its improvement plan, in particular by implementing new political management arrangements and a new management structure.
20. The council has been working constructively with a range of external partners to support its improvement work in a number of areas.
21. Progress on the improvement plan is monitored regularly by the council's management team, and by elected members, both at committee and through a member officer improvement sounding board.
22. The pace of change has been good. [Exhibit 1](#) illustrates the significant steps taken by the council since the Accounts Commission's findings and recommendations in August 2010.

Exhibit 1

Timeline of key events

| Month | Key events |
|----------|---|
| May 2010 | Accounts Commission considers audit report by the Controller of Audit |
| June | Accounts Commission holds a Public Hearing in Lerwick |
| August | Interim Chief Executive takes up post |

| Month | Key events |
|---------------|---|
| | Accounts Commission publishes findings and recommendations |
| November | Council accepts the Commission's recommendations and agrees an improvement plan |
| January 2011 | Revised member code of conduct comes into effect |
| February | Council agrees 2011/12 budget |
| March & April | Council approves process to develop strategic direction for the next 10-15 years Council agrees new committee structure and appoints members to committees Council agrees range of constitutional documents to support governance |
| May | New committees start to meet |
| June | Council agrees new management structure |
| July | Three of the five Directors appointed (Children's Services, Community Care Services, Development) Planning and Performance Management Framework (PPMF): Policy Direction agreed Community consultation and engagement guide approved Communications strategy approved Financial planning and budgeting framework approved |
| September | 4th Director appointed (Infrastructure Services), council decides to re-advertise for the post of Corporate Services Director and advertises for Executive Manager - Finance Efficiency partnership group (comprising senior managers and union representatives) established |
| October | Consultation on the 2012/13 budget. Guidance issued to services on PPMF |
| November | Consultation on the 2012/13 budget. 2012/13 Strategic Budget Plan and reserves policy principles agreed Interim appointment to Director of Corporate Services post |

Source: Audit Scotland

23. [Appendix 1](#) summarises the progress the council has made on each of the recommendations made by the Accounts Commission.
24. Some elements of the improvement plan have not progressed in line with the original plan, though at this stage this does not represent a significant risk. In some instances, the delay has been as a result of the on-going management restructuring process. In other areas, deadlines have been revised to combine and link related areas of improvement work. The progress on improvement actions relating to financial management has been more mixed. Some aspects of financial management have improved; the council has introduced more effective financial planning and budget setting arrangements and agreed a strategic budget plan and principles to underpin its reserves policy. Budget monitoring reports to elected members have improved, but need to improve further.
25. Some aspects of financial management remain an area of significant concern. The process of finalising the annual accounts was problematic, the financial statements were again qualified due to the exclusion of the Shetland Charitable Trust results and the annual audit report to the Controller of Audit and elected members raised concerns about the resourcing of the finance function. The latest budget monitoring report indicated that the council has significant challenges in delivering its 2011/12 budget.
26. The 2010/11 financial statements were qualified because of the continued exclusion of the results of the Shetland Charitable Trust (SCT) in the council's group accounts. This is the fifth consecutive year that the accounts have been qualified for this reason and the sixth year that the council's statements have been qualified due to its group accounts. The audit team did not receive any further evidence from the council in 2010/11 to support the view that the SCT should not be included within the group. The council is working towards resolving the qualification for 2012/13.
27. 2011/12 budget monitoring reports indicate that, efficiencies are being made, but if approved budgets for 2011/12 are to be achieved, the council's reserves will fall below its target. The 2012/13 budget-setting process is under way and the council knows that difficult decisions will have to be made to maintain reserve levels at its target level.
28. In October 2011 the council reviewed the improvement plan and revised the allocation of lead directors and lead officers in light of the management restructuring.

Leadership, vision and strategic direction

The council has established new political management arrangements and a new management structure.

29. Since his appointment in July 2010 the Chief Executive has led the work on improving the council with considerable commitment and resilience, guiding the council through a series of important and difficult decisions. In addition to governance and management restructuring these include; changes to the provision of secondary school provision at two schools, the 2011/12 budget process including a commitment to savings of £9.4 million, and decisions on the Viking Energy wind farm.

30. The council's most recent corporate plan was agreed in 2008 and was refreshed in 2010 for several reasons, including the need to include the impact of the economic downturn and the development of the Single Outcome Agreement. The plan is divided into two main parts: 'Maintaining a Sustainable Economy, Society and Environment', and 'Organising Ourselves Better', which sets out the key actions by the council to ensure the plan is delivered efficiently and effectively. The revision of the corporate plan was a positive step by the council and will help ensure that actions are planned to address current conditions. Progress on the corporate plan is reported to the council at six monthly intervals.

Developing a Long term Vision

The council has been working effectively with partners to develop a long term vision for the Shetland Islands.

