



HENDERSON LOGGIE

Perth & Kinross Council

**Report to Members and the
Controller of Audit**

2006/2007

External Audit Report No: 2007/06

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Executive Summary

1.1 Introduction (Section 2, page 5)

- 1.1.1 We are pleased to submit our annual report for the first year of our five year appointment as external auditors of the Council. The report highlights key issues grouped under three distinct headings of financial, governance and performance.
- 1.1.2 Together with officers from across all of the Council's services an effective working relationship is being developed. This will greatly aid the audit process for both the Council and us over the remaining term of our appointment.

1.2 Financial (Section 3, page 6)

- 1.2.1 The Council achieved the statutory deadline for the submission of its accounts for audit. The audit was completed with the issue of an unqualified audit opinion on 28 September 2007.
- 1.2.2 On 26 September 2007 we issued our ISA 260 report to the Head of Finance and the Leader of the Administration, as the Council's representatives of those charged with governance, to advise them of the issues arising from the audit and the final audit adjustments to the draft accounts were agreed.
- 1.2.3 We were not obliged to make any adverse comment on the Council and its group's Statement on the System of Internal Control. This confirmed that the content of the Statement was not inconsistent with information arising from our audit work.
- 1.2.4 The financial statements presented for audit had been prepared using the new format introduced by the 2006 Statement of Recommended Practice (SORP).

- 1.2.5 Three material and nine significant audit adjustments were identified during the course of our audit of the financial statements, mainly due to ensuring that changes in the 2006 SORP requirements were met. Details of the agreed audit adjustments were highlighted in our ISA 260 Report issued to the Head of Finance and the Leader of the Administration on 26 September 2007.
- 1.2.6 The Council's only Significant Trading Operation (STO) for Building Services achieved its statutory break-even target covering the three years of operation to 31 March 2007.
- 1.2.7 Cut-off errors relating to 2005/06 Building Services' invoices totalling £0.251 million were identified that resulted in a material misstatement of the reported STO's results for both 2006/07 and 2005/06. This was amended in the final accounts. We have accepted management assurances that a review of the STO will be completed in 2007/08 and that performance monitoring arrangements will be improved in this area. We will monitor progress and report our findings during our 2007/08 audit.
- 1.2.8 The Council's income from government grants and local taxation exceeded its net operating expenditure of £255.174 million resulting in a surplus for the year of £1.661 million on the Income and Expenditure Account. After making the necessary adjustments the movement on the General Fund Balance for the year of £8.765 million increased the General Fund Balance to £28.728 million at 31 March 2007. The budgeted surplus of £0.768 million for the General Fund was exceeded by £7.997 million. Details of the significant underspends are given in Table 1.



Executive Summary

1.2 Financial (Section 3, page 6) (Cont'd)

- 1.2.9 The Housing Revenue Account balance was reduced by £1.700 million during the year leaving a balance on this fund of £5.117 million at 31 March 2007. The budgeted use of resources was £5.872 million and the main reason for the underspend of £4.172 million was slippage on major property improvement contracts.
- 1.2.10 Commitments against the General Fund balance total £18.531 million leaving an uncommitted balance at 31 March 2007 of £10.197 million. Commitments against the HRA balance total £4.367 million leaving an uncommitted balance of £0.750 million. The overall total uncommitted balance reported in the accounts is £10.947 million. As part of the Funding Strategy for the Investment In Learning (IIL) project, in September 2007 the Council approved a transfer of £4.865 million from uncommitted non-HRA General Fund Reserves.
- 1.2.11 The Council's net pension liabilities at 31 March 2007, estimated by the Actuary, exceeded its share of pension scheme assets by £45.099 million (2005/06 - £72.541million). The favourable movement of £27.442 million is due in part as a result of the gain on valuation of equities reflecting the upward trend in world stock markets during the year and in part due to the Actuary's positive assessment of recent changes in pension benefits on future pension liabilities.
- 1.2.12 The Council had intended to implement the new staff terms and conditions under the Single Status agreement during 2006/07 however the new terms and conditions were implemented on 1 August 2007. A funding strategy is in place and it is intended that the earmarked reserves will be used to help meet these costs up to the end of 2013/14.
- 1.2.13 During 2006/07 the Council made payments of £2.233 million in settlement of equal pay claims; £0.227 million in respect of the Council's employees and £2.006 million in respect of its share of claims for employees of Tayside Contracts Joint Committee. The Council had £2.233 million earmarked within its reserves to meet estimated further costs including the costs accruing prior to the implementation of Single Status.
- 1.2.14 The Council's Budget Flexibility Scheme allows for underspends against budgets to be carried forward to help services fund cost pressures in later years. The total carried forward under this scheme into 2007/08 was £3.168 million.
- 1.2.15 The Council reached financial close on its new schools PPP project; Investment in Learning (IIL), on 4 October 2007 when a contract was signed to deliver in excess of £130 million of investment in its school estate. This project involves the construction of six new community school campuses in Blairgowrie, Aberfeldy, Kinross, and Crieff and at two sites in Perth. These assets are deemed by the Council and its financial advisers to be off balance sheet for accounting purposes and will transfer back into Council ownership at the end of the 30 year contract at no additional cost. The Council will pay an annual unitary charge to the contractor which covers the costs of developing the assets and associated facilities management.
- 1.2.16 Following detailed investigation and debate the Council agreed to include Perth & Kinross Leisure Limited (PKL) in its group accounts for both 2005/06 and 2006/07 as an associate.



Executive Summary

1.3 Governance (Section 4, page 18)

- 1.3.1 Over the past two years, the Council has undertaken a programme of strategic management reviews of all services, along with the service level reviews. Improvement plans arising from the reviews are currently being implemented and monitored.
- 1.3.2 A new Corporate Plan “*Securing the Future 2006 -2010*” was approved in December 2006. The corporate vision and objectives are linked to the Community Plan.
- 1.3.3 Actions identified in services’ Business Management and Improvement Plans (BMIPs) for 2007/08 link with the objectives of the Corporate Plan.
- 1.3.4 The Chief Executive also produced a discussion paper on political decision-making structures which was considered by the Council on 28 March 2007 and made available to all newly elected Members immediately following the elections in May 2007. At its meeting on 16 May 2007 the Council agreed to maintain the political decision-making structures as they were until the end of the calendar year.
- 1.3.5 Following the 2007 elections induction and awareness training has been provided for all Members. A Personal Development Programme for Elected Members is expected to be launched by January 2008. Councillors’ job descriptions are already in place and currently being renewed to take account of the competencies framework.
- 1.3.6 The Community Plan; “*working together for Perth and Kinross 2006 – 2020*”, was approved ahead of the May 2007 election following extensive consultation.

- 1.3.7 Financial regulations for partnership working have been agreed for some time. A “*Framework for Working in Partnership*” was approved by the Community Planning Implementation Group in March 2007.
- 1.3.8 In 2006/07 the Council again took part in the National Fraud Initiative (NFI) in Scotland. Overall co-ordination of the exercise has been good; the exercise was planned in advance and data submitted on time. Seven frauds have so far been confirmed, as well as a number of errors, giving a total overpayment and possible forward savings of around £17,000. Regular reports have been submitted to both the Audit Sub-Committee and to the Council on the results.

1.4 Performance (Section 5, page 22)

- 1.4.1 The Council has developed a self-evaluation framework “*How Good is our Council?*” to improve performance management and develop a robust/systematic self evaluation model. The first round of service self-evaluations is now complete and the results are currently feeding in to revision of the Organisational Change and Improvement Plan (OCIP) to be approved in November 2007.
- 1.4.2 Internal audit reviewed the Council’s risk management arrangements during 2006/07 and we agreed to place reliance on their findings. The Internal Audit report concluded that “... .. *there is an established and effective methodology in place for the identification, description and prioritisation of risks affecting council services...*” An improvement action plan was agreed including a review of the Council’s Risk Management Strategy.



