SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW

Stirling Council

Annual Audit Report to Stirling Council and the Controller of Audit 2005/06

SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW

Stirling Council

Annual Audit Report to Stirling Council and the Controller of Audit 2005/06

1 Summary

Governance

- Stirling Council's Audit Committee arrangements are generally in line with the audit committee principles set out in professional guidance. There have however been considerable changes over the last 12 months to the composition and structure of the body fulfilling the audit committee role at the Council.

- During the year we carried out a review of the Council's contract management arrangements. Whilst the Council has a range of policies, procedures, standing orders, etc. which provide a sound framework for procurement activity our review identified that Council staff have failed to properly apply this framework in practice which has resulted in the Council failing to deliver its statutory duties in a number of areas.

- The Council has successfully implemented a number of fundamental aspects of successful risk management. During 2005/06 however this important initiative appears to have experienced a loss of momentum. The development of the Council's risk management framework has been managed by the Corporate Risk Management Group however this group has experienced increasing difficulty in devoting sufficient time to drive this initiative forward. This has been recognised by the Council.

Performance

- During the year we conducted a review to monitor the progress made by the Council against their Best Value Improvement Plan. The Council's Improvement Plan was described by Audit Scotland as being very ambitious. The demands inherent in the plan are now becoming evident with many areas beginning to slip due to external issues. Given the number of recommendations within the existing Improvement Plan, Stirling Council must prioritise and focus on its key issues to ensure that progress is made.

- The Council is currently working on a number of specific key projects which have the potential to significantly impact on service and financial governance within the Council. These include the Housing Stock Transfer, Cornton and Cultenhove Regeneration, Schools PPP Project, Office Review and Raploch Regeneration.

- The Efficient Government agenda required councils to establish targets for both cash releasing and time releasing savings. Stirling Council has identified general efficiency savings as a result of imposing a 1.5% efficiency target on budgets. Currently the Council is unable to accurately measure or identify the levels of savings being specifically achieved as a result of this.

- The Council is currently engaged in a range of shared services and joint working arrangements. In June 2006, a paper was presented to Council proposing a new model of service delivery which was to be delivered jointly with Clackmannanshire Council. The proposal aims to save £4.5 million with at least as much again saved over the next two to three years. The Council is also involved with Clackmannanshire, Falkirk, Perth and Kinross and East Dunbartonshire Councils in developing shared service centre covering administrative and transactional processes within human resources, finance, payroll and procurement. The outline business case suggests that a £20 million investment would release savings of £30 million (£10 million net) over 10 years.

Finance

- We are pleased to report that in 2005/06 the Council complied with The Code of Practice on Local Authority Accounting in Great Britain in all material aspects.

- The Council achieved a general fund deficit of £3.419 million in 2005/06 compared with a budgeted deficit of £1.129 million. A contributing factor to this deficit is a provision made for equal pay claims. In 2005/06 this provision amounted to £5.324 million.

- The Council has an available non-earmarked general fund balance of £2.151 million at 31 March 2006. This equates to 1.3% of the 2005/06 revenue expenditure, which is considerably below the 3% target considered appropriate. The Council has recognised the need to develop and agree a strategy to build its general fund back up to an adequate level over the short term.

- The Council's final capital outturn showed slippage against the capital budget of £4.735 million. Over the next few years the Council has committed to delivering a number of large capital projects. The Council will need to continue to improve their project management arrangements if it is to deliver these ambitious plans.

- The Council has failed to meet the statutory target to breakeven over the course of the three year period to 31 March 2006 on four of their Statutory Trading Organisations (STOs). These include grounds maintenance, refuse collection, building cleaning and catering.

- The Council has prepared group accounts for 2005/06. Overall we are pleased to report that the group accounts preparation process followed by Stirling Council has been thorough and robust.

Conclusion

This report concludes the 2005/06 audit of Stirling Council. We have performed our audit in accordance with the Code of Audit Practice and Statement of Responsibilities published by Audit Scotland. Subject to the weaknesses identified in this report, we are satisfied that Stirling Council has properly discharged its duties in accordance with the Statement of Responsibilities.

This report has been discussed and agreed with the Chief Executive and Head of Resource Management and has been prepared for the sole use Stirling Council, the Controller of Audit and Audit Scotland.

We would like to thank all members of Stirling Council management, staff and members who have been involved in our work for their co-operation and assistance during our audit visits.

Scott-Moncrieff
September 2006

2 Introduction

2.1 Audit Framework

The Accounts Commission for Scotland is a statutory independent body which, through the audit process, promotes the highest standards of financial stewardship and public accountability in local authorities and assists them in achieving value for money. Audit Scotland is an independent statutory body that provides the Accounts Commission with the services required to carry out their statutory functions. Audit Scotland has prepared a Code of Audit Practice, which sets out the way in which auditors should carry out their functions, and a Statement of Responsibilities which explains where the responsibilities of the auditor begin and end. The Accounts Commission has appointed Scott-Moncrieff as auditors of Stirling Council for the 5 year period 2001/2002 to 2005/2006.

2.2 Responsibilities of Stirling Council

The Council is accountable to the public for the conduct of public business and the stewardship of funds under its control. The Council is therefore responsible for:

- Establishing proper corporate governance arrangements
- Maintaining proper accounting records
- Preparing the financial statements
- Safeguarding assets
- Taking reasonable steps for the prevention and detection of fraud and other irregularities
- Managing its affairs to secure the economic, efficient and effective use of resources
- Publishing statutory performance indicators
- Making arrangements to secure best value

2.3 Responsibilities of Auditors

Our responsibilities as external auditors to the Council, which are significantly greater than those of auditors in the private sector, are derived from statute (principally the Local Government (Scotland) Act 1973) and from the Code of Audit Practice.

Our work can be classified under the following three headings: performance audit, governance audit and financial audit. The main objective for each of these areas is summarised below.

Audit Area	Audit Objective
Governance Audit	To review and report on the Council's corporate governance arrangements in relation to: • The prevention and detection of fraud and corruption • Standards of conduct, accountability and openness • The Council's financial position • The Council's review of its systems of internal financial control, including risk management
Performance Audit	To review and report on the Council's arrangements for: • Managing its performance and for securing economy, efficiency and effectiveness in its use of resources • Collecting, recording and publishing performance information
Financial Audit	To provide an opinion on the financial statements and any related grant claims.

2.4 Audit Reporting

We have prepared the following detailed audit reports during 2005/2006:

- Corporate Governance Arrangements
- Best Value Follow Up Report
- Interim management report – financial statements and accounting systems
- Efficient Government

This annual report summarises all of our work during the year and highlights the key issues we have identified under the headings of governance, performance and finance. The action plan in section 6 details the significant recommendations we have made with regard to the findings in this report, along with management's responses.

3 Governance

3.1 Governance Arrangements

The Code of Audit Practice gives the external auditor a responsibility to review and, where appropriate, report findings on the audited body's corporate governance arrangements. In discharging this responsibility we carried out a review of the Council's governance arrangements during 2005/2006. This review included consideration of the Council's risk management arrangements, codes of conduct and procedures for the prevention and detection of fraud and irregularity. Our work in this area concluded that whilst the Council's corporate governance arrangements were fairly robust a number of areas for improvement were identified which would bring the Council's corporate governance regime in to line with best practice. These issues were brought to the attention of Council officials and elected members through the issue of our interim management report on corporate governance arrangements. The report contained an agreed action plan which committed the Council to addressing each audit issue within an agreed timescale. The key findings from this work are outlined below.

3.1.1 Audit Committee Principles

Our 2005/2006 review assessed the progress that the Council has made in addressing the principles set out in the CIPFA publication 'Audit Committee Principles in Local Authorities in Scotland – A Guidance Note'. The guidance note identifies three fundamental principles which local government audit committees should aspire to and provides guidance on how these principles can be delivered in practice. We concluded that Stirling Council's arrangements were largely able to deliver the audit committee principles set out in the CIPFA guidance and have had a positive impact on the Council's overall corporate governance framework. There have however been considerable changes over the last 12 months to the composition and structure of the body fulfilling the audit committee role at the Council. These changes are set out below.

