Stirling Council

Report to Members and the Controller of Audit
on the 2006/07 Audit

October 2007

Contents

Key Messages

Introduction

In 2006/07 we looked at the key strategic and financial risks being faced by the council. We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our main findings, summarising key outcomes in 2006/07 and the outlook for the period ahead.

Key outcomes from 2006/07 audit

We have given an **unqualified** opinion on the financial statements of Stirling Council. The council dealt well with significant changes to the format of the accounts. We have, however, drawn attention to a failure to comply with the statutory requirement that all statutory trading organisations break even on a rolling three year basis. For the three year period to 31 March 2007, four trading organisations failed to achieve the statutory requirement.

The contribution to the general fund was £5 million more than planned, largely resulting from a change in accounting treatment of ring-fenced grant from the Scottish Government. This has enabled the council to restore unallocated balances close to target levels following previous reductions as a result of equal pay costs. In setting the 2007/08 budget the council planned a further contribution of £0.8 million that would restore balances back to target levels.

The council had corporate governance systems in place during 2006/07 that operated well within a sound control environment. Further action is required to embed its risk management framework and to continue to improve performance management arrangements, including public performance reporting.

The council has reported a number of improvements in performance and progress against corporate priorities and objectives. The council's Best Value Improvement Plan (BVIP) is ambitious and wide ranging, listing 42 improvement actions across 9 themes. The council has prioritised these themes and linked them into the relevant corporate plan content. Since the Best Value report, the council has made good progress in the majority of areas identified although significant work remains to be done in some important areas.

With continued development of the council's performance management framework, it will be better placed to demonstrate the extent to which improvement programmes, including the BVIP, have led to meaningful and measurable improvements in service delivery. However, information currently available in relation to specific services that were previously identified as poorly performing indicates that some improvement has been achieved.

Outlook for future audits

In the course of our work we identified some of the strategic risks that the council will need to manage in delivering on its stated objectives and priorities. These can be grouped into the following themes:

- Supporting political governance
- Redesigning business
- Demonstrating improved performance
- Funding future improvement
- Infrastructure improvements
- Workforce management

Significant improvements are being made to the council's performance management system, but there is still some way to go before the performance monitoring is fully linked to the council's overall priorities and objectives and comprehensive information is available to support effective management and scrutiny of performance.

The council has started a 90 day consultation period with staff prior to implementation of the single status agreement. While some provision for the costs of this have been made within current budgets, until it is implemented the initial and continuing costs cannot be reliably estimated. In implementing the agreement, the council needs to maximise the value for money from its investment in its staff.

In a tightening fiscal environment, and in pursuance of best value objectives, there will be a continuing need to identify and release efficiencies on an ongoing basis. The council has improved its arrangements to capture the savings achieved with the introduction of an annual efficiency statement, recording efficiencies of £2.793 million in the year, but still has some work to do to identify further savings while managing the impact on services, service users and the council's overall objectives.

A feasibility study to examine proposals for the development of a joint service delivery vehicle with Clackmannanshire Council is underway. This will help clarify the extent of political support for this initiative. A separate business case to develop, with four other local authorities, a shared services centre for human resources, payroll, finance and procurement is currently being considered by the Scottish Government which will decide whether to fund the progress of this initiative.

Work is continuing to prepare an updated corporate plan for the period from 2008 – 2012. This needs to be underpinned with appropriate planning structures that ensure that service planning and budgeting are appropriately aligned with overall objectives. Further effort is required to progress corporate asset management and workforce planning.

The co-operation and assistance given to us by Stirling Council councillors and staff over the first year of our audit appointment is gratefully acknowledged.

Introduction

1. This report summarises the findings from our 2006/07 audit of Stirling Council, the first year of a five year appointment. Findings are drawn together within four sections: performance, financial position, governance and financial statements. Within each of these sections we have also provided an outlook setting out key issues and concerns facing the council going forward.

2. The scope of the audit was set out in our Audit Risk Analysis and Plan (ARAP), which was submitted to the council's management team in April 2007 and considered by the governance and audit committee in September 2007. Under the following strategic themes, the ARAP set out our views on the key business risks facing the council and described the work we planned to carry out:

- Supporting political governance
- Redesigning business
- Demonstrating improved performance
- Funding future improvement
- Infrastructure improvements
- Workforce management

3. Overall conclusions about the council's management of key risks are discussed throughout this report. Appendix A of this report sets out the key risks which we wish to draw to the attention of members and the action planned by management to address them.

4. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members during the course of our audit work.

Performance

Introduction

5. In this section we summarise key aspects of the council's reported performance during 2006/07 and provide an outlook on future performance, including our views on the current status of identified risks. We also comment on the progress against agreed improvement actions arising out of the best value audit and the findings of national performance audit studies.

Corporate objectives and priorities

6. The corporate plan for 2003 – 2008 sets out the key goals and priorities for the council, based around the strategic aims to promote: Quality and Best Value, Local Democracy and Community Leadership, Social Inclusion and Sustainability. The corporate plan is based on the council's vision to make Stirling

- a good place to live, work or visit with a clean, safe environment
- an area with a range of good jobs for all and with equal opportunities in education, housing and other services
- a community where people are treated with dignity and respect and are provided with services to meet their needs, and
- an area in which people have control and influence over their lives.

7. The corporate plan contains 15 priority areas which reflect the council's political and corporate management arrangements. Strategic outcomes have been identified for these priority areas, with associated activity and outcome measures and targets. The council has significant programmes for improvement and change which are key mechanisms for delivering its priorities and vision, including its five investment priorities:

- The Schools Public Private Partnership;
- Roads Maintenance;
- The City Transport Strategy;
- The Sports Village; and
- Community Ownership of Housing.

8. Preparation of a new Strategic (Corporate) Plan began immediately following the elections in May 2007. There is no overall party control in Stirling Council and work is ongoing to develop an updated corporate plan for 2008 - 2012, incorporating relevant manifesto commitments, with a status report considered by the council in October 2007.

Overview of performance in 2006/07

Annual Report

9. The council's annual report was presented to elected members on 4 October 2007. It provides a summary of the progress made towards completion of the council's corporate plan objectives and priorities during 2006/07. The report describes aspects of performance and achievements across each of the corporate plan priority areas, including the five investment priorities:

- **The Schools Public Private Partnership** – the schools PPP contract was concluded in April 2006 with construction work commencing for the new and refurbished schools with completion expected by August 2008;
- **Roads Maintenance** – additional capital expenditure of £1m in each of the three years from 2005/06 to 2007/08 has been built in to the budget together with an additional £0.5m revenue since 2005/06. The percentage of the road network that should be considered for maintenance treatment is 53.1%, rising 9.2% since 2005/06. The national average in 2005/06 was 41.8%;
- **City Transport Strategy** – the City Transport Strategy was approved in June 2006 and sets out a 15 year programme for improving management of traffic, parking and congestion in the city area;
- **Sports Village** – contracts for construction were agreed in March 2007 with construction work now started on the new facility, with expected completion in early 2009;
- **Community Ownership of Housing** – housing must meet the Scottish Housing Quality Standard by 2015. Through its corporate plan, the council committed to investigating transfer of its housing stock to a new registered social landlord as a means of securing the funding for such an investment. A ballot was held in autumn 2006 and tenants indicated that they would rather retain the council as their landlord. A revised 30 year business case for the retention of the council's housing stock was agreed by the council in March 2007 and an analysis of demand for low cost and socially rented housing is currently underway. During the year the council continued its programme of regeneration of housing and is currently exploring alternative funding to complete this programme.

10. However performance was not detailed for the following two priority areas:

- In Community Planning: Promoting Quality and Best Value, Local Democracy, Social Inclusion and Sustainability (4 strategic outcomes); and

- In Developing our Organisation: Promoting Quality and Best Value and Sustainability (3 strategic outcomes).

11. Without an analysis of the outcome measures against targets it is difficult to interpret the extent to which the council has been successful in achieving its priorities.

12. Public performance reporting arrangements are still being developed, as highlighted to members in September 2007, and will rely on continued development of the internal performance monitoring framework. It is the council's intention for future years to produce an annual report which combines in a single report progress reporting against corporate plan targets, progress reporting against the Best Value Improvement Plan (which will be integrated into the corporate plan for 2008-2012), the statutory performance indicators and the Stirling Stat data.

Key risk area 1

Measuring Performance

13. The council has not yet developed an integrated performance management system. A review of the council's performance management framework was undertaken by KPMG and reported in May 2006. This included a high level route map to lay down the foundations of a performance management framework within 12 months. The review highlighted that there was mixed performance throughout the council's services with the main areas for improvement being: integrated planning and budgeting; balanced performance indicators; performance measured across all areas of activity; and the use of comparative analysis. The council still has much to do to respond to the issues highlighted in the report.