Executive Summary

1.4 Performance (Section 5, page 22) (Cont'd)

- 1.4.3 The Council submitted its 2006/07 Efficiency Statement to the Scottish Executive by the suggested deadline of 31 August 2007. The information will be used to inform the 2008/09 budget process. The Council plan to use its BMIP and performance management frameworks to provide robust evidence to support claimed savings.
- 1.4.4 Delivery of the efficiency saving planned by the Council will be critical in future, not only for the achievement of the Council's share of national targets, but also to allow delivery of the funding strategy for the IIL project.
- 1.4.5 The Council is involved in local and national shared services projects. It is seeking to maintain flexibility within local projects to allow them to accommodate the outcomes from the other national shared service projects.
- 1.4.6 Locally the Council is involved in a project with Clackmannanshire, Stirling, Falkirk and East Dunbartonshire Councils. The project aims to provide a multi-agency shared service capacity covering HR, payroll, finance and procurement.
- 1.4.7 The Council is a member of the Tayside Procurement Consortium together with Dundee City and Angus Councils. The official launch of the initiative will be on 8 November 2007. This project relates to shared procurement through the development of procurement opportunities, collaborative contracts and shared commodity expertise.
- 1.4.8 A full Best Value audit is anticipated to start in November 2007 with a submission to Audit Scotland due by the Council in December 2007. The conclusion and reporting are scheduled for July 2008. A member of our audit team will be included in the Audit Scotland team undertaking the review.
- 1.4.9 The 2006/07 return to Audit Scotland for the Council's SPIs was made after the 31 August 2007 deadline, on the 6 September 2007, due to the Council collecting further information for one SPI. Publication was however made by the 30 September 2007 deadline. We concluded that the systems in operation for the production and publication of the SPIs were reliable for all 57 indicators.



Introduction

2.1 Introduction

- 2.1.1 We are pleased to submit our first annual report, covering significant matters arising during the course of our audit of Perth & Kinross Council for the year ended 31 March 2007.
- 2.1.2 The framework under which we operate under appointment by Audit Scotland is as outlined in our Report 2006/01 “*Risk Assessment, Annual Audit Plan and Fee Proposal for 2006/07*”. The respective responsibilities of Council Members, officers and the auditors are set out in Appendix I to this report.
- 2.1.3 Broadly the scope of our audit was to
- ❑ provide an opinion on the financial statements in accordance with the standards and guidance issued by the Auditing Practices Board;
 - ❑ review and report on the Council and its group’s corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, prevention and detection of corruption, and the Council’s financial position;
 - ❑ review and report on the Council’s arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources and in securing Best Value; and
 - ❑ review and report on whether the Council has made adequate arrangements for collecting, recording and publishing prescribed performance information.
- 2.1.4 Our audit approach focused on the identification of strategic business risks and operational and financial risks impacting on the Council.

2.2 Basis of Information

- 2.2.1 External auditors do not act as a substitute for the Council’s own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used efficiently, economically and effectively.
- 2.2.2 We have raised a number of issues during the course of our audit, including matters highlighted in our *Report to those charged with Governance on the audit of Perth & Kinross Council* (ISA 260 report); Report 2007/04 issued on 26 September 2007. The main points from our audit are summarised in this report.
- 2.2.3 To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff at the Council. Except to the extent necessary for the purposes of the audit, this information has not been independently verified.

2.3 Acknowledgement

- 2.3.1 Our audit for this year has brought us in contact with a wide range of Council staff. We would like to take this opportunity to place on record our appreciation of the co-operation and assistance extended to us by staff in the discharge of our duties.



3.1 Audit Completion

- 3.1.1 We are pleased to report that the target date of 30 September 2007 for the audit completion and certification of the annual accounts was met.
- 3.1.2 On 26 September 2007 we issued our ISA 260 report to the Head of Finance and the Leader of the Administration, as the Council's representatives of those charged with governance, to advise them of issues arising from the audit. The final audit adjustments to the draft accounts were agreed.

3.2 Accounts Certification

- 3.2.1 On 28 September 2007 we issued our audit report expressing an unqualified opinion on the financial statements of the Council and its group for the year ended 31 March 2007. We set out below a summary of the audit certification issues:
- ❑ The financial statements present fairly the Council and its group's financial position at 31 March 2007 and its income and expenditure for the year then ended.
 - ❑ The Council's Significant Trading Operation (STO) met its statutory three year break-even target.
 - ❑ We were not obliged to make any adverse comment on the Council's Statement on the System of Internal Control. This confirmed that the content of the Statement was not inconsistent with information arising from our audit work.

3.3 Financial Position

- 3.3.1 In accordance with the changes in the 2006 SORP the Council included an Income and Expenditure Account and a Statement of Movement on the General Fund Balance in its 2006/07 financial statements and revised the 2005/06 reported figures into the new format. These new statements replaced the Consolidated Revenue Account.
- 3.3.2 The Council's income from government grants and local taxation exceeded its net operating expenditure of £255.174 million resulting in a surplus for the year of £1.661 million on the Income and Expenditure Account (2005/06 – Surplus £16.405 million). After the necessary adjustments, required by the new format introduced by the 2006 SORP, to establish the movement on the General Fund Balance for the year were made the General Fund Balance increased by £8.765 million (2005/06 – increase £3.366 million). The balance on this fund carried forward at 31 March 2007 is £28.728 million.

3.4 Audit Adjustments

- 3.4.1 Three material and nine significant audit adjustments were identified during the course of our audit of the financial statements, mainly due to ensuring that changes in the 2006 SORP requirements were met. The Council agreed to adjust the accounts for all but one significant audit adjustment. A further non significant adjustment was agreed and the financial statements were amended.

3.4 Audit Adjustments (Cont'd)

- 3.4.2 The net effect of the agreed adjustments on the Income and Expenditure Account for 2006/07 was £8.386 million, changing the deficit reported in the draft accounts of £6.725 million to a surplus in the final accounts of £1.661 million. The net effect on the General Fund Balance was to reduce the increase in the Fund for the year by £0.252 million to £8.765 million.
- 3.4.3 The 2005/06 figures were also adjusted; the restated surplus of £7.849 million in the draft accounts increased by £8.556 million to £16.405 million in the final Income and Expenditure Account and the increase in the General Fund Balance increased by £0.203 million to £3.366 million.
- 3.4.4 The audit adjustments impacting on the Council's Balance Sheets decreased the Total Net Worth by £0.048 million to £140.212 million at 31 March 2006 and £0.226 million to £211.881 million at 31 March 2007.
- 3.4.5 The Common Good's Balance Sheet at 31 March 2007 was also adjusted by £0.870 million increasing both the Total Net Assets and Reserves to £5.320 million.
- 3.4.6 The Council's group accounts were adjusted to take account of the adjustments in the Council's own figures for both 2005/06 and 2006/07 and to include its share of the results of Perth & Kinross Leisure Limited and the final audited results of the Tayside Police, Fire and Rescue and the Valuation Joint Boards, and Tayside Contracts.
- 3.4.7 The net effect of the Council's own adjustments of £8.386 million (£8.556 million in 2005/06) and the adjustments for group entities of £0.158 million (-£0.064 million in 2005/06) on the group's reported deficit on the Group Income and Expenditure Account totalled £8.544 million in 2006/07 (2005/06, £8.492 million). The effect of these adjustments in 2006/07 changed the reported deficit on the Group Income and Expenditure Account of £17.885 million to £9.341 million. In 2005/06 the net effect turned the deficit of £3.269 million to a surplus of £5.223 million.
- 3.4.8 Details of these audit adjustments were highlighted in our ISA 260 Report issued to the Head of Finance and the Leader of the Administration on 26 September 2007.