Good practice recommends that an audit committee is a formally constituted committee and meets in public. Our 2004/2005 review noted that the Governance and Resources Performance Group (GRPG) of the Council which fulfilled the audit committee role was not a formally constituted committee and did not therefore have decision making powers. Furthermore it did not meet in public. We prompted the Council to consider these issues to determine the extent to which these factors inhibited its ability to deliver fully effective audit committee principles. In December 2005 the Council agreed to establish a formal Audit Panel, with the same membership as the GRPG which would meet in public. The Panel met in March and June 2006. On 22 June 2006 the Council approved revised political and corporate governance arrangements. The Audit Panel was replaced by a Governance and Audit Committee.

The new Committee comprises five opposition members and two members of the administration, as agreed at the Council meeting of 14 September 2006, and has responsibility for undertaking the functions of an audit committee in line with Audit Scotland recommendations and the guidance set out in Audit Committee Principles in Local Authorities in Scotland.

The remit of the Committee was also approved on 22 June 2006. We have reviewed the remit of the Committee and are satisfied that it complies with the requirement of the relevant CIPFA publications. The Committee will meet for the first time on 7 September 2006.

3.1.2 Freedom of Information (Scotland) Act 2002

The Freedom of Information (Scotland) Act 2002 came into effect on 1 January 2005. The Act introduced a general statutory right of access to all types of 'recorded' information held by Scottish public authorities. Subject to certain conditions and exemptions, any individual who makes a request to the Council for information will be entitled to receive it. The Council is required to respond to requests for information within 20 days. A person who has made a request for information may apply to the Scottish Information Commissioner for a decision as to whether the Council has dealt with the request in accordance with the Act.

As part of our 2005/06 corporate governance review we reviewed the Council's arrangements for processing freedom of information requests. In general these were found to be satisfactory. We noted however that where requests for information are being sent to individual officers there is no control in place to identify and respond to these when the individual officer is absent. As such there is risk that the Council does not comply with the requirements of the Act during these periods. The Council agreed to put in place arrangements to respond to requests for information during the absence of key staff with Freedom of Information responsibilities.

.

3.2 System of Internal Financial Control

Local authorities are required to include within their statement of accounts a statement on the system of internal financial control. This statement sets out the framework within which financial control is managed and reviewed and the main components of the system including the arrangements for internal audit.

In previous years we have assessed the Council's compliance against this framework. As part of our 2005/06 audit we updated our assessment and followed up recommendations made in previous years. Our review concluded that the system in place at Stirling Council is satisfactory

The 2005/2006 statement of internal financial control has been informed primarily by the work of internal and external audit, and assurance statements and representations from Directors and Heads of Service at Stirling Council.

The Head of Resource Management has concluded that the Council's system of internal financial control was largely effective. The statement identifies certain areas where internal financial control can be improved and provides assurance that appropriate plans are in place to address these issues.

As part of our audit work we are required to review the statement on the system of internal financial control and assess whether it is consistent with our understanding of the Council's internal financial control framework. We have reviewed the sources of assurance provided to the Council's Head of Resource Management in making his assessment. The Council's statement of internal financial control is consistent with our knowledge and understanding of the financial control framework operating at the Council.

3.3 Codes of Conduct

Propriety requires that public business is conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance. In 2005/06, our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct. Overall we concluded that controls at Stirling Council are satisfactory in relation to standards of conduct.

The Council's Code of Corporate Governance was approved in 2002. This was supplemented in June 2005 by the approval of a Code of Ethical Standards. The scope of the Ethical Standards Code covered all staff employed under a contract of service with the Council and other persons acting in the name of Stirling Council.

In June 2006 the Council reviewed the Local Code of Corporate Governance and approved an updated version which drew upon corporate governance developments since 2002. The new Code includes an action plan which sets out the requirements of the Stirling Council corporate governance framework, the criteria used to judge whether the framework is operating effectively and an assessment of the Council's compliance. It will be the responsibility of the Governance and Audit Committee Council to monitor and review progress against this plan through the work of internal and external audit.

3.4 Fraud and Irregularity

The integrity of public funds is at all times a matter of concern. As external auditors we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities.

As part of our 2005/06 Corporate Governance review we reviewed the controls for the prevention and detection of fraud, irregularity and corruption. Our review concluded that controls at Stirling Council were generally adequate to prevent and detect fraud and other irregularities. However we did identify a number the following areas for improvement:

Security Access Cards - All staff are provided with security cards to allow access to Council departments and buildings. These cards are configured to match individual access rights with the specific requirements of each post. We have consistently noted that the cards are not routinely returned to the Facilities department when staff end their period of employment within the Council. The Council have previously agreed to strengthen the procedures covering staff leaving the Council's employment. We noted during our 2005/06 corporate governance review that these changes have yet to be implemented.

Fixed Assets - The Council maintains a number of asset registers which record the description of each asset employed by the Council, its estimated useful life and the asset value. We recommended that checks are carried out on a regular basis to confirm that the assets recorded in the asset register physically exist.

An action plan has been agreed with the Council's management to address the issues identified.

3.5 Contract Management Arrangements

In June 2005 contracts for housing refurbishment work at the Council were let. All but one of the services included within these contracts were awarded to Stirling Council Building Services. The contracts had originally been advertised through the Official Journal of the European Union. Following the award of the contracts one of the unsuccessful contractors seeking work under the gas heating installation contract raised a number of concerns surrounding the procurement of this work with Audit Scotland. As a result we were required by Audit Scotland to investigate these concerns and report our findings.

Our investigation confirmed that the Council has a range of policies, procedures, standing orders, etc. which provide a sound framework for procurement activity. This is supported by a central procurement team who provide ongoing support, direction and guidance to staff operating throughout the Council with procurement responsibilities. However our findings have also identified that Council staff have failed to properly apply this framework in practice which has resulted in the Council failing to deliver its statutory duties in a number of areas.

Our investigation has also questioned the Council's approach to tender evaluation and we would recommend that the Council revisits this area to ensure future procurement decisions can clearly demonstrate best value.

Our findings were reported to Audit Scotland and included within our interim management report. An action plan was agreed with the Council to address the concerns raised by this complaint.

3.6 Risk Management

An important feature of a robust system of internal control is a developed and integrated approach to risk management. Effective risk management will deliver an appropriate balance between risk and control, more effective decision making, better use of limited resources and greater innovation. In 2004/05 we noted that considerable work was still required to enable the Council to implement and operate an effective risk management framework.

Our 2005/2006 review can confirm that whilst the Council has successfully implemented a number of fundamental aspects of successful risk management, its risk management initiative appears to have experienced a loss of momentum. To date the development of the Council's risk management framework has been managed by the Corporate Risk Management Group however this group has experienced increasing difficulty in devoting sufficient time to drive this initiative forward. This has been recognised by the Council and funding has been secured to recruit a dedicated Corporate Risk Manager to drive the initiative forward. Since our review of this area the Council has put forward a proposal for a new model of service delivery to be delivered jointly with Clackmannanshire Council (see paragraph 4.6). Risk management will in future fall within the remit of this joint delivery model. The recruitment of a Corporate Risk Manager is being progressed in partnership with Clackmannanshire Council and interviews will be taking place over the next month.

The recruitment of a Corporate Risk Manager should help to drive forward risk management at the Council. In particular we have noted in our interim report that:

- The Council should appoint a member of its senior management team to act as the main focal point for its risk management activity.
- Risk management responsibilities should be built into the job descriptions for operational managers and above.
- Risk management should be regarded as a core management competency which senior/middle management are expected to possess or develop and a formal training programme should be put in place to support managers in developing/maintaining the required level of competency.
- Clear relationships should be developed between the Council's business planning and risk management arrangements.
- Elected members should be involved in identifying the key risks facing the authority.