14. The measures that are in place to assess the council's performance against corporate priorities were reported formally to elected members in February 2007 in the second Corporate Plan Annual Review. At that time there were 106 identified activities contained in the plan which were contributing to the achievement of the strategic outcomes within the corporate plan. Results showed that progress on 94% of these activities remained on target as complete or expected to be complete within agreed revised timescales. The review highlighted 18 projects where activities had been completed or had moved to a significant new phase in the past year; 5 projects that needed to be re-prioritised and 4 further projects that were currently suspended or on hold.

15. In addition to these activities, services had identified 65 outcome measures with specified targets and progress towards these targets was also reported. Detailed results for each of the 106 activities contributing to the achievement of the strategic outcomes within the corporate plan were made available to members.

16. Progress on priorities reported included:

- Fife and Forth Valley Community Justice Authority established in April 2006;
- Active Stirling set up in April 2006 to provide sports provision across the area;
- the number of home care hours available to older people has increased by 24.7% since 2005/06. However at 354 hours per 1,000 population this is still significantly lower than the Scottish average in 2005/06 of 490 hours per 1,000 population;
- the percentage of qualified staff in residential accommodation has increased to 74% from 50.9%;
- Raploch Urban Regeneration Company launched and work has commenced on the Raploch Community Campus;
- a review of waste management services has been undertaken, with the introduction of new vehicles and new working practices, resulting in reduced costs of refuse collection and disposal and a drop in the number of complaints received. Encouragingly, we note that the Refuse Collection STO is now projected to break even in 2007/08.

17. The council introduced Stirling Stat in January 2007. The system remains under development and is intended to bring key performance indicators to the attention of members, showing how services are performing at a glance. From October 2007 regular performance reports will be provided to the Executive and Service Delivery and Performance Committee, expanding on the current finance-focussed reports to cover service efficiency and effectiveness, customer satisfaction, progress with projects and priorities and the impact services are having on local communities.

18. Much work is still to be done before performance reporting is fully integrated with all aspects of the council's plans and priorities, better supporting effective management and scrutiny. The council's intention is to link Stirling Stat with:

- the corporate plan progress report;
- outcome measures for some corporate plan priorities that were not available;
- Statutory Performance Indicators; and
- the Best Value Improvement Plan.

Statutory performance indicators

19. One of the ways of measuring council performance is through statutory performance indicators (SPIs). Within Stirling Council, key indicators have been reported to the Service Delivery and Performance Committee in September 2007. Forty two percent of SPIs have indicated improved performance from the previous year with a further 33% indicating a decline.

20. Improvements measured by some SPIs are incorporated in the summary of reported improvements above. Other substantial improvements have been made and maintained in:

- housing benefit and council tax benefit administration cost per case has decreased by 26% to £36 which is well below the national average of £50. This has been achieved while reducing the average time to process new claims and change of circumstance claims;
- reduction in the number of successful appeals against the original planning decision;
- percentage of children seen within 15 working days of a supervision order has increased to 97.7%, a steady increase from 2003/04 when it was only 82.9%;
- rent loss due to properties being empty which is linked to the reduction in the average time being taken to re-let houses (now taking approximately 24 days for dwellings which are not low demand - compared with the 2005/06 national average of 64 days);
- current tenant rent arrears as a percentage of net rent due which has continued to fall in the last 4 years from 6.7% to 4.7%. The average for comparator authorities is 5.3%;
- percentage of street light failures that were repaired within 7 days has increased to 91.4% although this is still below the national average of 93.5%;
- percentage of bridges failing European Standards or with weight and width restrictions continues to fall; and
- percentage of waste landfilled has fallen to 64% from 67.3% in 2005/06.

21. However, performance has declined in the following areas:

- percentage of new probationers seen by a supervising officer within a week;
- sickness absence rates;
- the percentage of the population using libraries;
- the percentage of housing repairs completed within target has shown a marked deterioration from previous years.

22. Other areas of note are where the council is well below the national average including:

- the average attendance at pools and other leisure facilities per 1,000 population is 2,631 and 102. Compared to a national average of 3,463 and 4,156 respectively; and
- the number of litigation claims per 10,000 population has improved to 51.5 however the national average in 2005/06 was 29.3.