3.5 Financial Performance

- 3.5.1 Financial performance can be measured against the financial budget approved by the Council's Strategic Policy & Resources Committee on 21 March 2006 for the financial year 2006/07. In this regard the Council's General Fund Balance shows a surplus of £8.765 million for the year against a budgeted surplus of £0.768 million, a variance against the approved budgeted expenditure of £7.997 million under spent.
- 3.5.2 The Housing Revenue Account's performance against the approved budget for the year which incorporated a contribution of £5.872 million from reserves also resulted in £4.172 million underspend with an actual contribution required from reserves of only £1.700 million.

3.5 Financial Performance (Cont'd)

3.5.3 A number of factors have contributed to these underspends. Details of the most significant factors were given in the Foreword by the Head of Finance in the accounts and are highlighted in the table below.

Table 1 – Financial Performance against 2006/2007 budget

	£m	£m
General Fund Balance		
Budgeted General Fund movement		0.768
Significant factors		
Underspends on Net Cost of Services	6.315	
Additional surplus from Trading Operations	0.255	
Other Net Operating Expenditure/Income #	6.470	
Principal Sources of Finance; mainly Council Tax	1.581	
Net variance on the Income and Expenditure Account	14.621	
Other- movement on the General Fund #	(8.698)	
Single Status-budget not required	<u>2.074</u>	
Overall variance		7.997
Actual increase in General Fund Balance		8.765

includes gains on disposal of assets cancelled in the movement on the General Fund

Significant Trading Operation (STO)

3.5.4 In accordance with the requirements of the Local Government in Scotland Act 2003 the Council disclosed the trading results of its sole STO, Building Services, within the accounts (in Note 14). This reported a surplus of £0.236 million for 2006/07 and an overall surplus of £0.467 million for the three year rolling period to 31 March 2007. The STO met the statutory break-even target.

3.5.5 The Council had budgeted for the STO to make a loss of £0.019 million in 2006/07 whereas the draft accounts reported a surplus of £0.487 million giving a variance against the budget of £0.506 million. A loss of £0.018 million was disclosed in the audited accounts for 2005/06.

3.5.6 In response to audit enquiry Council staff advised that the variance was mainly due to a delay in processing 2005/06 invoices totalling £0.251 million into the financial ledger for 2005/06. The costs were however accounted for in the Building Services' system in 2005/06. This cut-off error indicates material weaknesses in the accounting and internal control systems relating to invoice processing and financial management of the STO. These weaknesses adversely affect the ability to record, process, summarise and report financial and other relevant data and have resulted in a material misstatement in the accounts for 2006/07 and the prior year, 2005/06.

3.5.7 The reported results of the STO in the draft accounts have been revised for both the current year and previous year for 2005/06 invoices that had not been processed until 2006/07. The invoices had not been raised or processed for work carried out during 2005/06 until May to August 2006 and this error had not been identified during the 2005/06 audit.

3.5.8 The reported deficit in the 2005/06 financial statements for the STO of £0.018 million has now been revised to a surplus of £0.185 million. The revised surplus takes account of the entitlement of staff bonuses totalling £0.048 million following the revision of the 2005/06 results.

3.5 Financial Performance (Cont'd)

Significant Trading Operation (STO) (Cont'd)

- 3.5.9 The Council is currently in the process of reviewing the STO status of its Building Services, with a proposal to amalgamate this trading operation with the main client service, Housing. Management consideration of how Best Value can be achieved, particularly for the housing repairs contracts which make up the majority of the work carried out by Building Services, is ongoing. A business case for this proposal has been drafted and work is on-going to review whether the original STO assessment criteria are still being met by Building Services. The outcomes of the review and business case are still to be considered and approved by Members.
- 3.5.10 We have accepted assurances from management that the Council is committed to completing its review of the STO during 2007/08. The Council has also committed to strengthen its performance monitoring arrangements in this area.
- 3.5.11 We will closely monitor Council's progress with the outcomes from this review and monitor performance reports to committees. We will report our finding during our 2007/08 audit.

Housing Revenue Account (HRA)

- 3.5.12 The reported underspend against the HRA budget of £4.172 million is mainly as a result of slippage on major property improvements contracts leading to a reduction of £4.139 million in the actual capital financed from current revenue (CFCR) to £3.265 million in the accounts.

3.6 Pensions

- 3.6.1 Accounting for the costs of pensions presents a difficult challenge for councils. The amounts involved are large, the timescales long, and the estimation process is complex involving many areas of uncertainty that are subject of assumptions. Financial Reporting Standard (FRS) 17 (Retirement Benefits) is based on the principle that a body accounts for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future.
- 3.6.2 The Council participates in two pension schemes on behalf of its employees; the Scottish Teachers' Superannuation Scheme (Teachers) administered by the Scottish Government and the Local Government Pension Scheme (LGPS); the Tayside Superannuation Fund administered by Dundee Council. Both schemes provide members with defined benefits related to pay and service.
- 3.6.3 The Council disclosed the FRS 17 requirements for the LGPS whereas the Teachers' scheme is an unfunded scheme which is excluded from the accounting requirements of FRS 17 as it is a national scheme that cannot separately identify the pension liabilities of the individual contributing bodies. The exception is unfunded pension enhancements.
- 3.6.4 The Council's net pension liabilities at 31 March 2007, estimated by the Actuary, exceeded its share of pension scheme assets by £45.099 million (2005/06 - £72.541million). The favourable movement of £27.442 million is due in part as a result of the gain on valuation of equities reflecting the upward trend in world stock markets during the year and in part due to the Actuary's positive assessment of recent changes in pension benefits on future pension liabilities.

3.6 Pensions (Cont'd)

3.6.5 The Tayside Superannuation Fund is subject to a triennial valuation and the last full review was carried out at 31 March 2005. This highlighted a deficit on the fund of 9% and required an increased employer contribution rate over the next three year period to 31 March 2009 rising from 275% to 315% of employee contributions by 2008/09.

3.7 Accounting Treatment of Premiums Incurred on the Early Repayment of Debt

3.7.1 The Council's Balance Sheet at 31 March 2007 includes £15.863 million (31 March 2006-£13.025 million) relating to premiums paid by the Council incurred on the early redemption of debt which was replaced as part of debt refinancing/restructuring exercises. There are also deferred discounts on early repayment of debt of £0.235 million on the Balance Sheet at 31 March 2007 (31 March 2006- £0.282 million).

3.7.2 The Council's current policy is to write off gains or losses on the repurchase or early settlement of debt to the Income and Expenditure Account unless they are part of a refinancing or restructure option; in this case they are written off over the life of the replacement borrowing.

3.7.3 The recent financial instruments' financial reporting standards; FRS 25, 26 and 29 have introduced comprehensive reporting and disclosure requirements in relation to the recognition and measurement of financial instruments, including borrowing and premiums/discounts paid on rescheduling of debts. The new requirements differ substantially from the 2006 SORP requirements and may require that most premiums and discounts currently deferred to be written off immediately to revenue.

3.7.4 The 2007 SORP has been amended to take account of these FRS requirements however statutory regulation and guidance to mitigate the impact on local taxation is in place from 1 April 2007.

3.7.5 The guidance permits deferment to continue where certain conditions are met, such as where the replacement loan is a fixed interest rate the premium/discount may be written off over the life of the new loan or where the replacement loan is a variable rate loan the maximum period of write off is 20 years. The guidance also allows for overhanging premiums and discounts to be written off in accordance with existing arrangements where certain conditions are met. The new SORP requirements may require a change in the Council's current accounting policy for next year's accounts.

3.7.6 During the year the Council rescheduled £13.160 million of fixed rate PWLB loans paying a premium of £3.522 million, which has been deferred over the term of the new replacement PWLB fixed rate loans. The guidance allows for this premium to be written off over the life of the new loan.