An action plan was agreed as part of our interim management report on corporate governance. The recruitment of a Corporate Risk Manager has delayed the implementation of some of these actions. We recommend that the Council revisits this action plan and agrees a new timetable for the implementation of actions. ***Recommendation 1***

3.7 Internal Audit

During the course of our audit we carry out an assessment of the internal audit function to assess its effectiveness and ascertain whether specific areas of internal audit work can be relied upon to inform the external audit of the Council's financial statements.

Our review concluded that the Council maintains an effective internal audit function and that we could rely on the work of internal audit during 2005/06 in a number of areas.

The Council's internal audit activity for 2005/06 was in overall terms, in line with the internal audit plan. The plan is updated during the year in consultation with services and takes account of any additional unplanned activities. The internal audit section has been pro-active in reacting to particular areas highlighted as requiring audit attention. In 2005/06 the section completed 75 audit reviews. Whilst we would commend the section for this performance we noted that 8 of the original planned areas in the internal audit plan were not covered but were instead deferred to 2006/07. The reasons for these areas not being covered include resourcing issues, services not being ready for audit and unplanned activity requirements. It is however important that the internal audit section delivers on the high risk areas identified within the plan. We therefore recommend that contingency arrangements are put in place to ensure that core reviews are completed in line with the timescale set down in the agreed plan. ***Recommendation 2***

4 Performance

4.1 Statutory Performance Indicators

The Local Government Act 1992 sets out the requirement for councils to prepare and publish performance indicators. In meeting this duty, Stirling Council must ensure that it:

- establishes systems and procedures to ensure that the required information is gathered;
- undertakes checks to ensure that, as far as practicable, the information gathered for publication is accurate and complete;
- arranges to keep all working papers and any other sources which may be examined by appointed auditors, and is able to make these available on request; and
- maintains a publicly available record of the reported information.

As external auditors we have a statutory duty to ensure that the Authority has made such arrangements for collecting, recording and publishing performance data as required to ensure as far as practicable that published information is accurate and complete.

In 2004/05 the Council was 'X' graded on Waste Management SPI (2) Refuse Collection Complaints, SPI (3) Special Uplifts and SPI (4) Refuse Recycling. An 'X' grading implies that as auditors we found the supporting documentation to be unreliable and could not support the reported indicator. We are pleased to report however that in 2005/06 the Council has successfully reported on these indicators.

In 2005/06 the Council has however been 'X' graded on Adult Social Work SPI (8) Community Service Orders. Dependence had been placed on one employee to configure the Criminal Justice system and extract the SPI figures. Unfortunately during the audit this person was absent from work and could not assist in the process. As a result the evidence provided by this officer's colleagues could not support the reported indicator. The need to train another staff member in the configuration process is evident and should take place before 2006/07. ***Recommendation 3***

From our review we also noted two indicators which have changed significantly during 2005/06. The indicators and an explanation of the movements are noted below:

- Housing SPI (6) Homelessness. The number of households assessed as homeless or potentially homeless during the year has increased from 572 in 2004/05 to 712 in 2005/06. This represents an increase of 24.5% on 2004/05 figures. The regeneration project whilst improving housing quality is not increasing supply to such an extent that demand can be met. ***Recommendation 4***

- Adult Social Work SPI (7) – Probation. The Council has reported a 33.3% increase in the number of new probationers seen by a supervising officer within one week. This is due to the introduction of court social workers whose role involves the interviewing of probationers immediately after their court appearance.

4.2 Follow-Up Best Value Audit

As part of Audit Scotland's Best Value (BV) programme we undertook a follow-up BV review of Stirling Council, focusing on the Council's BV Improvement Plan. This plan was produced in response to the Council's full BV review.

In March 2005, the Accounts Commission published a report on the findings from Stirling Council's BV review. The audit found that Stirling Council performs well against the BV and Community Planning criteria, but did recognise areas which would benefit from further improvement. In response to this the Council set out a clear and ambitious vision for the future based on meeting the needs of a growing population. The Corporate Plan reflects the priorities agreed with the Council's partners in the Community Plan to achieve a good quality of life for Stirling's communities.

The Council's Improvement Plan is a very ambitious document and this was highlighted by Audit Scotland. With twenty-nine key objectives, which include sub-measures within these, the Council committed itself to the achievement of a very high profile plan which was susceptible to many external influences. We conducted a review to monitor the progress made since the BV Audit and focused on the progress made by the Council against the Improvement Plan, identifying any key areas or recurring themes.

There is clear evidence of good practice within Stirling Council. The Council is evidently ambitious and is constantly seeking to identify ways to continuously improve and enhance service delivery and performance. This is reflected in the Council's long-term plans and its Improvement Plan. In our view, the Improvement Plan is still too ambitious and rather than supporting and advancing the key issues of the Council the twenty-nine areas within the plan detract from the key areas and focus. An Improvement Plan which only focussed on the four or five key corporate objectives of the Council would ensure that these targets receive the profile and resource allocation required to deliver them. Through proper communication and effective prioritisation the Council will be able to ensure that the areas not included in any refined improvement plan are still seen as objectives of the Council and its departments. An organisation the size of Stirling Council can clearly deliver multiple objectives and services whilst still having a small number of corporate key objectives.

Stirling Council is actively engaged in joint working and shared service delivery with neighbouring local authorities and public sector partners. The Council is committed to identifying areas for joint working and service delivery both with external partners and internally within the Council itself. Previously the autonomy given to Council departments has been to the detriment of internal joint working arrangements but the Council has recognised this issue and is seeking to address it.

Stirling Council regularly reviews and updates its BV Improvement Plan. Where targets have been met the Council should set further targets to ensure continuous improvement is being demonstrated or alternatively consider if it is necessary to continue to report on a completed target. Stirling Council must ensure that all reporting on future targets and improvement plans add value and that the reports focus on the key strategic issues and priorities.

The findings of our review of the Council's progress in implementing the BV Improvement Plan were included in a separate report which will be presented to the Audit and Governance Committee in September 2006.

4.3 Priorities & Risks Framework

Against the backdrop of Best Value, the Efficient Government Agenda and joint working initiatives Audit Scotland developed the Priorities and Risks Framework (PRF) for local authority auditors. This enables auditors to gain a better understanding of the business priorities and risks facing the organisations they are auditing. This in turn assists auditors in identifying and assessing audit risk and in deciding where to target audit resources.

We undertook the PRF work at Stirling Council in March, meeting with relevant officers across departments within the Council. These one to one meetings enabled us to identify the risks and issues which were of key importance and concern to staff and service delivery. These priorities and risks were then assessed in line with the strategic priorities and stated objectives of the Council. The PRF highlighted areas of concern, such as the political management arrangements of the Council and the proposed restructuring, which are covered within section 4.5 of this report.

In addition to the national priorities and risks identified with the PRF tool the Council has a number of specific key projects which have the potential to significantly impact on services and financial governance within the authority. These are highlighted below.

4.3.1 Housing Stock Transfer

In 2003 the Council agreed, subject to tenant support in a ballot, to pursue the transfer of its housing stock to a new Council-sponsored Registered Social Landlord (RSL), Housing Stirling, as part of a community ownership initiative.

A business plan from Housing Stirling for the transfer was received and approved by Stirling Council on 22 June 2006. Thereafter the plan was approved by the Scottish Ministers on 11 July 2006. This approval allowed the Council to begin stage 1 of the formal consultation as required by Scottish Executive guidance. The comments from the public arising from the stage 1 consultation have now been reviewed by the Community Ownership Member Officer Group and will be considered by the Council. This will then allow stage 2 of the consultation to begin.