31. In its findings the Commission recommended that 'The council should agree effective procedures for engaging with the local community and understanding its needs and expectations, and put these procedures on a systematic basis.'
32. In March 2011 the council approved a process to develop the strategic direction for the Islands for the next 10 – 15 years. Using a 'scenario planning' approach, supported by external advisors, the council has been working with partners from the public, private and third sectors to develop a long term vision.
33. The council anticipates that the vision will set a clear policy framework within which other strategic plans, including the local development plan, the local housing strategy and the transport strategy and departmental service would operate.
34. The process is overseen by a steering group comprised of elected members, the chief executive and senior managers, representatives from NHS Shetland, the Shetland Charitable Trust, Voluntary Action Shetland and the business sector.
35. The steering group intends to develop the vision to a point where it will provide a strong basis for the council's new corporate plan which will be developed following the local government elections in May 2012.
36. In addition to embarking on the scenario planning exercise, the council agreed a new community consultation and engagement guide in July 2011. The guide is based on the national community engagement standards and has been adopted by the community planning partnership. The council has used the guide to support an extensive community consultation exercise to inform the 'Blueprint for Education' programme and the 2012/13 budget setting process. This involved members and senior officers taking part in a number of community consultation events during the autumn and winter, an e-mail suggestion box for residents and web based video messages by the Chief Executive and chief financial officer.

Political leadership and management

In April 2011 the council approved new political management arrangements and made appointments to various posts and committees. Though the arrangements have not been in place that long, the initial indications are that they are helping the council to conduct business in a more focussed and organised way.

37. The council has:
 - established a formal role of 'leader of the council'
 - introduced an Executive Committee
 - revised its committee structure
 - agreed a new constitution and a range of supporting governance arrangements
38. Councillor Joseph Simpson has been appointed as the political leader of the council and chairs the Executive Committee. Councillor Alexander Cluness was appointed as Convener of the council. The Convener role is now more in-line with that role in other authorities, with the Convener chairing the council meetings and carrying out civic duties.
39. The leader's functions are set out in the Council's revised constitution and include chairing the Executive Committee, providing political leadership and direction for the organisation, leading the senior councillor chairs, working across the council to establish clear political direction, responsibility at political level for the management and maintenance of the council's reputation and providing the key political link between the officer structure and the political structure.
40. The council has established an Executive Committee made up of 11 members, including the leader, the convener, the chairs and vice chairs of the four functional committees and one other member.
41. The council has set up four functional committees:
 - Education and Families Committee (11 members)
 - Social Services Committee (11 members)
 - Development Committee (11 members)
 - Environment and Transport Committee (11 members)
42. The council has also set up additional committees and boards:
 - Audit and Standards Committee
 - Licensing Committee
 - Planning Committee
 - Harbour Board
 - College Board
43. The council adopted an inclusive process for developing the new committees and the underpinning governance arrangements. It held a series of seminars involving elected

members, officers and external advisers to inform the design of the new arrangements, develop a shared understanding of the issues, and improve working relationships.

44. The council has also adopted a range of other processes and forums to help it do business. It has used member seminars to inform policy development and these have provided a useful opportunity for members and officers to discuss issues and engage constructively. This has been a useful development and is in marked contrast to the previous arrangements where such discussions tended to be ad-hoc and restricted to a few individuals. Often this meant that the first substantive discussion and debate did not take place until a report was considered by a committee or full council.
45. In its findings the Commission recommended ‘ Councillors and senior officers should work together to improve the management information available to councillors, to enhance the capacity and commitment to deliver robust appraisal of policy choices, and thereby help to ensure that councillors are supported to develop the skills to discharge their scrutiny role rigorously.’
46. Since the summer of 2010 there has been an improvement in the content of agendas considered by the council and its committees and the quality of reports has improved. In recent years the agendas of council and committee meetings contained a high proportion of reports which were primarily for information and/ or did not contain clear recommendations. The Chief Executive highlighted the need for this to change very soon after he took up post and the content of both agendas and reports has been improving. Areas for improvement remain (as covered in other sections of this report), but the early signs are encouraging.
47. Improved agenda management and better quality reports have also helped members fulfil their scrutiny role more effectively. Our observation of meetings indicates that scrutiny is more focussed and is improving.
48. Our observations of a range of council, committee and informal meetings to date and interviews with key stakeholders also indicate that the new political management arrangements, although still in the process of bedding in, have improved the way in which council business is conducted and provide a solid foundation for continued improvement.
49. The council has taken some significant and difficult decisions to make progress on its improvement plan, in particular around the creation of, and appointment to, the new political management arrangements and management structures. The council has also taken difficult decisions as part of the ‘Blueprint for Education’ where it has agreed to cease secondary school provision at Scalloway school and primary provision at Uyeasound school.
50. There are some areas where progress has been more limited. For example, the long standing issue about the replacement for the Anderson High School (AHS) remains outstanding. The current position is that the new AHS is being progressed through the council's 'gateway' process to help the council evidence that best value is achieved. Following this process, the council will be evaluating and presenting the various options to members to support the decision-making process. The current economic climate means that there has been uncertainty over the sources of funding for the construction of the new school. At the end of

November, however, the Scottish Government confirmed that the council will be permitted to bid for funding for the replacement of AHS from Scotland's Schools for the Future programme.