3.7.7 At 31 March 2007 the Council had market loans, all of which are lender option borrower option arrangements (LOBOs), of £43.200 million (31 March 2006 - £38.200 million). The premiums relating to these variable rate loans amount to £6.577 million (at 31 March 2006 - £6.700 million). The remaining premiums and all of the discounts deferred relate to PWLB fixed rate loans. The maximum 20 year period for writing off premiums where the replacement loans are variable rate loans will apply and may increase the annual revenue charge in future years.

3.8 Financial Pressures

Single Status

- 3.8.1 The Council had intended to implement the new staff terms and conditions under the Single Status agreement during 2006/07 and had provided £2.074 million in the Corporate Budget to help meet these costs. The new terms and conditions were implemented on 1 August 2007 and the unused 2006/07 budget that was not utilised has been carried forward to meet these costs in future years. The total earmarked within the General Fund Reserves at 31 March 2007 for implementing the new grading and pay rates is £4.624 million. This includes £2.550 million unused budget for 2005/06 and earlier years. The earmarked reserves will be required to help fund the costs of implementing Single Status in 2007/08 and subsequent years. A further provision of £3.079 million has been included in the Corporate Budget for 2007/08. A funding strategy is in place and it is intended that the earmarked reserves will be used to help meet these costs up to the end of 2013/14.
- 3.8.2 Approximately 4,500 employees are affected by Single Status, with the cumulative expected cost to the Council originally estimated at £7.444 million over the first 7 years.

Equal Pay

- 3.8.3 During 2006/07 the Council made payments of £2.233 million in settlement of equal pay claims; £0.227 million in respect of the Council's employees and £2.006 million in respect of its share of claims for employees of Tayside Contracts Joint Committee. The Council had provided for £2.047 million at 31 March 2006 and has provided a further £0.524 million at 31 March 2007 in respect of Tayside Contracts' estimated liabilities.

- 3.8.4 The Council approved a strategy for managing the financial risks associated with potential equal pay claims at the Strategic Policy & Resources Committee on 1 February 2006 and earmarked £6.000 million of reserves to meet potential claims for both the Council and its share of Tayside Contracts. Over the last 2 years the Council has paid out £0.795 million in respect of its own employees and £2.006 million for its share of Tayside Contracts settlements. The Council had £1.326 million earmarked within its reserves to meet estimated further costs prior to the implementation of Single Status, leaving an uncommitted balance of the earmarked reserve of £1.873 million. This has been revised at 31 March 2007 to £2.233 million.

- 3.8.5 There are a number of outstanding grievances that have yet to be resolved. The Council is not in a position to predict the financial impact of these at this time.

Free Personal Care

- 3.8.6 The provision of Free Personal Care (FPC) has been subject to a degree of inconsistency in treatment across local authorities in Scotland. Some authorities had not included the cost of meal preparation as a task coming under the umbrella of FPC, and in the past the Council had charged separately for this part of the service. A sum of £0.500 million has been earmarked within the reserves to meet any potential liability in respect of claims by individuals under the FPC legislation. The Council now includes meal preparation as part of FPC with no separate charge being made.

3.8 Financial Pressures (Cont'd)

Free Personal Care (Cont'd)

3.8.7 The cost of FPC in 2006/07 amounted to £9.286 million, comprising £4.013 million for people over 65 in care homes (including nursing care costs) and £5.273 million for Home Care, again for people over 65. Overall the Social Work Services to Adults were under spent by £1.115 million and the FPC costs were contained within the budget for this area in 2006/07. These costs are set to increase and were identified as a key cost pressure by the service in the 2007/08 budget preparation. An additional £1.736 million was required to meet increased cost of placements and the loss of income from charges for meal preparation of £0.348 million was estimated.

General

3.8.8 In preparing their 2007/08 budget submissions, services were required to finance all non-pay expenditure pressures within their own budgets through identifying compensating savings within the controllable service budget expenditure or through the use of budget flexibility to transfer resources between years. The Budget Flexibility Scheme also allows for underspends against budgets to be carried forward to help services fund cost pressures in later years. The total carried forward under this scheme into 2007/08 was £3.168 million.

3.8.9 In addition Executive Directors were also requested to identify efficiency and savings options within their Services to meet corporate targets totalling £6.953 million. These options were later considered for approval by the Council.

3.8.10 Longer term pressures identified by services during the 2007/08 budget review included the rising costs of provision for the homeless and the care for the elderly due to increasing numbers. Construction inflation was also identified as an increased cost pressure which could adversely impact on the total investment required by the Council to meet the Scottish Housing Quality Standard over the next few years.

3.9 Reserves and Balances

3.9.1 All Councils hold reserves which consist of earmarked amounts set aside to support future years' expenditure and contingencies for unexpected events or emergencies. At 31 March 2007 the "cash-backed" fund balances and reserves held by the Council totalled £43.120 million (at 31 March 2006 - £34.598 million).

3.9.2 The following table details the balances and movements on these reserves. The Fixed Asset Restatement Account and the Capital Financing Account are specific capital accounting reserves and the Pensions Reserves have been excluded as these are not "cash backed" reserves.

3.9 Reserves and Balances (Cont'd)

Table 2 – Fund balances and reserves

Fund balances and reserves	2007	2006	Movement
	£m	£m	£m
General Fund	28.728	19.963	8.765
Housing Revenue Account	5.117	6.817	(1.700)
Renewal and Repair Fund	1.065	1.208	(0.143)
Insurance Fund	1.772	1.549	0.223
Capital Fund	3.328	1.577	1.751
Usable Capital Receipts Reserve	3.110	3.484	(0.374)
At 31 March	43.120	34.598	8.522

- 3.9.3 Overall Funds and Reserves have increased significantly during the year. The main movement was on the General Fund which has increased by £8.765 million in 2006/07 as a result of a surplus for the year leaving a closing General Fund balance of £28.728 million.
- 3.9.4 The main reasons for the variance against the approved budget have been reported in Table 1. The Head of Finance in his Foreword to the accounts includes the HRA balance of £5.117 million as part of the overall General Fund balance giving a total balance of £33.845 million before commitments.
- 3.9.5 Commitments against the General Fund balance total £18.531 million leaving an uncommitted balance at 31 March 2007 of £10.197 million. Commitments against the HRA balance total £4.367 million leaving an uncommitted balance of £0.750 million. The overall total uncommitted balance is £10.947 million.

3.9.6 Three of the main commitments outlined in the Foreword by the Head of Finance; Single Status provision of £4.624 million, Equal Pay Strategy of £2.233 million, and Budget Flexibility of £3.168 million, have already been covered in this report at section 3.7. Other significant commitments include Devolved School Management (DSM) £1.196 million, car parking £1.420 million and council tax income on second homes and long term unoccupied dwellings of £1.876 million. The HRA committed balance of £4.367 million will be applied to support the delivery of the Housing Investment Plan.

3.9.7 The Council's policy on the approved range for uncommitted balances on the General Fund (excluding the HRA balance) is 2 to 4% of the budgeted Net Revenue Expenditure for the year and the balance held on the General Fund at 31 March 2007 is just within the range at 3.9% based on the 2007/08 budget of £268.718 million. In September 2007, as part of the Funding Strategy for the IIL project, the Council approved a transfer of £4.865 million from uncommitted non-HRA General Fund Reserves.

3.9.8 The latest Revenue Budget 2007/08 - Monitoring Report No 1 revised the General Fund Budget to £274.590 million and projected a final outturn of £271.211 million based on the ledger for the three month period to June 2007 which would result in an underspend of £3.379 million. The main reason for this projected underspend relates to delay in the IIL project and the proposed acquisition of decant accommodation. This underspend has been carried forward as part of the IIL Funding Strategy.