Stage 2 of the process will involve submitting an application to the Minister for Communities to carry out formal consultation with council tenants. This includes a formal ballot of tenants on the proposed housing stock transfer. The proposed timescale for this is Autumn 2006 with final transfer (should the ballot be positive) in Spring 2007.

4.3.2 Cornton and Cultenhove Regeneration

Following the Council's admission onto the Scottish Executive's Community Ownership Programme (COP), the Scottish Executive identified £15 million for Stirling Council, to cover the period 2004/2005 to 2006/2007. The funding was earmarked to address housing regeneration works in Cornton and Cultenhove. The main objective of the project was the replacement of unpopular low demand housing stock with housing that was more suited to meet Stirling's housing needs.

In order to obtain grant funding and to advance the building phases the Council entered into a partnership with Castle Rock Edinvar Housing Association (CREHA) where the housing association became the development partner on the regeneration project. The agreement requires the Council to transfer the ownership of the sites to CREHA on completion, which would then pass to Housing Stirling if a 'Yes' result was obtained in the housing stock transfer ballot. The site would pass to a range of housing associations in the event of a 'No' vote in the ballot.

During the year the Council and CREHA have built up detailed proposals for the redevelopment with the aid of a design group which includes local residents. Phase one of the project is currently underway with all demolition work in the phase completed and recently builders have begun to rebuild. The 2005/06 accounts reflect the demolition of these buildings which amount to a reduction in tangible fixed assets of £807,000. Further phases of the work are not expected to begin until there is certainty over the housing stock transfer ballot.

4.3.3 Stirling Schools PPP Project

The Stirling Schools PPP contract and associated agreements were signed with Stirling Gateway Limited on 21st April 2006, following a period of tender and discussion. Construction work has already commenced on 3 of the schools and on the Raploch Campus, with preliminary infrastructural work taking place on the two other sites. Various land transactions and agreements have been made, as approved by Council, in order to move into the construction phase of the PPP contract.

Some of the schools - most notably Wallace High School and St Modan's High School - have seen some slippage in their target handover dates. However, the first substantial handover of the facilities is scheduled to commence from October 2007 with the aim of having all the PPP facilities handed over for operation by August 2008.

The PPP Project Steering Group continues to oversee the work of the PPP Project Team. The Project Team is tasked with the detailed project monitoring and management, and is now shifting focus to contract and construction compliance monitoring as the work is moving into the build phase.

4.3.4 Office Review

During 2005, the Council considered potential options for the relocation of the Council Headquarters. It was recommended that the Council proceed with a proposed relocation to the planned development area at Forthside. The net capital cost of the Forthside move, based on the original set of assumptions is approximately £17.15 million.

The cost of any move to Forthside is directly linked to the funds which can be realised from the disposal of existing properties which are, or would become, redundant once the move takes place. However, since the point of approval in principle of the relocation to Forthside, the impact of other strategic initiatives have become clearer and may impact on the eventual decision.

Whilst more work is required to assess the detailed implications of the other strategic initiatives, the Council are proceeding with the design and planning stage of a move to Forthside.

4.3.5 Raploch Regeneration

Raploch Regeneration is one of the Council's priority projects, which aims to re-energise the Raploch area to provide social inclusion within a sustainable development project.

In June 2004, the Scottish Executive designated the Raploch Regeneration Project with Pathfinder Urban Regeneration Company (URC) status. Securing such status gave the project scope to access significant Scottish Executive funding, with some £4.5m of finance deriving through this mechanism.

Other funding for the Raploch Regeneration Project has been drawn from a wide range of sources; from the Council's own budgets (in the form of both direct finance, substantial land contributions and officer time), Scottish Executive and European grant funding, contributions from other agencies such as Scottish Enterprise Forth Valley and private developer contributions. Going forward, a significant increase is expected and required from external, private sector partner organisations. From 2005/06 onwards the Council's own financial forecasts make no significant provision for ongoing funding of the Raploch Project, beyond officer time from existing resources.

As part of the requirements for progressing the project through the URC route, the Council are also aware of the need to nominate 3 Directors to the Board, of which one is to be the elected member for the area.

The Council are currently in the latter stages of appointing a private sector partner to take forward the development of the Raploch Regeneration Project, having gone through a tendering exercise in which 2 potential partners were short listed.

4.4 Efficient Government

The continuous improvement agenda has been a feature in Scottish local government for a number of years, but has been given added impetus by the Efficient Government initiative. The Efficient Government initiative was launched by the Minister for Finance and Public Services in June 2004 and is a central part of a programme of investment, reform and modernisation. This initiative is a key issue for the Scottish Executive and Scotland's public sector.

One of the key features of this initiative is that it focuses on the public sector as a whole with the intention of realising efficiencies through joined up working. The primary objective is to deliver the same services with less money (cash releasing savings) or to enable frontline services to deliver more or better services with the same money (time releasing savings).

In accordance with our Audit Risk Analysis and Plan for 2005/06, we have undertaken an initial review of the risks and management arrangements within the Council in relation to the Efficient Government initiative.

The Efficient Government Plan sets targets to achieve £745 million of cash-releasing savings, and £300 million of time-releasing savings, across Scotland's public sector by 2007/08. It is anticipated that local government as a whole will contribute £325 million in cash-releasing savings to the overall target. It is important that a local authority achieves the level of savings set by the Scottish Executive as it is likely that failure to do so will result in a high level of media attention or actions imposed on the Council by the Scottish Executive. Stirling Council must therefore seek to ensure that efficiency savings are identified which will ensure that the Council meets the level of cash releasing and time releasing savings required by the Scottish Executive.

Although the Council can identify general efficiency savings as a result of imposing a 1.5% efficiency target on budgets, Stirling Council cannot accurately measure or identify the levels of savings being specifically achieved as a result of this. By aiming to determine efficiencies through the budget process the Council is unable to determine the impact on the level of service delivery or whether further efficiencies have been achieved. The budget process does not enable the Council to identify or monitor any time releasing savings. The Council should ensure that it implements a system that can monitor efficiency savings. This will also ensure that the Council can demonstrate the efficiency savings achieved.

We also noted that the previous planning arrangements did not guarantee that Stirling Council sought to ensure that strategic plans for services were aligned with available resources within the department. The Council should consider establishing a clear link between resources and strategic aims and establishing this as part of its planning arrangements. This would not only enable the Authority to deliver on the key strategic objectives but would also aid the Council's work in identifying and monitoring time-releasing efficiencies.

Overall it was clear that the Council should seek to identify and secure efficiency savings through shared services initiatives and joint working arrangements with other public sector bodies and key stakeholders. The Council is currently engaged in a range of shared services and joint working arrangements. These are commented on in more detail in section 4.6 of this report.

A management report including our detailed comments on the efficient government initiative at the Council was submitted to officers in July and will be presented to the Governance & Audit Committee in September 2006.

4.5 Political Management Arrangements

In October 2005 a paper was presented to Stirling Council to determine whether an all-party working group should be established to consider issues in response to the impact on the Council of the provisions of the Local Governance (Scotland) Act 2004 specifically in relation to:

- The introduction of STV/multi member wards
- Governance and political management arrangements
- Encouraging people to stand for election
- Councillors' severance schemes

The Council approved the paper and established a short term Administration Working Group to consider these issues.

In May 2006 the Council approved the findings of the Working Group. The Council decided that the Policy Executive, the Governance, Resources & Performance Group, all Committees and Panels be dissolved on 22 June. The Working Group recognised that the current working arrangements would not enable a clear decision making body to be in place if there was not a majority party or coalition administration established. A revised political structure would ensure that the Council had a formalised decision making body and effective scrutiny committees in place. Elected members could then be assigned portfolio roles to oversee service delivery within their areas of responsibility.