23. Each year we review the reliability of the council's arrangements to prepare SPIs. Overall, the quality of working papers provided to support the SPIs was adequate. In general, there was sufficient checking of SPI data prior to submission for audit and ownership of the indicators by services. One indicator was considered unreliable as the number of library visitors is based on extrapolation of a small sample count held one week each quarter. In 2005/06 arrangements to gather performance information in relation to community service orders were considered unreliable. We are pleased to note that following improvements in 2006/07, arrangements for this indicator are now reliable.

Best Value audit

24. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response the Accounts Commission introduced new arrangements for the audit of best value based on a full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out by the local auditor.

25. The Best Value audit of Stirling Council was carried out in 2005 and the findings published in March 2005. In response, the council approved a Best Value Improvement Plan in 2006 setting out the improvement agenda items from the report together with the planned actions and timescales for implementation.

26. Since this time, the council has reported good progress in the majority of areas identified, although significant work is still required in some important areas, including:

- an overarching corporate HR strategy is not yet in place, although individual policies have been developed. Progress on the draft HR Strategy is scheduled to follow centralisation of HR, and the implementation of Job Evaluation/Single Status contains the following elements: reward and grading; employee relations; recruitment; employer of choice; policy development; and employee development. Key to progressing the workforce planning element of the Strategy will be the implementation of 'position management' on the HR system. The centralisation of HR administration early in 2008 will facilitate this and updated HR Adviser job remits will include supporting annual workforce reviews;
- there is no overarching corporate asset management plan in place, although the council has been undertaking "sectoral reviews" of the portfolio since 1996 and have looked at depots, offices, school estate, libraries, and parts of the non operational portfolio. These reviews have led to significant planned asset realisation and to operational re-engineering of asset requirements;

- planning and budgeting are not yet fully integrated although the work of the Integrated Planning & Budgeting Group has ensured a more policy-led approach to budgeting within the council generally, and more specifically in relation to preparatory work on the council's Revenue Budget process. The council acknowledges however that there is still much to be done to ensure that all of the council's plans are properly integrated and take into account all resource and capacity issues.

27. The council has linked the remaining objectives in the Best Value Improvement Plan to the Corporate Plan 2003-2008. It has also prioritised the overall objectives set out in the plan. We have commented on progress on a number of aspects of the BVIP throughout this report. With continued development of the council's performance management framework, it will be better placed to demonstrate the extent to which the BVIP has led to meaningful and measurable improvements in service delivery. However, information currently available in relation to specific services that were previously identified as poorly performing indicates that some improvement has been achieved.

Performance outlook – opportunities and risks

Introduction

28. In the course of our audit work we identified some of the strategic risks to Stirling Council delivering on its stated objectives and priorities in the years ahead. These risks were set out in our Audit Risk Analysis and Plan and grouped into six risk themes. In the following paragraphs, we comment on the progress made by the council during the year and the key risks yet to be fully addressed. Where appropriate, matters arising in a number of these areas are also reported in more detail elsewhere in this report. Risk exists in all organisations which are committed to continuous improvement and, inevitably, is higher in those undergoing significant change. The objective is to be "risk aware", and have sound processes of risk management, rather than "risk averse". Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.

Supporting political governance

29. In common with many councils, the elections have resulted in a new administration and a considerable number of new councillors. An induction session was held shortly after the election and members were provided with key information to support them in their new role. All members will require appropriate support for their roles on a continuing basis. Further training sessions have also been provided covering a number of areas including individual IT requirements, planning, finance, service specific areas and training for statutory requirements (e.g. Licensing Board members).

30. A report on the council's vision and values was presented to members in October 2007 to inform development of an updated corporate plan for 2008 – 2012. Renewal of the council's strategic direction and organisational structure will help ensure that it is best placed to meet the range of challenges it will face in the years ahead.

31. The newly elected council agreed to maintain the previous political management structure of a decision making Executive supported by two scrutiny committees. However, the effectiveness of this structure should be kept under review as multi-member working and improvements in available performance information begin to bed in.

Redesigning business

32. Improvements to information and communications technology are central to the council's business transformation strategy. The council has made good progress in this area with preparation of an updated ICT strategy and restructuring of the IT service to focus more on service and corporate needs. Improvements are being made to the proportion of services that are available on-line and an increasing number of customer facing services are handled through the council's contact centre, with surveys indicating a high satisfaction rate amongst service users.