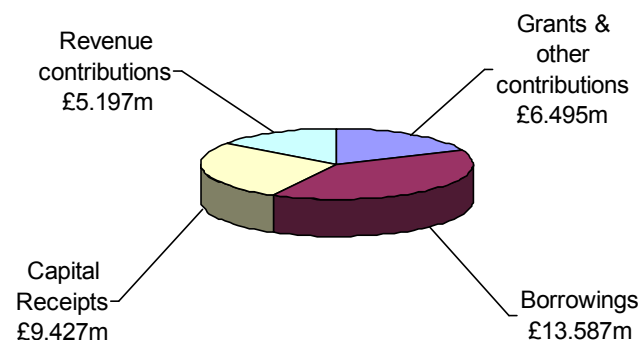
3.9 Reserves and Balances (Cont'd)

- 3.9.9 The report also projected an overspend of £3.882 million on the HRA arising from increased CFCR expenditure in 2007/08 on major property contracts within the Housing Investment Plan. There is a commitment to finance this from the HRA balance to assist in getting the programme of property improvements back on track.
- 3.9.10 Regular revenue expenditure monitoring reports are submitted to the Strategic Policy & Resources Committee throughout the year and revisions and virements to the approved budgets are detailed, including additional sources of finance and high level variances for each of the main services.

3.10 Capital Expenditure

- 3.10.1 Gross capital expenditure amounted to £34.706 million of which £10.021 million was spent on the Council Houses and £24.685 million was spent on the General Fund (Composite) Programme. Funding for the capital expenditure was made up as follows:

Capital Expenditure Funding Sources 2006/07



- 3.10.2 The service areas where the most significant capital expenditure was incurred within the General Fund were Education, Roads and Transport and other General Fund services. The main projects were the new Additional Support Needs School at £2.034 million, a new depot at Inveralmond Industrial Estate of £3.403 million and various improvement schemes, including road safety measures and structural maintenance, of £3.236 million.
- 3.10.3 The main items of capital expenditure within the Housing Programme were kitchen and bathroom replacements and improvements of £5.502 million as part of the Council's Housing Investment plan set to achieve the Scottish Housing Quality Standard.

3.11 Capital Accounting

- 3.11.1 Material audit adjustments relating to the treatment of gains and losses on disposal of fixed assets were required to amend the draft accounts for 2006/07 and the restated 2005/06 accounts. The Council complied with the SORP guidance notes which allowed for significant property assets disposed of to be revalued at the point of disposal to an amount equal to the proceeds, creating neither a profit nor loss on disposal. The SORP, which differs from the guidance, requires a profit or loss to be calculated on disposal. Details of these adjustments are included in our ISA 260 Report.
- 3.11.2 Major revaluations in line with the Council's five year rolling programme included schools and outdoor centres. This resulted in an increased carrying value of these assets of £55.230 million.
- 3.11.3 An impairment charge of £23.344 million in respect of existing school properties which will be disposed of as part of the Council's Investment in Learning PPP project was written out to the Education net revenue expenditure. This charge represents accelerated depreciation and reduces the useful life of the schools to the expected remaining life based on the anticipated educational start date of the new schools.
- 3.11.4 The Council's housing stock was revalued at 1 April 2004 on a discounted cash flow method that assumes the housing stock will remain as social housing with rents continuing below the level for private residential accommodation and takes account of Right to Buy legislation, future maintenance and rental voids. Under this method expenditure on additions is written off annually to the capital accounting reserves as a downward revaluation. The net book value of the council dwellings at 31 March 2007 was £14.506 million (31 March 2006 - £15.167 million).

- 3.11.5 The Council held 7819 council dwellings at 31 March 2007 (8061 at 31 March 2006). The Council disposed of 244 and bought two houses during the year. Housing asset disposals generated capital receipts of £6.756 million, achieving an average selling price of £27,688. This exceeds the average carrying value of £1,855 per dwelling by £25,833.
- 3.11.6 The basis of valuation includes a provision for future maintenance costs. While this is an acceptable method of valuation it is not typically adopted by other Scottish councils. In consequence the carrying value of the Council's housing stock is one of the lowest in Scotland.

3.12 Public Private Partnership (PPP)

- 3.12.1 The Council reached financial close on its new schools PPP project, Investment in Learning (IIL), on 4 October 2007 when the contract was signed with Axiom Education Limited to deliver in excess of £130 million of investment in its school estate. The IIL project involves the construction of six new community school campuses in Blairgowrie, Aberfeldy, Kinross, and Crieff and at two sites in Perth.
- 3.12.2 These assets are deemed by the Council and its financial advisers to be off balance sheet for accounting purposes and will transfer back into Council ownership at the end of the 30 year contract at no additional cost. The Council will pay an annual unitary charge to the contractor which covers the costs of developing the assets and associated facilities management.

3.12 Public Private Partnership (PPP) (Cont'd)

- 3.12.3 By meeting the Scottish Government's Value for Money assessment for PPP schemes the Council will be eligible for Scottish Government Revenue Support Grant amounting to £214 million over the 30 year life of the contract. A funding strategy for this project was submitted to Members in August 2007.
- 3.12.4 As the Council's external auditors we are required to form an independent view on how the Council has discharged its stewardship of public funds. In August 2007 we wrote to the Head of Finance with our provisional judgement based on the available information supplied to us at that time. We concluded that the process followed to determine whether this transaction was on or off balance sheet was in accordance with current underlying guidance and that the Council's judgement on the accounting treatment was reasonable.
- 3.12.5 We will review the final business case and operator's financial model to ensure that there have been no significant changes that would alter the off balance sheet view. We will issue a final judgement at the conclusion of our review.

3.13 Group Accounts

- 3.13.1 The results of Perth & Kinross Leisure Limited (PKL) were not included in the Council's audited group accounts for 2005/06 or the draft 2006/07 accounts received for audit.
- 3.13.2 The Council nominate three elected Members to the Board of PKL and provides grants and various other funding, including loans and other services to the company. PKL is a registered charitable trust and provides leisure services to the public, under a service level agreement with the Council, consistent with the Council's statutory responsibilities and obligations.
- 3.13.3 Following extensive review of the relevant evidence and from discussions with the Head of Finance and the Head of Legal Services the Council agreed to incorporate PKL into its group accounts in both years as an associate. This is in line with the generally accepted custom and practice in Scotland where trusts are established to deliver the statutory responsibilities and obligations on behalf of the local authorities.
- 3.13.4 The final group accounts within the Council's financial statements were amended to include appropriate entries for PKL for both the current and previous year and to take account of the final audited figures for the other associated bodies. The group figures were also amended for changes made to the Council's own accounts.
- 3.13.5 The Group's net operating expenditure of £266.176 million exceeded the income from government grants and local taxation, resulting in a deficit for the year ending 31 March 2007 of £9.341 million and a revised surplus for the year ending 31 March 2006 of £5.223 million.

3.13 Group Accounts (Cont'd)

- 3.13.6 The Group Balance Sheet shows the Total Assets less Liabilities to be £23.212 million at 31 March 2007 compared with the Council's single entity Balance Sheet total of £211.881 million. This material decrease is mainly due to the Share of the Net Liabilities of Associates including the Council's share of the pension liabilities of the Joint Boards. These have been accounted for under FRS 17 'Retirement Benefits' in accordance with the SORP.
- 3.13.7 All of the associates' accounts have been prepared on a going concern basis. These accounts have been audited and there were no qualifications included in the audit opinions. The Council's group accounts have also been prepared on a going concern basis.