Governance

The council has made significant progress in reviewing, updating and improving its governance arrangements. Though the new arrangements are still relatively new and are bedding in, the early indications are that improvement is being achieved.

51. In its findings, the Accounts Commission recommended that the council should review its approach to governance.
52. In addition to establishing the new political management structures, the council agreed a comprehensive set of supporting governance and constitutional arrangements. The council secured external support to develop the arrangements.
53. The council's new constitutional arrangements include:
 - a Constitution – including sections on conduct, the principles of good governance, roles and responsibilities and core skills and competencies
 - standing orders for meetings
 - a scheme of administration and delegations
 - an ethical framework – including a protocol on councillor/ officer relations, the councillors code 2010 and an employee code of conduct
 - a scheme of remuneration and approved duties
 - a code of corporate governance
 - a protocol on chief officer appointments
54. In its findings the Commission recommended that 'Councillors should work together to ensure that they have a shared understanding of the requirements of the Code of Conduct and other relevant guidance for the way they approach the council's business.'
55. The constitutional documents are comprehensive and should provide a solid foundation to support the council conduct its business effectively. It is essential that members and officers are familiar with the content of the documents and, most importantly, fulfil their respective duties in accordance with them.
56. The council's financial regulations and standing orders are currently under development. During 2011 the council commissioned external support for the development of these regulations and standing orders. Revised arrangements are due to be in place by December 2011.
57. In its findings the Commission also recommended that 'The council should review the way in which it advises councillors on the issue of their interests, and ensure that it is able to explain coherently and publicly the way in which councillors are expected to approach recurring issues such as the role of councillors as trustees of Shetland Charitable Trust.' It also recommended

‘The council should ensure that senior officers, particularly the relevant statutory officers, are able fully to advise councillors on their obligations.’

58. The revised constitutional documents clearly set out the role of the council’s statutory officers, including the monitoring officer. This, in combination with the roles and responsibilities of members and officers covered in the other constitutional documents provides a reference point to support good governance. It is important that members and officers use this on an on-going basis to ensure that it can demonstrate that it is applying the principles of good governance.

Management structures

The council has agreed a new management structure and has made significant progress in implementing the new arrangements.

59. In June 2011 the council approved a new senior management structure comprising:
- 5 Directors - replacing the previous arrangement of two Executive Directors and an Assistant Chief Executive
 - 34 Executive Managers - replacing 16 Heads of Service and 56 Service Managers
60. The main objectives of the management restructuring were to:
- Improve corporate leadership
 - Clarify lines of accountability, reduce duplication and ‘delayer’ the organisation
 - Improve communication within the organisation
 - Improve performance and efficiency
61. The 5 Directorates are:
- Children’s Services
 - Community Care Services
 - Corporate Services
 - Development Services
 - Infrastructure Services
62. In its findings, the Commission recommended that ‘The council should ensure that robust and transparent procedures are established and followed for the creation and filling of all posts, and the performance management and appraisal of all staff.’
63. The council approved a revised recruitment and selection process for the recruitment and selection of chief officers as part of updating its governance arrangements and secured external support for the process.
64. The council initially went through a robust internal recruitment process and, in July, appointed to three of the Director posts: Children’s Services, Community Care Services and Development Services. The appointments panel (which was made up of seven elected members) decided not to appoint to the two remaining posts and advertised externally. In

August, the council appointed an external candidate to be the Director of Infrastructure Services and in November made an interim external appointment to the post of Corporate Services Director.

65. The creation of posts and arrangements for staff appraisal are covered in the 'Building capacity & sustaining improvement' section of this report.
66. The council already has some shared services with NHS Shetland dealing with adult services, mental health, occupational therapy, GP primary care services and ophthalmics. Discussions are on-going between the council and NHS Shetland to consider further integration between health and social care services.
67. A combination of the recruitment process and early retirements has meant that none of the previous Executive Directors or the Assistant Chief Executive now hold Director posts.
68. The process of appointing to the next tiers of management is progressing, using a combination of job matching and internal and external recruitment where appropriate. At the time of writing all but four of these posts have been filled. The council aims to have completed this process by the end of the financial year 2011/12.
69. The council expects to make savings through the exercise. The council anticipates savings of £1.0 million in a full year (approximately 20% of the previous management cost for the posts covered by the restructuring.) The costs of voluntary severance will impact on these savings and will depend on the circumstances of the individuals involved, though the council expects that the costs will be recoverable within two years.
70. The council is now moving on to the next tier of management appointments at team leader level.
71. The council has implemented the restructuring process quickly to minimise the uncertainty associated with such an exercise. Inevitably however the process has led to some disruption and increased anxiety in a number of officers and has had some impact on the implementation of the improvement plan. This is to be expected, but it is important that the council ensures that it maintains the momentum on delivering the improvements.