The formal decision making body established to replace the previous structure is called 'The Executive.' The Executive will comprise of six elected members. These are the Council Leader, the Deputy Council Leader and four members with portfolio responsibility for the environment, community services, community planning and governance, resources and performance. The Council also established two scrutiny committees, the Service Delivery & Performance Committee and the Governance & Audit Committee, with these being chaired by the opposition. The Council however is still the main scrutiny body for the Executive and will continue to be the main debating forum for issues affecting the Council area.

As part of this review of its political management arrangements the Council considered how it would deliver effective Councillor representation under Proportional Representation (PR). The Council has recognised that it must consider how it can maintain Councillor/ward links, prevent duplication of roles and duties and how multi-member wards will work in practice.

4.6 Joint working

In June 2006 the Chief Executive put a paper to Council outlining a proposal for a new model of service delivery which was to be delivered jointly with Clackmannanshire Council and aimed to save £4.5 million with at least as much again saved over the next two to three years. In a joint report, the Chief Executives of both councils proposed that many front-line services would be jointly managed whilst the individual councils would retain their own identities. Support had already been gained from the Minister for Finance and Public Service Reform. The approach was to eliminate duplication in management levels and to streamline operational processes which would reduce operating costs.

The proposal was considered to offer a number of advantages, these included:

- The quality of services provided would benefit from close co-operation on joint working and would bring together a greater range of expertise
- Early savings of £4.5 million across both Councils would be achieved with as much again being saved over the following two to three years. These were anticipated as arising from reductions in Director, Heads of Service and Service Manager posts
- Even bigger gains could be made if other local public agencies decided to join the consortium.

The Council already has an established record of co-operation between the two councils. The Forth Valley Geographic Information System (GIS), the Structure Plan, the public transport co-ordination service, emergency duty social work and other aspects of social care have been run as joint services since reorganisation. Other partnerships have been formed more recently. Stirling Council now runs a Trading Standards service on behalf of the two Councils. A CCTV partnership has been created involving also Falkirk Council and Central Scotland Police and is based in Alloa. The Councils co-operate among themselves and with other agencies in a variety of Forth Valley collaborations.

The arrangement would also be capable of expansion. Whilst what has been suggested is collaboration between two councils, over time other partners could become involved. At this stage however both councils are keen to emphasise that each council would retain full political autonomy and would remain directly accountable to its own electorate. Each council would therefore have its own Governance Unit with a Monitoring Officer, accountable Finance Officer, democratic services and a capacity for strategic policy, performance management and client relationships. The proposal would thus combine the advantage of the current political arrangements while giving both councils the advantage of significantly increased economies of scale.

The Council identified a number of key issues which required to be clarified before the proposed arrangement could be approved. These included:

- Clarity on the savings which could be delivered through joint management and those through joint service delivery.
- Clarity on exactly where the savings of £4.5 million would come from.
- Clarity regarding the separation of the Council’s governance and service delivery operations.
- Whether any savings could be included in the 2007/2008 budget setting process.

The latter point was dependent on spend to save funding of approximately £10 million being committed by the Scottish Executive to fund staff restructuring costs. The Council is currently pursuing resolution of the above outstanding matters, although proposals will not be included in future budget strategies until they have been sufficiently detailed and are certain to be delivered.

The most significant joint venture developed in recent months is the shared services project with not only Clackmannanshire and Stirling Councils but also Falkirk, Perth and Kinross and East Dunbartonshire Councils. At a later date, other agencies such as Forth Valley College are likely to be involved. £350k of EGF monies were awarded for the councils to progress this bid to the next stage which involves consultancy support for developing and ratifying a business case for this proposal. A Steering Group is in place to oversee this work which includes Directors from each of the councils involved. It is anticipated that the business case will not be produced until early 2007.

If the business case is accepted it will lead to a shared service centre covering administrative and transactional processes within human resources, finance, payroll and procurement. If this moves forward, there would be a two year implementation phase. The outline business case suggests that a £20 million investment would release savings of £30 million (£10 million net) over 10 years.

4.7 Following the Public Pound

Stirling Council funds a large number of arms length organisations for a range of purposes related to council services and their broader objectives. To ensure that public funds are used properly and to maintain accountability, it must be possible to trace the funds from the point at which they leave the Council to the point at which they are spent by the receiving organisation.

Our 2005/06 work in this area included a follow-up review of the Following the Public Pound issues identified in the previous year, together with a more detailed analysis of the significant arrangements entered into by the Council in 2005/06.

We are pleased that progress has been made on certain of our previous recommendations. In particular, we have identified that recommendations made in relation to the creation of a central database of funding and non-financial assistance provided by the Council, the corporate monitoring of controls in place over external organisations, enhanced training and support for project officers, and the drawing-up of a register of officers interest have all been partially completed. It is important that these important developments are taken through to completion. ***Recommendation 5***

2005/06 saw the establishment of Active Stirling, which was set up on 31st March 2006 as the body charged with the provision of sports and leisure services. Active Stirling is receiving the equivalent of the Council's budget for leisure services. To date the Council has not received any monitoring reports detailing the performance to date of the company. We have been advised that the first set of performance monitoring statements are due by the end of September 2006.

It is essential that the Council's relationship with Active Stirling is formalised. In particular we would highlight the need to ensure that a formal, signed Business Transfer and Service Agreement documentation is in place as soon as is possible. We note that six months after the date of set up of Active Stirling, the documentation remains unsigned. Rectifying this issue will ensure that appropriate safeguards are formally agreed to manage the relationship between the Council and the company. ***Recommendation 6***

5 Finance

5.1 Audit Opinion

Our audit report included on pages 63 and 64 of the annual accounts is addressed to the Members of the Council and the Accounts Commission for Scotland. The report was issued on 29 September 2006 and is unqualified. Our report draws attention to the failure of a number of the Council's STO's to break-even over the three years to 2005/06. This is referred to in greater detail in section 5.4 of this report.

We are pleased to report that the quality of the financial statements prepared by the Council is of a high standard and is a demonstration of the Council's finance officials' commitment to consistently improve the disclosure of Stirling Council financial and accounting information to stakeholders.

5.2 Accounts Timetable

Scottish local authorities are required under Regulation 4 of the Local Authority Accounts (Scotland) Regulation 1985 to submit a copy of an abstract of their accounts to the Controller of Audit by 30 June. We are pleased to note that the Council adhered to this requirement by lodging accounts with the Controller of Audit on 26 June 2006.

5.3 Summary Financial Position

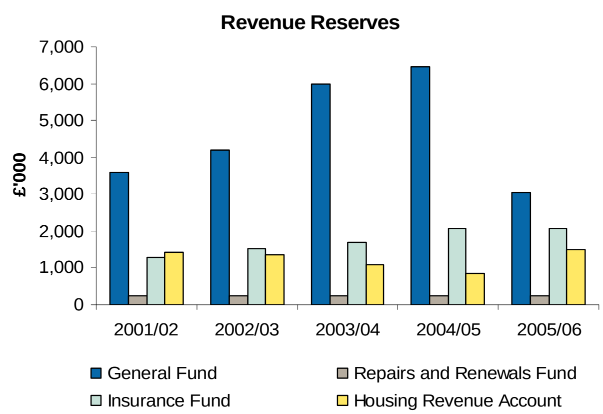
5.3.1 General Fund

The Authority achieved a general fund deficit of £3.419 million in 2005/2006 compared with a budgeted deficit of £1.129 million. The non-earmarked general fund balance brought forward of £5.457 million at 1 April 2005 decreased to a net surplus balance of £2.151 million at 31 March 2006. The housing revenue account achieved a surplus of £0.633 million against a planned balanced budget. This was primarily due to savings in borrowing costs and higher than anticipated rental income due to a lower number of council house sales being completed than originally budgeted. An analysis of the Council's revenues reserves at 31 March 2006 is presented below:

Analysis of Revenue Reserves as at 31 March

	2005 £'000	**2006 £'000**
General Fund – non-earmarked	5457	2151
General Fund – Devolved Schools Management	361	290
General Fund – Earmarked	629	587
Sub-total	**6447**	**3028**
Repairs and Renewals Fund	250	250
Housing Revenue Account	844	1,477
Insurance Fund	2,056	2,060
Total	**(9,597)**	**(6,815)**

The major reason for the reduction in the Council's general fund in 2005/06 was the additional unbudgeted costs arising as a result of equal pay claims. Following an assessment of the Council's potential liability for such claims a provision of £5.324 million was made in 2005/06.