4.1 General Governance

- 4.1.1 Over the past 2 years, the Council has undertaken a programme of strategic management reviews of all services, along with the service level reviews. Improvement plans arising from the reviews are currently being implemented and monitored.
- 4.1.2 A new corporate plan "*Securing the Future 2006 -2010*" was approved in December 2006. The corporate vision and objectives are linked to the Community Plan, which was also reviewed during 2006. Both plans identify the key delivery strategies and have detailed indicators and targets for measuring and reporting performance. In addition, the Corporate Plan indicates funding stream linked to each objective. Following the launch of the Corporate Plan by the Chief Executive with senior managers, the Council engaged in an extensive cascade of the Plan to ensure all staff were aware of the corporate priorities. The Organisational Change and Improvement Plan (OCIP) supports delivery of the community and corporate plans.
- 4.1.3 Actions identified in services' Business Management and Improvement Plans (BMIPs) for 2007/08 link with the objectives of the Corporate Plan.
- 4.1.4 The planning framework is designed to have transparent links between the planning levels and provide a mechanism for performance monitoring and review. The identification of funding streams within the high level plans should help to strengthen the links between budgets and planning going forward. A policy-led budget pilot is underway in Environment Service for 2008/09.

4.2 Impact of Local Government Elections

- 4.2.1 The corporate and community plans were reviewed as part of the on-going review process which allowed the Council and its partners to continue to implement its agreed vision and objectives, following the elections in May 2007. The Chief Executive also produced a discussion paper on political decision-making structures, including information setting out the key issues to be considered in developing these structures, particularly in the context of multi-member wards. This was considered by the Council on 28 March 2007 and made available to all elected Members immediately following the elections in May 2007.
- 4.2.2 At its meeting on 16 May 2007 the Council agreed to maintain the political decision-making structures as they were until the end of the calendar year. The Modernising Governance Member Officer Working Group was re-established with the remit *inter alia* of considering options for models of political decision-making structures. The group is due to report back to Council in November 2007 with recommendations for the revised structure to be implemented with effect from January 2008.
- 4.2.3 The Council also approved its revised Scheme of Administration at its meeting on 28 March 2007, as part of the normal review process. This updated the terms of reference for both the Standards and Scrutiny Committee and the Strategic Policy & Resources Committee.

4.3 Councillors

Members' Training

- 4.3.1 Following the 2007 elections induction and awareness training has been provided for all Members in two phases. Phase 1 included the Councillors' Code of Conduct, the Council's Corporate Plan, governance and scrutiny, audit and local government finance. The organisation and conduct of Council business and work of various committees was included, as were all relevant legislative and regulatory items including the Protection of Children (Scotland) Act 2003 and the Code of Guidance on Following the Public Pound. Some of the items were delivered by outside providers, including CIPFA.
- 4.3.2 Phase 2 will deliver a training programme covering eight subjects, including Best Value, community planning/partnerships and risk management. Dates in October and November have been set for the first three topics.
- 4.3.3 The Personal Development Programme for Elected Members is expected to be launched by January 2008. This is intended to support and deliver the competencies framework contained in the Scottish Local Authorities Remuneration Committee Report – Annex A – Councillors' Role Profile/Descriptions. Councillors' job descriptions are already in place and currently being renewed to take account of the competencies framework.

4.4 Partnership working

Community Planning

- 4.4.1 The Community Plan "*working together for Perth and Kinross 2006 – 2020*" was approved ahead of the May 2007 election following extensive consultation. All community planning partners are being actively encouraged to ensure their business plans follow the community plan themes and as noted above the Council's corporate plan does so. Outcome focussed performance measures are identified within the plan and these are intended to allow improvement to be demonstrated over the longer term of the plan.
- 4.4.2 A significant review of the community planning processes had been undertaken during 2005 with an improvement plan agreed in March 2006. This was mapped to the national Audit Scotland report on Community Planning when it was published in June 2006 to ensure all significant issues were covered and a number of minor adjustments were made.
- 4.4.3 The improvement plan was reviewed in August 2007 and is progressing to schedule. The main objectives of the changes being implemented are to streamline the framework and processes to encourage better participation from all partners and focus work on outcome based projects within the community plan themes. Some thematic partnership groups are further ahead than others in moving to outcome focussed projects. This movement is a priority that is being actively led by the Council.

4.4 Partnership working (Cont'd)

Community Planning (Cont'd)

4.4.4 There is a forward programme of meetings of the Community Planning Partnership (CPP) that includes within the standing agenda a rolling review of each community planning theme. The community planning process will become more outcome focussed in line with the Scottish Government Single Outcome Agreement approach. From our observation at CPP meetings all partners appear to actively participate. Annual reports from each thematic partnership are presented to the CPP.

4.4.5 The partnership launched a booklet for migrant workers “*Guide for new workers*” in March 2007. This has proved very popular with public and private sector organisations and two months after launch a reprint was needed to supply demand for it. Work is currently underway on a revision.

Partnership Working

4.4.6 Financial regulations for partnership working have been agreed for some time. A lead partner is identified for all funding and regular reports on spending are submitted to the CPP.

4.4.7 A “*Framework for Working in Partnership*” was approved by the Community Planning Implementation Group in March 2007.

4.5 Reliance on Internal Audit

4.5.1 To minimise audit duplication we liaise with internal audit during our planning to identify areas of their work that we can place reliance on. For 2006/07 we agreed to place reliance on work covering a number of areas. This consisted of 20 different audit reviews, of which eleven were financial and nine non-financial. Not all of the reviews originally scheduled were in fact carried out, and some were not completed within our necessary timescale. From the nine reviews available, five financial and four non-financial, we were able to take reliance on the work of internal audit in these areas. Additional work was undertaken during the year end audit as a consequence of not having the full internal audit programme completed.

4.5.2 New arrangements following the review of internal audit are now bedding in, and resources have been increased in 2007/08, although we note that the full staffing level was only achieved during July 2007. This, together with a significant level of unplanned work and greater involvement in grant certification and the National Fraud Initiative, means that all planned 2007/08 audits may not be completed in time for us to rely on them with regard to the financial statements audit. We plan to meet with internal audit in the near future to consider their plan and progress to date with the view to establishing an agreed priority of work to allow sufficient reliance on their work to be taken. Any reprioritisation of their plan will require consideration and approval by the Council’s Audit Sub-Committee.

4.6 National Fraud Initiative

- 4.6.1 In 2006/07 the Council again took part in the National Fraud Initiative (NFI) in Scotland. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. For 2006/07 the exercise was extended to include information about tenants and councils were asked to submit further specified datasets where the risks merited their inclusion. The NFI has generated significant savings for Scottish public bodies (£27M to 2005) but, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.
- 4.6.2 The NFI 2006/07 results (data matches) were made available to councils on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the Council's involvement in NFI 2006/07 during the course of our audit.
- 4.6.3 Overall co-ordination of the exercise has been good; the exercise was planned in advance and data submitted on time. Internal Audit, the co-ordinators, have monitored progress and remind those responsible for reviewing matches of the need to make better progress. To date reasonable progress has been made in several areas, particularly housing benefits. There are, however, concerns around future progress due to staff changes and shortages. It appears unlikely that all matches will be reviewed by the expected end of this exercise in mid-January 2008. Although the Council has indicated a desire to work through all matches, we believe that for those reports which have not yet been started, filters should be applied so that the highest priority matches at least are reviewed.
- 4.6.4 Seven frauds have so far been confirmed, as well as a number of errors, giving a total overpayment and possible forward savings of around £17,000.
- 4.6.5 The Council accords a high importance to the NFI, with regular reporting to the Audit Sub-Committee and to the Council on the results.
- 4.6.6 The Council will shortly be taking part in the latest extension to the NFI, a matching of the electoral roll to single person council tax discounts. Of the new risk based data sets, creditors, care homes, market traders and taxi drivers were submitted for the 2006/07 exercise. They generated very few matches and no frauds have been found, although there is more work to be done, particularly in the area of creditors.