Working relationships

Working relationships have improved. The council needs to ensure that effective working relationships are maintained to support continued improvement. This will be particularly important leading up to the council elections in May 2012.

72. Previous audit reports have commented on the sometimes problematic working relationships in the council. Our observations of council meetings and interviews with key stakeholders indicate that working relationships have improved. The new governance arrangements, including new codes of conduct and the council's communications strategy have set clearer expectations and roles and responsibilities which have helped working relationships.

73. There have been instances where tensions have arisen, but these have been less frequent than in recent years. At the beginning of 2010/11 the council's Monitoring Officer was aware of outstanding complaints against four councillors. These complaints were investigated with the result that two of them were not upheld while the remaining two led to a report being submitted to the Standards Commission. Following a hearing, the Commission handed down a sanction of 'censure' against two councillors and this was reported at a council meeting in October 2010. During 2010/11 there were three further complaints made to the Standards Commission against five councillors. All of these complaints were dismissed. On 9th November the Standards Commission published a decision on a complaint made about 10 elected members in relation to the Viking Energy wind farm project. The Public Standards Commissioner for Scotland found that the members had not contravened the Councillor Code of Conduct.
74. It is important that the council continues to nurture positive working relationships to help ensure that it can continue on its improvement journey. Given the proximity of the local government elections in May 2012 the 'political temperature' will rise in all councils. Within this context it is important that the council does not allow this to have a negative impact on the overall improvement it is making.

Building capacity & sustaining improvement

The council has improved its capacity by implementing its improvement plan. The changes to political management arrangements, governance and management structures have all helped with this. The council continues to develop training and development to support members and officers and has brought in external expertise to support improvement in key areas.

75. In its findings, the Commission recommended that 'The council should establish a comprehensive programme of training and development to be undertaken by all councillors and senior officers to enable them to understand how to perform effectively in their roles and how to demonstrate the value of good governance through their conduct. This programme should ensure that:
- councillors, in particular those holding positions with additional responsibilities, are able to develop clear and authoritative strategic leadership
 - councillors are able to distinguish appropriately the requirements of their separate duties as local representatives and corporate leaders,
 - mutual trust and respect is established among and between councillors and officers for their respective roles
 - senior officers establish a strong and effective commitment to meet their strategic corporate responsibilities.'
76. The progress on a range of the improvement plan actions covered elsewhere in this report provides evidence that the council is making progress in this area. The political management

arrangements and governance and constitutional documents help to clarify the roles, responsibilities and expectations of members and officers.

77. In addition, specific actions in the improvement plan are starting to help address the need to develop the capacity of the organisation.
78. The council has undertaken a range of training and development activities to support elected members, it: has:
 - held a range of informal seminars to members on governance and financial management
 - delivered briefings for members on decision making, chairing meetings, communications skills, corporate parenting and strategic environmental assessments
 - piloted 'e-learning materials' for members
 - engaged external support on areas of the improvement plan. This has given members alternative external perspectives on issues and arrangements.
79. Attendance at seminars and briefings by elected members has been encouraging overall, averaging 60 per cent. Attendance has varied however, though ranging from 95 per cent on the governance proposals to only 9 per cent on Strategic Environmental Assessment.
80. The council is currently using feedback from the activity to date to inform the development of a comprehensive induction programme for members to take place following the local government elections in May 2012.
81. Training and development for officers has been progressed in two ways. The council has purchased an 'e-learning package' to help support development. More importantly, the recruitment, selection and matching process has been used to identify training and development needs and the council plans to use this to inform individual training and development plans and a shared councillor/ senior manager leadership development programme.
82. In its findings, the Commission recommended that 'The council should ensure that robust and transparent procedures are established and followed for the creation and filling of all posts, and the performance management and appraisal of all staff.'
83. The recruitment and selection process is covered earlier in this report in the 'management structures' section. The council has also introduced arrangements to monitor the creation and filling of other posts in the organisation. Since May, the council has been considering reports on overall staff numbers as part of its efficiency and workforce strategy. Between 2007/08 and 2011/12 the number of full time equivalent posts grew from 2,536 to 3010, an increase of 19 per cent. From January 2011 all requests to recruit have been considered by a vacancy management panel chaired by a Director to ensure that senior management scrutiny was being applied to all recruitment. In September, the council approved the terms of reference for an Efficiency Partnership Group (EPG) to facilitate closer working between managers and trade unions to address the challenge of identifying and addressing efficiency savings. The number of full time equivalent employees has reduced by four per cent between September 2010 and September 2011.