The Council's approved financial strategy sets out the level of General Fund Reserve the Council considers to be adequate to provide a working balance and to fund contingencies which may arise. This level has been set at 3% of the year's revenue expenditure. The chart shows that at 31 March 2006 the Council had general fund reserves of £3.028 million. Of this £2.151 million was not earmarked for other purposes. This equated to 1.3% of 2005/06 revenue expenditure and is therefore considerably below the 3% target considered appropriate. The Council requires to agree a strategy to build its general fund back-up to an adequate level over the short term. ***Recommendation 7***

5.3.2 2005/2006 Financial Position

The 2005/06 Consolidated Revenue Account shows a £15.03 million or 9.8% increase in net operating expenditure compared with 2004/05. The main elements of this increase can be summarised as follows:

Additional expenditure pressures 2005/06	£ million
Pay awards and increments	3.75
Equal pay provision	5.32
Reduction in interest receivable	1.23
New initiatives/increased spending priorities of Scottish Executive	1.84
Increased pension charges	1.85
Other inflation	1.04
Total	**£15.03**

5.3.3 2006/2007 Financial Position

The Council failed to approve the 2006/07 revenue budget and council tax at two meetings in February 2006 due to the lack of a quorum. On 2 March 2006 the revenue budget, council tax and housing rent levels were set for 2006/07. An increase in Band D Council Tax of 4.5% was approved. The approved budget for 2006/07, matched income with expenditure and envisaged no contribution to or from reserves other than those earmarked reserves already identified from the previous year to support the budget. The budget was set in the context of an increase in government funding of 2.0%. The Council has identified cost pressures as follows:

Budget pressures 2006/07	Cost pressures £ million
Increases in employer pension contributions (note 1)	0.8
Non pay inflation – Energy inflation (oil gas and electricity) (note 2)	1.8
Additional community care costs	0.7
Single status costs (note 3)	2.5
Population growth pressures	0.6
Revenue consequences of additional capital expenditure plans	0.2
Corporate Plan priorities	0.3
Other increases	0.2
Total	**£7.1**

Services were required to deliver efficiency savings to deliver a balanced budget and these savings have been built into 2006/07 budgets.

Notes to the table

1. Employer pension contributions rose from 240% of the employee rate to 270% following an actuarial valuation of the scheme. Further increases are proposed in 2007/08.
2. The Council re-tendered for the provision of oil, gas and electricity in 2005 jointly with Clackmannanshire and Falkirk councils. A new contract was agreed from 1 April 2006 which reflected an increase of over 100% on the costs incurred in 2005/06.
3. See paragraph 5.5.2

5.3.4 Financial Planning

A clear link exists between Stirling Council's budget setting and Corporate Planning processes with the Council's corporate plan highlighting a number of key priorities which are specifically earmarked for funding in the annual budget. Each Service is required to prepare a Service Plan which is linked to the Corporate Plan.

During the budget setting process the Management Team works towards reducing funding gaps. During the budget setting process for 2006/07 a review was performed to identify areas of high spend and areas where performance is above/below national performance. This enabled the Team to identify specific areas for savings and/or improvements. Services are also required to identify management efficiencies as part of the process. As set out in paragraph 4.4. the Council set an efficiencies target of 1.5% in 2006/07 (2005/06 - 1%).

5.3.5 Capital Programme

The table below provides an analysis of the Council's actual performance against its general services and housing capital programmes during the financial year. This shows that the Council was unable to deliver £4.735 million of planned capital projects during the financial year.

Capital Expenditure 2005/2006 (£ Million)

	Actual	Budget	Under spend £	Under spend %
General Services	£21.323	£25.111	£3.788	15%
Housing	£6.806	£7.753	£0.947	12%
TOTAL	**£28.129**	**£32.864**	**£4.735**	**14%**

The under-spend in 2005/06 represents a reduction on the previous year's under-spend of 27% and reflects improvements in the management and monitoring of the capital programme. It is important that the Council continues this improving trend.

In our interim corporate governance report we noted that budget monitoring reports presented to the Governance, Resources and Performance Group on 21 March 2006 reported actual general fund capital expenditure to the end of February 2006 at £15.138million. This represented 71.0% of the actual expenditure in 2005/06. We remain concerned that 29% of the budget was spent in the last month of the year. Section 4.2 of this report reflects the extent and significance of the capital projects the Council is committed to delivering over the next few years. It is essential that the Council continues to improve its control over project management and the monitoring and programming of capital spending commitments if it is to deliver on these ambitious plans. ***Recommendation 8.***

5.4 Trading Accounts

Section 10 of the Local Government in Scotland Act 2003 requires local authorities to maintain and disclose trading accounts for significant trading operations (STOs). Each STO is required to breakeven over a rolling three year period. Stirling Council's financial statements disclose the financial performance of the Council's significant trading operations in 2005/06 and the cumulative position over the last three years:

Summary of STO's Financial Performance

Significant Trading Operation	2005/06 Surplus/(Deficit) £'000	Cumulative Surplus/(Deficit) 3 year period to 2005/06 £'000	Statutory objective to break-even over a three-year period achieved
Roads Repair	387	1,321	✓
Building Maintenance	272	506	✓
Grounds Maintenance	(11)	(101)	x
Refuse Collection	(349)	(1,440)	x
Building Cleaning	(592)	(489)	x
Catering	(580)	(319)	x
Letting of Commercial Properties	716	2,377	✓

We have drawn attention to the failure of the grounds maintenance, refuse collection, building cleaning and catering STO's to comply with the statutory requirement to break-even over a three-year rolling period within our audit certificate. The failure of the building cleaning and catering STO to meet the statutory objective is as a result of the charging of exceptional equal pay costs.

We note that the Council's most recent monitoring report identifies a 2006/07 projected deficit across all the Council's STOs of £177,000. The projections indicate that the Council's Refuse Collection, Grounds Maintenance, Catering and Building cleaning STO's will again fail to meet their three year objective to break even in 2006/07.

As a result of the consistent failure of the Council's refuse collection service to break-even the Council agreed in December 2005 to subject the refuse collection service to competitive tendering early in 2006/07. We understand that there are now concerns being expressed that there is not a competitive market for a contract which only includes domestic refuse collection. In addition the joint working initiative with Clackmannanshire Council (see 4.6) means there is some uncertainty about what this will mean in terms of the most efficient service delivery vehicle across the two Council areas. A paper is to be submitted to the Executive in October setting out alternative options to competitive tendering in the short term.