5.1 Strategic Planning

- 5.1.1 As noted in the Governance section the Council continues to have a planning framework that links all levels of plans together focussed on delivering the Corporate and Community Plan objectives. Performance measures are identified at each level of planning and wherever possible these are outcome focused. Further development of outcome focussed measures is underway and will link to future developments in relation to single outcome agreements.

5.2 Performance Management

Performance Management and Scrutiny

- 5.2.1 The Council continues to develop its Performance Management Framework to ensure that planning, performance management and performance reporting are central to all management processes and work at all levels from the Community and Corporate Plans, through Business Management and Improvement Plans, team plans and employee review and development.
- 5.2.2 Elected Members are involved in scrutiny of performance both through themed committees and the Standards and Scrutiny Committee. Work is continuing in terms of training on scrutiny for Members and the development of a forward programme for scrutiny. Improvements have been made to the monitoring of the Community Plan with officers, Members and partners.

Outcome Agreements

- 5.2.3 The Council has been involved in the development of the Scottish Government's approach in terms of single outcome agreements. This issue has been discussed at senior management and Member level to provide a clear understanding of future work and possible timescales. The Council has already developed an outcome based approach in relation to performance management and planning linked to the revised Corporate Plan.

Self-evaluation

- 5.2.4 Building on work undertaken in 2005/06 which led to the development of the Organisational Change and Improvement plan, the Council has developed a self-evaluation framework "*How Good is our Council?*" to improve performance management and develop a robust/systematic self evaluation model. This is based around that used by HMIE for their inspections and training with relevant officers has been undertaken by the HMIE team during 2007 to ensure the self-evaluation process is carried out consistently and effectively across all service areas.
- 5.2.5 The first round of service self-evaluations is now complete and the results are currently feeding in to a revision of the Organisational Change and Improvement Plan (OCIP) to be approved in November 2007. It is also anticipated that the information will be used to support the business management and improvement planning process for on-going years.

Performance

5.2 Performance Management (Cont'd)

Public Performance Reporting

5.2.6 Developments are being made in improving performance reporting to the public through a review of Public Performance Reporting due to be completed in December 2007. Linked to this is the creation of “PKC Performs” which outlines the Council’s performance against the Corporate Plan targets in an easily understood format. This is to go live before the end of 2007.

5.3 Risk Management

5.3.1 We agreed at the planning stage that Internal Audit would examine risk management and we would place reliance on their work. Their report 06/058 “Risk Management” was issued in June 2007 and covered the Corporate Risk Management section and service risk owners in Housing & Community Care and The Environment Service.

5.3.2 Internal Audit’s findings for the 6 control objectives covered in their work. were as follows:

Strength of internal controls	Strong	Moderately strong	Moderate
Findings	4	1	1

Source: Internal Audit report 06/058

5.3.3 The Internal Audit report concluded that “... .. there is an established and effective methodology in place for the identification, description and prioritisation of risks affecting council services. Good communications are maintained with the Executive Officer Team, service Senior Management Teams, and individual risk owners. (and)... .. the Corporate Risk Management Section effectively monitors risk management activities throughout the Council”.

5.3.4 An improvement action plan was agreed. Only one action was rated as “high risk”, relating to finalisation of service risk profiles that had been in draft since 2005. The other actions, including enhanced training, are primarily designed to further embed risk management into normal working practices within the council and with partnership arrangements. The Council’s Risk Management Strategy was last revised in 2005 and a review of the strategy is also included in the action plan.

5.3.5 The following information on the risk management framework is taken from the Internal Audit Report 06/058. The Council’s Risk Management Strategy identifies the responsibilities of Members and officers. There is a Corporate Risk Management Section and a designated Corporate Risk Manager with defined responsibilities. Risk profiles are maintained for corporate and service risks. Risks are linked to key objectives and are regularly discussed at senior management team meetings. Agreed actions to modify risks are documented, along with delivery dates and individuals responsible. Annual risk management reports are submitted to the EOT and Standards and Scrutiny Committee describing progress made in the financial year and plans for the forthcoming year.



5.4 Efficient Government

Background

- 5.4.1 The Scottish Executive incorporated efficiency saving targets to the budgets for all councils from 2005/06 to 2007/08. Following a review of the first year's experiences the Scottish Executive recognised that standard measures should be prepared to aid future reporting of outcomes.
- 5.4.2 The Scottish Executive issued a paper on Efficient Government Reporting "*Framework For Local Authorities in Scotland*" in 2007 which introduced arrangements for reporting on efficiency savings. Efficiency Statements will be compulsory for 2007/08 but councils were encouraged to produce them for 2006/07.

Efficiency Statement

- 5.4.3 The Council submitted its 2006/07 Efficiency Statement to the Scottish Executive by the suggested deadline of 31 August 2007. Each service produced an Efficiency Statement that was presented by their finance officer to a panel of officers nominated by the EOT to provide scrutiny and challenge to the process. Following this the Head of Finance and Head of Strategic Management and Improvement produced the Council's overall position. The final statement received the Chief Executive's and Leader of the Administration's approval before being lodged with the Scottish Executive. The statement has been presented to the EOT and will also be presented, in a joint report from the Head of Finance and the Head of Strategic Management and Improvement to the Strategic Policy & Resources Committee in November 2007.

- 5.4.4 A detailed process was used this year to instil discipline for next year, and a review of the process will be undertaken to identify any possible improvements. Comprehensive guidance on preparation of the information, including a timetable for provision of the information, was issued by the Chief Accountant. Involvement in the process has been taken out beyond financial controllers. Each service has different issues to address but it is planned that good practice in the services that are further developed will be shared with others.
- 5.4.5 The production of the information has not been undertaken in isolation and will be used to inform the 2008/09 budget process. Officers are confident that they have properly identified efficiency savings in accordance with national guidelines.

Monitoring Efficiency Targets

- 5.4.6 Efficiency targets have not been monitored separately from the normal budget monitoring up to now, however it is planned in future that these will be monitored separately through the Chief Executive. It is recognised that one of the difficult areas in the process is the provision of robust evidence to support claimed savings. The Council plan to use its BMIP and performance management frameworks to help to obtain this. A proportionate approach is planned utilising current indicators and monitoring wherever possible, and adding further indicators if required through the BMIP process.

5.4 Efficient Government (Cont'd)

Efficiency Strategy

- 5.4.7 The Council has a draft Efficiency Strategy, approved by the EOT on 27 March 2007, setting out key objectives and principles for efficiency within Perth & Kinross Council. It is planned that the strategy will be reviewed by the end of 2007 to align it with the announcement of national funding and the implementation of outcome agreements.
- 5.4.8 The strategy covers the national agenda, Best Value, current progress on efficiency within the Council, defining efficiency, delivering sustainable efficiency, the key elements of the efficiency strategy, setting efficiency targets, efficiency monitoring and reporting, next steps and plans, supporting efficiency initiatives and governance and accountability.
- 5.4.9 Delivery of the efficiency saving planned by the Council will be critical in future, not only for the achievement of the Council's share of national targets, but also to allow delivery of the funding strategy for the IIL project. Council officers are confident that efficiencies from a number of initiatives such as procurement, shared services and asset management will be delivered in the medium to long term. Current efficiencies are being delivered through the Council's continuous improvement programme.

Shared Services

- 5.4.10 The Council is involved in local and national shared services projects. It is seeking to maintain flexibility within local projects to allow them to accommodate the outcomes from the other national shared service projects.