84. The council agreed a performance appraisal system for the chief executive in December 2010, which is supported by an external facilitator. The employee review and development policy is being revised and the council plans to implement performance appraisal across the organisation from December 2011.
85. The council has also used external support in a number of ways to build its capacity to help meet its challenges. The council has secured support from:
- COSLA
 - SOLACE
 - The Improvement Service
 - peer senior officer support- from the Highland Council, Comhairle nan Eilean Siar, Falkirk Council and Scottish Borders Council
 - external advisers - sourced through SOLACE enterprises, the Improvement Service and others to support work on strategic direction, management restructuring, developing governance and accountability, financial planning and management, HR issues.

Performance management and planning

There has been some improvement in performance management and planning arrangements, but further improvement is needed in this area.

86. In its improvement plan, the council committed to developing a planning and performance management framework (PPMF). The intention was that the framework would support the production of service plans and inform the budget process for 2012/13. The council also aims to implement the PPMF to support the community planning arrangements.
87. In July 2011, the council agreed a Policy Direction for the PPMF and while the report contains references to the core elements of a framework (objectives, strategic drivers, accountability arrangements and a planning and budgeting timetable) the framework is rudimentary at present. For the parts of the council where planning and budgeting arrangements are already well developed, the PPMF provides a checklist to help ensure the basics are covered. Where planning and budgeting arrangements are less well developed, the PPMF alone would not be sufficient to support the improvement the council wants to make. The council has recently developed additional guidance to supplement the PPMF policy framework to improve its delivery of the objectives of this work-stream.
88. Over the summer, the council procured an electronic performance management system which is used by a large number of other councils. Work is on-going to implement the system. If the system is implemented successfully it will provide the council with a useful tool to help it monitor performance in a more robust and systematic way.

Financial management and accountability

Some aspects of financial management have improved; the council has introduced more effective financial planning and budget setting arrangements and agreed a strategic budget plan and agreed principles to underpin its reserves policy. Budget monitoring reports to elected members have improved, but need to improve further.

Some aspects of financial management remain an area of significant concern however. The latest budget monitoring report indicated that the council has significant challenges in delivering its 2011/12 budget. The process of finalising the annual accounts was problematic, the financial statements were again qualified due to the exclusion of the results of the Shetland Charitable Trust and the annual audit report to the Controller of Audit and elected members raised concerns about the resourcing of the finance function.

Budget setting

89. In its findings, the Commission said 'The council should establish rigorous processes to ensure that it can put its use of resources on a footing that is consistent with implementing and sustaining its financial strategy, and demonstrate that it can deliver services in a way which achieves Best Value.'
90. In 2009, the council approved a strategy which established a single overall limit for drawings on reserves in 2011/12 of £24 million while maintaining the existing £250 million minimum level of reserves. On 10 February 2011 the council approved a budget for 2011/12 in line with this strategy. The budget included planned revenue savings of £9.4 million.
91. In July 2011 the council agreed a financial planning and budgeting framework, it also developed a timetable to review its reserves and charging policies and implemented Spend to Save projects.
92. The council is now preparing for the 2012/13 budget-setting process with the knowledge that difficult decisions will have to be made to ensure that the levels of reserves are maintained in line with its reserves strategy for future years. In October the Executive Committee approved a paper which detailed preliminary principles on the use of reserves for the 2012/13 budget strategy. This includes maintaining a reserves policy for the total of the general fund discretionary reserves (the reserve fund, the capital fund and the repairs and renewal fund) at no less than £250 million over the medium term. In November 2011 the council agreed a strategic budget plan for the 2012/13 budget onwards.

Budget monitoring and delivery

93. A report by the Head of Finance to the Executive Committee in October 2011 indicates that the council has significant challenges in delivering its 2011/12 budget. It highlighted that, if the detailed approved budgets are achieved in 2011/12, the council's reserves will fall to £219 million. Between the original budget being approved in February 2011 and the report to the

Executive Committee in October, revisions were made which increased the planned draw on reserves to £47.4 million.

94. In October 2011, the council reported that £7 million out of the £9.4 million revenue budget savings for 2011/12 had been achieved and that there was a reasonable degree of certainty that the remaining £2.4 million would be delivered. However, the council also reported that there was still £6.1 million to fund from corporate savings during 2011/12.
95. The council has made improvements recently to the format of financial monitoring reports for members. It is essential that financial reporting improves further to ensure members have a complete and up to date view of the financial challenges facing the council and the options that are available.

2010/11 Accounts

96. In its findings, the Commission said that ' The council should address the weaknesses in its finance function to ensure that it complies with good practice and relevant objective standards, and provides appropriate information to allow councillors to exercise robust strategic budget management'
97. There were significant problems with the council's preparation and submission of the financial statements. Although the unaudited accounts were submitted to the Controller of Audit on the deadline date of 30 June 2011, they did not comply with the code of practice as several sections were incomplete. In particular, the group accounts section of the financial statements had not been completed. Further to this, the council's financial statements included the accounts of the Shetland Islands Council Pension Fund which should have been submitted separately to the Controller of Audit. Amended sets of accounts were submitted on 4th and 26th July and 12th September. The audit work continued until 30 September, when a final set of Code compliant accounts was received by the audit team.
98. The annual audit report states ' In conclusion, the number of errors and omissions in the financial statements submitted for audit was unacceptable. The number of revisions to these accounts has increased substantially the amount of work for both finance staff and the audit team to conclude the audit this year. Of greater concern is that the council advertised for public inspection a set of financial statements that were not Code compliant and have now been changed substantially. More rigorous review processes need to be put in place so that the 2011/12 unaudited financial statements comply with the Code and present a true and fair view of the council's position.'