The grounds maintenance STO has recently undergone a restructuring exercise which resulted in the creation of three separate business units – grass cutting, burials and cemeteries and the remaining elements of the service. The grass cutting service was subjected to competitive tendering with effect from 1 April 2005 and was won by the in-house team. Despite the rates tendered by the STO on this contract being based on the achievement of a surplus we are concerned to note that overall this STO continues to be projecting a deficit in 2006/07. We understand that this is due to operational and management difficulties experienced this year. It is imperative that the Council addresses these weaknesses. Whilst we understand that the difficulties within the grounds maintenance service have existed for some time we have noted that the Council's Environment Services which is responsible for refuse collection and grounds maintenance has been operating since part way through 2005/06 without a permanent director and without one of its heads of service. We recommend that the Council considers whether this has contributed to the poor performance of the grounds maintenance STO in 2005/06.
Recommendation 9

Whist we note the failure of the building cleaning and catering STO's to meet their statutory objective is as a result of the attributable equal pay costs we are concerned that as a result of these additional charges the STO's will find it difficult to meet the statutory objective of breaking-even over three years in future periods. The performance of these STO's can be summarised as follows:

Significant Trading Operation	Financial Performance 2005/06 prior to equal pay costs £000's Surplus/(deficit)	Cumulative 3 year performance prior to equal pay costs £000's	Equal pay costs £000's	Cumulative 3 year performance after equal pay costs £000's
Building Cleaning	89	192	(681)	(582)
Catering	(97)	164	(483)	(319)

Neither STO's have historically made sufficiently large surpluses to recover the cumulative deficit position over the short to medium term. It is also important to note that whilst the equal pay costs contain an element of back pay were exceptional in 2005/06 the on-going costs of equal pay and the single status agreement are likely to have a further adverse effect on the ability of these STO's to make future surpluses. The Council should consider how in future the Council can achieve best value from these services.

5.5 Matters Arising from the Audit of the Financial Statements

5.5.1 Group Accounts

The 2005 Code of Practice on Local Authority Accounting in the UK (the SORP) introduced for the first time the comprehensive consolidation of local authorities interests in subsidiaries, associates and joint ventures. The consolidation requirements were introduced to comply with generally accepted accounting principles and to coincide with the increased use of alternative service delivery vehicles by local authorities. In determining the extent of a Council's boundaries for group accounting purposes, local authorities were required to classify entities they had a group relationship with into three categories:

Subsidiaries – where the local authority is able to exercise control over the operating and financial policies of the entity and is able to gain benefit from the entity or is exposed to the risk of potential losses.
Associates – where the local authority has an interest and is able to exercise significant influence over the entity's operating and financial policies
Joint ventures – where a local authority has a long term interest in an entity but where the entity is jointly controlled with another party.

Stirling Council has classified its interests in Common Good and four companies as subsidiaries with a further two companies and the Council's interests in the three Central Scotland Joint Boards being classified as associates. A further three companies have been classified as joint ventures. The Council has a number of other interests in companies which have not been consolidated into the group accounts as they do not meet the SORP definitions.

We have audited the group accounts prepared by the Council and the judgements made by the Council regarding those entities included or excluded from the group accounts. We are pleased to report that the group accounts preparation process followed by Stirling Council has been thorough and robust. The audit report covers our audit opinion on the group accounts and is unqualified.

5.5.2 Single Status and Equal Pay

The Equal Pay Act 1970 makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work; work rated as equivalent; or work of equal value.

The Equal Pay Act gives men and women the right to equality in the terms of their contract of employment. It covers both pay and other terms and conditions such as piecework, output and bonus payments, holidays and sick leave. European law has extended the concept of equal pay to include redundancy payments, travel concessions, employers' pension contributions and occupational pension benefits.

Some aspects of the Single Status Agreement have been implemented by almost all local authorities. Other parts of the agreement – in particular local pay reviews and negotiations were not implemented. The original agreement signed in 1999 specified implementation of these aspects by April 2002 but this was subsequently extended (by agreement between authorities and unions) to April 2004. In January 2006 the Scottish Parliament Finance Committee were advised that only one authority had fully implemented the agreement with job evaluation and assimilation of employees onto new pay scales.
The expected implementation date for the Single Status Agreement at Stirling Council depends on whether or not the Council can reach agreement on a new pay and grading structure with the Trades Unions. Such an agreement has not been reached to date. The ongoing costs of implementing the agreement have been estimated at £2.5 million of which £1 million was already built into the approved budgets. The Council has identified a range of savings measures to address the remaining £1.5 million funding gap.

Single Status goes wider than equal pay but it is equal pay compensation that has been causing major problems for local authorities. An amendment to the Equal Pay Act in 2004 extended the period over which back pay could be claimed from 2 to 5 years in Scotland (claims can be made going back 6 years in England) bringing UK legislation into line with the EU.

The Council has been undertaking work on Equal Pay compensation offers for a number of months. A series of road shows have been held to provide information and the opportunity for employees to ask questions. Formal offers have been made and the Council are planning to roll-out interviews at which employees will be asked whether they accept the offer made at the end of September/early October. The offers were made to all female employees who are on a manual grade and do not have a bonus scheme in operation. The majority of such employees are within the catering, cleaning and care groups although there are approximately 100 staff from other occupations.

A total of 800 offers have been made. As stated above the Council are not yet in a position to identify how many employees will accept the offer made. 111 employees have however raised grievances. 84 of these cases have been referred to the Tribunals Service.

As stated in section 5.3.1 the 2005/06 accounts include a provision for such claims amounting to £5.324 million. We have reviewed the basis of the calculation of this provision which has been based on a best estimate of the payments required to those staff groups considered to be affected and consider it to be a reasonable estimate of the eventual liability for such claims.

5.5.3 Fixed Assets

The consolidated balance sheet shows that Stirling Council's portfolio of tangible fixed assets was valued at over £461 million as at 31 March 2006. During the course of our audit we carried out detailed testing to determine whether the assets of the Council were fairly presented and accounted for in accordance with the Code of Practice on Local Authority Accounting. Our main findings are summarised below:

Component Accounting

Some fixed assets require substantial expenditure every few years for major refits, or the refurbishment, replacement or restoration of major components. Different components of an asset may have significantly different useful economic lives and, in order that the depreciation profile of the asset more accurately reflects the actual consumption of the asset's economic benefits, it is preferable to treat each component separately for depreciation purposes.

Where each component of a fixed asset is depreciated over its individual useful economic life, subsequent expenditure incurred in replacing or renewing a component should be accounted for as an addition to the fixed asset. However, where a fixed asset is not treated as several different components, the cost of replacing or renewing parts of the asset should be treated as revenue expenditure.

In 2005/06, Stirling Council adopted component accounting in relation to their Council House assets. Capital expenditure incurred in 2005/06 on, for example, kitchen and bathroom replacements has been depreciated over a shorter useful economic life than the council house. Whilst we are encouraged that the Council has adopted this approach we did note that this expenditure has not been allocated to the specific asset to which it relates. Instead the expenditure is separately identified in the asset register. As a consequence when an asset is disposed of, the associated expenditure on kitchens and bathrooms within the register may not be written off. This will result in an overstatement of fixed assets in the balance sheet. We therefore recommend that the Council revisit their approach to accounting for capital expenditure on council houses. ***Recommendation 10***

We also noted that component accounting has not been extended to general fund assets. As a result there is a risk that subsequent expenditure incurred in replacing or renewing parts of the asset should be treated as revenue expenditure. We recommend that that the Council consider extending component accounting to their general fund assets. ***Recommendation 11***

Enhancement Expenditure

The Code of Practice on Local Authority Accounting requires that expenditure on the enhancement of fixed assets should be capitalised. Enhancement is defined as the carrying out of works which are intended to:

- Lengthen substantially the useful life of the asset
- Increase substantially the open market value of the asset
- Increase substantially the extent to which the asset can or will be used for the purposes of, or in conjunction with, the functions of the authority

Audit testing identified one area where, in our opinion, Stirling Council is failing to account for enhancement expenditure in accordance with proper accounting practice:

Cost of enhancement work compared with increase in value

It is likely that the amount of enhancement expenditure on a fixed asset may not exactly match the increase in value of that asset. Enhancement expenditure therefore needs to be analysed to identify any differences between the amount of expenditure and the value added.

During our review of fixed assets we noted that the Council had not carried out an analysis of general fund enhancement expenditure to identify whether all this expenditure added value to the assets. As a result there was a risk that the Council had overstated the value of its fixed asset base in the consolidated balance sheet as at 31 March 2006.