"Five-Council" Project

- 5.4.11 Locally the Council is involved in a project with Clackmannanshire, Stirling, Falkirk and East Dunbartonshire Councils. The project aims to provide a multi-agency shared service capacity covering HR, payroll, finance and procurement.
- 5.4.12 Following receipt of funding from the Scottish Executive in August 2006 for a feasibility study a business case evaluating four strategic delivery options was produced using consultants in February 2007. The preferred option is to create and operate a shared service solution, owned by all five councils, subject to appropriate funding being available.
- 5.4.13 The total expected benefits from the proposals is estimated at £103.5 million over 11 years. The Council's share is estimated at £30.4 million. The total costs are estimated at £57.1 million overall, giving a payback period for the project of 6 years. £48.9 million of the £103.5 million relates to savings in procurement and given the potential overlap with national and other local procurement projects not all of these savings may be achievable.
- 5.4.14 Funding to implement the project, estimated at £20 million, was requested from the Scottish Executive. The funding decision has yet to be made and therefore the Council and its consortium partners are currently examining other funding options. The Council is clear that if this project cannot go ahead the efficiency opportunities that have been identified will be pursued by other options.

5.4 Efficient Government (Cont'd)

“Five-Council” Project (Cont'd)

5.4.15 As part of the business case development for the project existing Council services were examined to establish a baseline of current activity and assess opportunities to undertake local performance improvements, instead of or in advance of, a move to shared services. Following a Performance Improvement Report from the consultants in April 2007 a number of actions have been agreed to take this agenda forward over a three year period.

5.4.16 Regular reporting of progress against agreed improvements in a number of areas is being undertaken, the first such report was received in June 2007. Progress reporting includes timescales, costs, savings, benefits and a summary of pertinent issues for each agreed improvement action. The progress report also comments on other initiatives that have been put on hold and notes other work that might be considered in future.

Tayside Procurement Consortium (TPC)

5.4.17 The Council is a member of the TPC together with Dundee City and Angus Councils. The official launch of the initiative will be on 8 November 2007 although work has been progressing on this project for a number of months. This project relates to shared procurement through the development of procurement opportunities, collaborative contracts and shared commodity expertise. A Head of Procurement for the three Councils has recently been appointed. E-procurement systems will be used by all three councils, with Perth & Kinross and Angus Councils using the national e-procurement system PECOS.

5.4.18 Consultants have been engaged to assist the consortium with strategic procurement and commodity analysis. Output from recently held workshops is now available identifying opportunities within a range of commodities, and with an expectation that the three councils can make savings of between £2.0 million to £2.8 million in total. Further work is now underway to progress the structures and resources necessary to realise the benefits identified.

5.4.19 As the Council sits within the North East area for the national Excel project, collaboration with Aberdeen City Council is being actively pursued through the Tayside Procurement Consortium.

5.5 Best Value Audit

5.5.1 A full Best Value audit is anticipated to start in November 2007 with a submission to Audit Scotland due by the Council in December 2007. The conclusion and reporting are scheduled for July 2008. A member of our audit team will be included in the Audit Scotland team undertaking the review.

5.5.2 Transitional Best Value work has been carried out at the Council this year. This included discussion with officers about areas that will feature in the full Best Value review and follow-up of the actions agreed after the pilot Best Value audit. We plan to issue our report on the work in November 2007, and this will form part of the briefing that we are required to give Audit Scotland for the full Best Value review. There will be overlap between the contents of that report and this one.

5.6 Progress on Following the Public Pound

- 5.6.1 COSLA and the Accounts Commission jointly published the 'Code of Guidance on Funding External Bodies and Following the Public Pound' in 1996 (the Code). This set out the principles of best practice when councils establish significant funding relationships with arms-length and external organisations (ALEOs). In December 2005 a national report 'Following the Public Pound – A follow-up report' was published by Audit Scotland, following work undertaken in all Councils in Scotland. In conjunction with this work a local follow-up report assessing the Council's arrangements as "moderate" and including an agreed action plan was issued by the previous auditors.
- 5.6.2 The Council set up a working group to take forward the recommendations and the EOT also fed into the process. Progress with implementation and further work to be undertaken in this area was reported to the Strategic Policy & Resources Committee in March 2007 by the Executive Director (Corporate Services). The report demonstrated good progress with implementing the agreed improvements relating to the Council's Code of Guidance; development of service level agreements; risk assessment; expansion of the central register; monitoring arrangements, including the development of self-assessment for larger organisations; training for elected Members and overall governance arrangements. Only one recommendation has not been implemented. That related to the development of a register of interest for officers. It was decided following consideration that this would best be dealt with through the wider arrangements for declaration of interests within the Employee Code of Conduct.

5.7 Statutory Performance Indicators (SPIs)

- 5.7.1 The 2006/07 return to Audit Scotland for the Council's SPIs was made after the 31 August 2007 deadline, on the 6 September 2007, due to the Council collecting further information for one SPI. Publication was however made by the 30 September 2007 deadline. We concluded that the systems in operation for the production and publication of the SPIs were reliable for all 57 indicators. However, as a result of our audit and Internal Audit's work, 12 indicators comprising 14 separate parts required to be amended before the indicators were agreed as reliable.
- 5.7.2 We shall be submitting a report arising from our work on the SPIs designed to agree with management areas where improvements can be made to the collection and publication of data. This will include an agreed action plan with proposed timescales for the implementation of changes. The report will be issued as an early output as part of our 2007/08 audit.

Appendix I - Respective Responsibilities

Respective Responsibilities of Members, Officers and Auditors

Each public sector body is accountable for the way in which it has discharged its stewardship of public funds. Stewardship is a function of both executive and non-executive management and, therefore, responsibility for effective stewardship rests upon both members and officers of a public sector body.

That responsibility is discharged primarily by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources and by the preparation, maintenance and reporting of accurate and informative accounts.

It is our responsibility to undertake an independent appraisal of the discharge by management of its stewardship responsibilities, to enable us to give an assurance that those responsibilities have been reasonably discharged.

The Council and the Head of Finance's responsibilities for the Financial Statements are set out on page 9 of the Financial Statements. Our responsibility is to form an independent opinion, based on our audit, on the abstract of accounts and report that opinion to you.

We are required to review whether the Council's Statement on the System of Internal Control complies with the requirements of the Code of Practice for Local Authority Accounting in the United Kingdom, a Statement of Recommended Practice (the SORP) and report any exceptions. We are also required to review the statement and report if it is misleading or inconsistent with other information we are aware of from our audit. The Statement on the System of Internal Control is set out on pages 10 and 11 of the audited accounts. We are not required to give an opinion on the effectiveness of the Council and its group's internal controls.



Appendix II - Follow-up Action Plan for 2005/06

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at July 2007
101	<p>Common Good Supporting documentation relating to the existence and valuation of common good assets is inadequate.</p> <p>Risk <i>The Council may be unable to demonstrate common good ownership of assets.</i></p>	<p>Recent case law and publications have led the Council to believe that more properties are held on the "common good" than had previously been thought. Currently the Council looks at all properties before selling or letting on long lease to try and determine if they are held on the common good or not.</p> <p>Estates Management and Legal Services are currently in discussion in order to carry out a wider review of this area. However at this time an exact target date is unknown due to the level of resources available.</p>	Yes	Russell Thomson (Head of Property Services)	Unknown	Due to higher priorities within the Council it has not been possible to devote the necessary officer time to this project. It is however recognised that this task is important and relevant officers in Property and Legal will shortly agree a programme of taking this forward.



Appendix II - Follow-up Action Plan for 2005/06

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at July 2007
107	<p>Financial reporting Changes have been made to the 2006 SORP which will have a significant impact on the presentation of the 2006/07 annual financial statements.</p> <p>Risk <i>In the event of insufficient preparation, the 2006/07 financial statements may not comply with accounting requirements. Differences between financial reporting requirements and budget monitoring during the year may result in a lack of transparency for members and the public.</i></p>	A review of the major changes to the 2006 SORP will be carried out to identify the impact on the 2006/07 Financial Statements. Early work will be undertaken to restate last year's figures into the new format.	Yes	John Symon (Head of Finance)	May 2007	2006-07 Financial Statements have been produced in 2006 SORP format with 2005/06 comparator figures.