Qualification of the 2010/11 accounts

99. In its findings, the Commission recommended that the council 'should ensure that the qualification of its accounts in relation to the accounting treatment of the Shetland Charitable Trust is resolved in time for the audit of the financial statements for 2010/11.'
100. The 2010/11 financial statements were qualified because of the continued exclusion of the results of the Shetland Charitable Trust (SCT) in the council's group accounts. The annual

audit report to members stated 'The council's financial statements are an essential part of accounting for the stewardship of its resources. For the fifth consecutive year, we have given a qualified opinion on the financial statements of the council. The qualification relates to the fact that the council has not included the results of the Shetland Charitable Trust (SCT) in its 2010/11 group financial statements. We have not received any further evidence from the council to support the view that the SCT should not be included within the council's group. It remains our view, therefore, that the omission of the SCT and its subsidiaries from the council's group financial statements is not in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code), and represents a material mis-statement of the group figures.'

101. The council and the charitable trust have engaged external legal advice on the matter of the trust and in September 2011 the Trust considered a report which recommended changes to the structure of the trust including a board made up of seven councillor and eight non councillor trustees. At the meeting the trustees voted not to change the trust's structure and decided to hold a referendum on the future governance of the trust. The timescales and the arrangements for the referendum are yet to be decided. In November the Chief Executive of the Office of the Scottish Charity Regulator wrote to the Trust raising concerns about the decision and requiring the trust to provide a timetable setting out the steps leading to changes to the trust's constitution. The letter also set out the actions OSCR might take if the trust did not comply, including issuing a direction to restrict the use of the trust's funds and a petition to the Court of Session.

Resourcing of the finance function

102. The 2010/11 annual audit report to the Controller of Audit and elected members stated that 'the significant problems identified during the audit highlighted that there is a need to adequately resource the finance department to ensure that it has the capacity to deliver Code compliant financial statements' and that 'the recruitment of an Executive Manager for Finance, who will be the replacement Section 95 finance officer, should be advanced as soon as possible.'
103. On 31st March 2011 the former Head of Finance and the former financial accountant retired. At that time the former Executive Director of Education & Social Care agreed to take on the role of acting Section 95 officer on a temporary basis. She decided in July 2011 to leave the council, although she agreed to continue as the Section 95 officer working to oversee the finalisation of the 2010/11 accounts and the 2012/13 budget-setting process.
104. The council has reviewed the structure of the finance function and is currently recruiting a permanent Director of Corporate Services who will oversee the section. In the meantime, the council has appointed an interim Director of Corporate Services until March 2012. The recruitment of a replacement Section 95 finance officer should also be advanced as soon as possible. The council is currently exploring options on how best to do this following a recent, but unsuccessful, recruitment process for the post of Executive Manager - Finance. The council is also currently recruiting to the post of financial accountant.

105. The council must ensure that the new S95 officer has adequate authority, profile and opportunity to challenge directors of services on budgetary matters, during times when difficult choices on expenditure and savings will need to be made.

Other improvement activity

The council has made improvements to a number of supporting systems and processes which help it to do business more effectively. Some of the commitments in the improvement plan are behind schedule and need further development, but they do not compromise the improvement plan overall.

106. In its findings, the Commission recommended ‘ The council should improve the way it develops clear, coherent messages to communicate with the local community, and take steps to improve the way it conducts its relationship with the media and recognises the media’s legitimate interest in council matters.’
107. The improvement plan committed the council to establishing a communications office and a communications strategy. The council agreed the communications strategy in July 2011 and the establishment of a communications office is progressing as part of the management restructuring process. The communications strategy sets out clear guidance and clarifies roles and responsibilities and the council has become more structured about how it manages communications both internally and externally with the media. One indication of this is the reduction in the number of ‘leaks’ which have resulted in press coverage of issues in advance of them being considered by the council. There have been some instances of this, but far fewer than in recent years.
108. The council continues to be the focus of extensive media coverage on the islands and senior members and officers, in particular the Leader and the Chief Executive, engage actively and constructively with the local press and broadcast media.
109. The council also agreed to establish dedicated support services for members as part of the improvement plan. Admin support arrangements for elected members have been improved and the council is reviewing how best to further support members as part of the management restructuring process.
110. The council has been developing a process for dealing with complaints. Following consultation with members and officers, draft policy and guidance documents have been developed. The council is considering how and when to best implement the new process though progress is slightly behind schedule. This is due in part to the fact that the Scottish Public Services Ombudsman (SPSO) is developing a national framework for dealing with complaints and the council wants to ensure any new complaints process is compliant with the new national guidance.
111. In its findings, the Commission recommended ‘ The council should develop a systematic approach to engaging with the wider local government community, ensuring regular attendance at meetings of professional and representative bodies, and learning from good practice.’