Whilst we do not regard this as a material misstatement in the Council's accounts we recommend that the Council adopt a more formal approach to their capital expenditure review. Finance staff should liaise with Estates staff to identify the capital expenditure which adds value to the asset base. A formal record of the decisions taken during this review should be maintained to add transparency to the process. ***Recommendation 12***

Valuation Certificates

In accordance with Financial Reporting Standards, all assets should be valued over a five year period. This may be performed by valuing assets on a rolling basis. Mandatory professional standards for valuers are set down in the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards (commonly known as 'The Red Book'). As part of their requirements, the valuers are required to provide a formal valuation report and valuation certificate.

During 2004/2005, we noted that Stirling Council's Estates Section performed a valuation exercise on a number of the council's assets however the results of this were not formally recorded in a valuers certificate or report. We recommended that the Council ensure an agreement is established with the valuers for the provision of a Valuation Certificate and Valuation Report.

We are disappointed to report that this recommendation has not been implemented in 2005/06. As in previous years, Estates staff update their computerised asset management system and this information is downloaded to the Council's asset register. By failing to provide a formal certificate and report there is a risk of finance staff being unable to fully review the work of Estates and ensure that all appropriate valuation basis have been used and all relevant asset information has been captured. ***Recommendation 13***

6 Action Plan

Our annual report action plan details the key weaknesses and opportunities for improvement that we have identified during 2005/2006. To assist the Council in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. The rating structure is summarised as follows:

Priority 1	High risk, material observations requiring immediate action.
Priority 2	Medium risk, significant observations requiring reasonably urgent action.
Priority 3	Low risk, minor observations which require action to improve the efficiency, effectiveness on economy of operations or which otherwise require to be brought to the attention of senior management.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
3.6	1. An action plan was agreed as part of our interim management report on corporate governance to address weaknesses identified in the Council's risk management arrangements. The recruitment of a Corporate Risk Manager has delayed the implementation of some of these actions. We recommend that the Council revisits this action plan and agrees a new timetable for the implementation of actions. **Priority 1**	Director of Community Services (Chair of CRMG)	The review of the action plan and the implementation timetable for risk management generally will be reviewed as priority tasks when the Risk Manager commences in October/November 2006.	31st March 2007
3.7	2. The internal audit section should take steps to ensure that core reviews are completed in line with the timescale set down within the agreed internal audit plan. **Priority 2**	Internal Audit Manager	Agreed. Any new demands made by Services after the Audit Plan has been agreed will be reported to the Governance and Audit Committee.	31st March 2007

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
4.1	3. One of the Council's reported statutory performance indicators, Adult Social Work SPI (8) Community Service Orders, has been graded as unreliable. This was due to the absence of a member of staff at a critical time in the collation of information on this indicator. The Council needs to have agreed contingency arrangements in place for the collection of all SPI information. **Priority 1**	Head of OD&I	This point is accepted by the council and a review of the mechanisms for collecting data for SPIs has been commenced.	31st March 2007

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
4.1	4. The number of households assessed as homeless or potentially homeless during the year has increased by 24.5% in 2005/06. We understand that despite the regeneration projects in Stirling to improve housing quality the supply of housing is not increasing to such an extent that demand can be met. The Council should agree a strategy to address how it meets this shortfall. **Priority 2**	Director of Regeneration Services	The council will continue to work to meet the needs of the homeless as best as possible within the resources available. Depending on the outcome of the ballot for housing stock transfer, the council may not remain as the main provider of social rented housing in the area but will remain as the strategic housing authority. The council has already taken the decision to utilise the receipts from the disposal of non-transferring housing assets to create a land bank for the purposes of augmenting housing provision in the area. Should the stock transfer to Housing Stirling, the council would work very closely with that body to ensure that homeless needs can be met as far as possible.	Ongoing

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
4.7	5. Progress has been made on certain of our previous Following the Public Pound recommendations. Our previous recommendations regarding the creation of a central database of funding and non-financial assistance provided by the Council, the corporate monitoring of controls in place over external organisations, enhanced training and support for project officers, and the drawing-up of a register of officers interest have all been partially completed. The Council should agree a timetable for the completion of these actions. **Priority 2**	Head of Strategy & Governance Chief Accountant	These comments are accepted by the council and the remaining actions will be progressed during 2006/07.	31^{st} March 2007

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
4.7	6. The Council should ensure that it receives monitoring reports detailing the performance Of Active Stirling. We have been advised that the first set of performance monitoring statements are due by the end of September 2006. The Council's relationship with Active Stirling should be formalised. In particular we would highlight the need to ensure that a formal, signed Business Transfer and Service Agreement documentation is in place as soon as possible. **Priority 1**	Director of Community Services	Reports are now being received from Active Stirling and will continue to be submitted monthly, It is anticipated that the agreements will be concluded between the Council and Active Stirling by mid October 2006. The final approval would then be sought from HM Revenue & Customs for the proposed VAT arrangements.	End October 2006
5.3.1	7. The Council requires to agree a strategy to recover its non-earmarked general fund reserve back-up to an acceptable level over the short term. **Priority 1**	Head of Resource Management	This recommendation is agreed and has already been recognised in reports to Council. Strategy for restoration of balances will be considered and agreed as part of the development of the budget strategy for 2007/08 and subsequent years.	**February 2007**

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
5.3.5	8. It is essential that the Council continues to improve its monitoring over the timing of capital projects if it is to deliver on its ambitious capital expenditure plans. **Priority 1**	Chief Accountant	The Capital Strategy Group will continue to play a key role in ensuring that the agreed capital expenditure programmes are delivered. The projects in the core programme will continue to be subject to regular detailed monitoring, including the possible redirection of unspent budgets. As already reported to the Council, those capital projects which are funded from external sources, e.g. Public Transport Fund projects will require to demonstrate that progress is in line with grant terms and conditions and that expenditure takes place before the expiry of key funding deadlines.	Ongoing

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
5.4	9. It is imperative that the Council addresses the operational and management difficulties within the grounds maintenance STO and that consideration is given to the adequacy of senior management staffing in place within Environment Services. **Priority 1**	Head of Roads & Streetscape	The Grounds Maintenance service is still being restructured to improve service performance. The service's management organisational arrangements are currently in the process of being altered. Also improved management systems are being established including a revised costing system and an updated and accurate asset inventory. These will help provide robust resource management information and will be fully operational by the end of 2006/07.	31st March 2007
5.4	10. The Council should consider in relation to the catering and cleaning STOs how it can demonstrate the achievement of best value from these services whilst still achieving its financial objectives. **Priority 2**	Head of Performance & Resources (Environment Services)	These services are being examined as part of a wide-ranging review of facilities management services.	March 2007

Paragraph Reference	Recommendation	Responsible Officer	Management Comments	Agreed Completion Date
5.5.3	11. The Council should ensure component accounting is applied to capital expenditure on general fund assets. **Priority 1**	Chief Accountant	This is accepted and is being progressed with the assistance of Corporate Asset Management.	31st March 2007
5.5.3	12. Finance staff should liaise with Estates staff to identify capital expenditure which adds value to the asset base. A formal record of the decisions taken during this review should be maintained to add transparency to the process. **Priority 2**	Chief Accountant Corporate Asset Manager	This is accepted and is being progressed with the assistance of Corporate Asset Management.	31st March 2007
5.5.3	13. The Council should ensure an agreement is established with the valuers for the provision of a Valuation Certificate and Valuation Report. **Priority 2**	Chief Accountant Corporate Asset Manager	This is accepted and is being progressed with the assistance of Corporate Asset Management.	31st March 2007

Scott-Moncrieff (www.scott-moncrieff.com), one of Scotland's leading independent professional services firms, provides industry-focused audit, tax, business advisory and corporate consulting services for commercial, public, not-for-profit and private clients.