- 112.** The council's improvement plan recognised that the council needed make its external engagement more effective in particular by being more integrated in the Scottish local government community. The council carried out an audit of elected member membership and attendance at national forums and mapped out external engagement by senior officers. The council also sought advice and guidance from COSLA, SOLACE and the Improvement Service. Though this improvement workstream has been subject to some slippage and is not yet concluded, the indications are that the council is making better use of external engagement and networks.
- 113.** After some initial progress on sharing best practice and benchmarking, developments in these areas has faltered. This is mainly as a result of the management restructuring process. The council recognises that it needs to review the leadership and ownership of some the improvement work-streams in the light of the new management structure.
- 114.** The council has made some progress in developing its arrangements for managing its assets. The council's improvement plan contains a commitment to develop a new asset management strategy by December 2011. An asset strategy manager has been in post since April 2011 and work on the strategy is progressing. At its meeting in June 2011, the council agreed to develop an HQ at a site in North Ness. This will allow the council to rationalise its estate and also have more officers in a single location which potentially helps improve communication and joint working.

Community planning

- 115.** The council is working with community planning partners to review and improve the community planning partnership structures.
- 116.** The Commission did not make any specific recommendations in relation to community planning, though a number of the findings and recommendations for improvement have relevance to partnership working.
- 117.** In its improvement plan, the council committed to reviewing the community planning governance structures and using the PPMF development to improve the effectiveness of the community planning arrangements.
- 118.** In August 2011, the Community Planning Partnership's Delivery Group considered a report outlining the background to, and methodology for, carrying out a review of the partnership's strategic structures. The report notes the structural changes taking place in the council, the progress of the scenario planning exercise mentioned earlier in this report and concerns expressed by partners themselves about the 'added value of the highest strategic level of community planning in Shetland.'

Strategic reviews

- 119.** The council is progressing a number of strategic reviews alongside its improvement plan. A number of these are at a fairly early stage and so the impact is yet to be proven, however the range of review work indicates a commitment to improvement.

120. The range of review work includes:

- Education Blueprint – this has led to changes to schools provision and other savings
- review of financial and HR administration – a project plan has been agreed and work-streams are being scoped
- Integration of Health and Social Services/ Community Care Review –this will provide recommendations in 2012
- ferries review – recommendations will be provided in 2012
- Ports for the future review – this led to the introduction of new terms and conditions for pilots, launch crew and tug crews and changes to the tug service and engineering services during 2011 and is anticipated to deliver year on year savings in the region of £1.8 million
- Estates and Direct Labour Organisation review – a project brief was considered by the corporate management team in November 2011

FRASER McKINLAY

CONTROLLER OF AUDIT

7th December 2011

Appendix: Summary of Progress on Accounts Commission Recommendations

| Recommendations | Summary of Progress |
|--|--|
| <p>The council must put in place a comprehensive programme of improvements as a matter of urgency to address the issues we have identified. The programme should set clear objectives, milestones and timescales for delivery.</p> | <p>On 10th November 2010 the council accepted the Commission's recommendations and approved an improvement plan. The improvement plan set out a range of work-streams, associated milestones and identified responsibilities.</p> |
| <p>This programme of improvements should ensure that:</p> <ul style="list-style-type: none"> • the council can develop the leadership, governance and strategic direction it requires • there is the basis for effective working relationships among councillors and between councillors and officers • all procedures for decision-making are robust and transparent, and can command public confidence • the council has the capacity to deliver its financial strategy. | <p>The council has agreed a new role of leader, convener and a new committee structure</p> <p>It has agreed a comprehensive set of supporting constitutional documents</p> <p>It is developing a long term vision for the islands with its partners</p> <p>Working relationships have improved</p> <p>Some aspects of financial management have improved. Significant concerns remain about some other aspects of financial management</p> |
| | |

| Recommendations | Summary of Progress |
|---|--|
| <p>Specific recommendations</p> | |
| <p>a) The council should establish a comprehensive programme of training and development to be undertaken by all councillors and senior officers to enable them to understand how to perform effectively in their roles and how to demonstrate the value of good governance through their conduct. This programme should ensure that:</p> <ul style="list-style-type: none"> • councillors, in particular those holding positions with additional responsibilities, are able to develop clear and authoritative strategic leadership • councillors are able to distinguish appropriately the requirements of their separate duties as local representatives and corporate leaders • mutual trust and respect is established among and between councillors and officers for their respective roles • senior officers establish a strong and effective commitment to meet their strategic corporate responsibilities. | <p>The process of developing new political management arrangements and constitutional documents was informed and supported by a range of seminars with elected members.</p> <p>The council has developed and delivered a range of training and development arrangements for elected members. This is informing its induction arrangements for elected members following the local government elections in 2012</p> <p>It has carried out management training needs analysis as part of the recruitment and selection process for the management restructuring.</p> |
| <p>b) The council should review its approach to governance, and ensure that rigorous systems are in place to support clear and transparent decision-making, such as formal recording of meetings and routine systems for the dissemination of decisions and information to staff and the public.</p> | <p>The council has revised its political management arrangements, introduced new committees, new roles and new constitutional documents.</p> <p>Committee meetings are more formal and business and the quality of agendas and reports is improving.</p> <p>A new Communications strategy is making internal and external communications and dealing with the media more</p> |

| Recommendations | Summary of Progress |
|---|--|
| | structured and consistent. |
| <p>c) The council should agree effective procedures for engaging with the local community and understanding its needs and expectations, and put these procedures on a systematic basis.</p> | <p>The council has introduced a community engagement strategy and is using it as part of its budget consultations which are currently under way.</p> |
| <p>d) The council should improve the way it develops clear, coherent messages to communicate with the local community, and take steps to improve the way it conducts its relationship with the media and recognises the media's legitimate interest in council matters.</p> | <p>A new Communications strategy is making internal and external communications and dealing with the media more structured and consistent.</p> |
| <p>e) The council should develop a systematic approach to engaging with the wider local government community, ensuring regular attendance at meetings of professional and representative bodies, and learning from good practice.</p> | <p>The council is making better use of attending external meetings, for example at COSLA.</p> <p>There has been more limited progress on an improvement workstream relating to benchmarking and sharing good practice.</p> |
| <p>f) Councillors and senior officers should work together to improve the management information available to councillors, to enhance the capacity and commitment to deliver robust appraisal of policy choices, and thereby help to ensure that councillors are supported to develop the skills to discharge their scrutiny role rigorously.</p> | <p>The quality of reporting has improved, though can still improve further</p> |

| Recommendations | Summary of Progress |
|---|---|
| <p>g) Councillors should work together to ensure that they have a shared understanding of the requirements of the Code of Conduct and other relevant guidance for the way they approach the council's business.</p> | <p>The codes of conduct and conduct of business formed a core part of developing the new governance arrangements and constitutional documents.</p> <p>The council had a number of seminars involving Improvement Service, Standards Commission and external support about the proposals etc.</p> <p>Elected members have attended training events on decision making, chairing meetings and communication skills.</p> |
| <p>h) The council should review the way in which it advises councillors on the issue of their interests, and ensure that it is able to explain coherently and publicly the way in which councillors are expected to approach recurring issues such as the role of councillors as trustees of Shetland Charitable Trust.</p> | <p>Role of elected members and statutory officers is defined in the constitutional documents and formed part of the member seminars.</p> |
| <p>i) The council should ensure that senior officers, particularly the relevant statutory officers, are able fully to advise councillors on their obligations.</p> | <p>Role of elected members and statutory officers is defined in the constitutional documents and formed part of the member seminars.</p> |
| <p>j) The council should establish rigorous processes to ensure that it can put its use of resources on a footing that is consistent with implementing and sustaining its financial strategy, and demonstrate that it can deliver services in a way which achieves Best Value.</p> | <p>Progress on improving some aspects of financial management including strategic financial planning and budget setting</p> <p>Progress has been more limited in other areas including; the process of finalising the financial statements and this remains an area of significant concern.</p> |

| Recommendations | Summary of Progress |
|---|---|
| | <p>The latest budget monitoring report indicated that the council has significant challenges in delivering its 2011/12 budget.</p> |
| <p>k) The council should address the weaknesses in its finance function to ensure that it complies with good practice and relevant objective standards, and provides appropriate information to allow councillors to exercise robust strategic budget management.</p> | <p>Budget monitoring reports to elected members have improved, but further improvement is required.</p> <p>The October 2011 annual audit report to the Controller of Audit and elected members highlights this as an area of concern.</p> <p>In November 2011 an interim appointment has been made to the post of Corporate Services Director until March 2012 and a recruitment process is under way for a permanent appointment to this post and the post of financial accountant</p> |
| <p>l) The council should ensure that the qualification of its accounts in relation to the accounting treatment of the Shetland Charitable Trust is resolved in time for the audit of the financial statements for 2010/11.</p> | <p>The 2010/11 financial statements were qualified.</p> |
| <p>m) The council should ensure that robust and transparent procedures are established and followed for the creation and filling of all posts, and the performance management and appraisal of all staff.</p> | <p>Robust recruitment and selection procedures were used to support the population of the new management structure and vacancy management is subject to close scrutiny.</p> <p>Performance management and appraisal arrangements are developing.</p> |