33. Stirling Council is at the forefront of shared services development, as a partner in two key initiatives:

- a bid to develop, with four other local authorities, a shared services centre for human resources, payroll, finance and procurement. A business case for this project is currently being considered by the Scottish Government which will decide whether to fund the progress of this initiative, making an assessment of the relative merits of bids from throughout the Scottish public sector.
- the development of a joint service delivery vehicle with Clackmannanshire Council, to provide joint services while retaining separate democratic accountability. A feasibility study is currently underway on the joint working proposal between Stirling Council and Clackmannanshire Council. This study is looking at the practicalities of introducing a joint service delivery vehicle and is due to report to both councils shortly. This will help clarify the extent of political support for this initiative.

34. Other new partnerships are being developed, such as the Community Health Partnerships, the TACTRAN Regional Transport Partnership and Fife and Forth Valley Community Justice Authority.

35. With regard to the council's plans to further develop community planning arrangements, there has been ongoing review of the council's local democracy initiatives through regular Community Conferences and consultation with Elected Members. A comprehensive review was delayed early in 2007 due to the recent elections, however this is to be completed by March 2008. The new Community Plan, with a monitoring and reporting framework, was approved in June 2006 following an

extensive Scenario Planning exercise which involved senior staff in key partner agencies, elected members, representatives of the media, the business community and a wide range of citizens.

36. Another dimension for the council is the services it delivers in partnership through companies and arms length external organisations. Increasingly, there is also an appetite to deliver more services through the use of trusts; Stirling's leisure services are now operated through Active Stirling. While these vehicles offer innovative ways of delivering services, strong governance arrangements need to be put in place to ensure that the council's corporate objectives are delivered. We note that there was an extensive delay (over a year) in agreeing the service agreement with Active Stirling, but that the agreement is now finalised.

37. It is noted that a programme of Governance Reports (which will include input from the external auditor) is being prepared for consideration by the council at the end of the current financial year. This report will seek to set out arrangements whereby all companies and arms-length external organisations will be reviewed in terms of their governance activities (including finance, audit, risk management) and work towards the achievement of council set objectives.

Demonstrating improved performance

38. A key challenge facing the council is demonstrating continuous improvement in performance. Reported improvements in performance are summarised in paragraphs 9 to 27 above. Significant improvements are being made to the performance management system, but there is still some way to go before performance monitoring is fully linked to the council's overall priorities and objectives and comprehensive information is available to support effective management and scrutiny of performance.

Funding future improvement

39. The council needs to ensure that it is able to resource improvements in performance in a sustainable manner, while meeting new demands for its services. It is facing a tightening financial environment, and an increasing need to identify efficiencies, managing the impact that these have on services.

40. The council's Code of Corporate Governance and CIPFA Best Practice advice require the council to use a system of three-year integrated (policy led) budgeting. The process to evolve the council's Corporate Plan 2003 - 08 was the first time that the council had endeavored to ensure that a clear link was maintained between the budget process and the corporate planning process. Since that time, clear articulation and costing of the council's Corporate Plan priorities have driven the council's budget strategy throughout the course of the previous council term and progress has been made towards integrated planning and budgeting as a result. In the course of preparations for the 2006/07 revenue budget in particular, detailed planning and budgeting information was presented on several occasions to the management team and the Executive.

41. However, there is still much to be done to ensure that all plans are properly integrated and take into account all resource and capacity issues. This will mean better linking up planning and budgeting to ensure resources are allocated to areas of greatest priority.

Key risk area 2

42. Further information on the council's financial position at the end of 2006/07 and the outlook for future years is given at paragraphs 61 to 102 below.

Infrastructure improvements

43. The council needs facilities and infrastructure that are suitable and sufficient to meet the requirements placed on them in the provision of services and the delivery of council objectives, now and in the future. A requirement for significant investment has been identified in a wide range of areas including school buildings, housing, special needs housing, transport, and waste management.

44. The management of public assets and the borrowing that helps support them constitute the second greatest cost to the revenue budget after staff. Any improvement in the strategic and operational management of these assets could therefore have a real impact on the financial resources available to improve services. Appropriate use of assets in the right location can also make the difference between good and bad service delivery.

45. There has been considerable slippage in progressing planned improvements to the council's asset management processes in terms of having an umbrella strategy, individual service asset management plans and moving to cross service/community planning partner plans, which is the council's aspiration to move asset management planning to the next level. Linking asset requirements/usage, to service needs/priorities and operational cost will ensure that the reducing level of assets held by the council are used far more effectively and efficiently to deliver services in line with priorities. It was clear from our discussions that there is a clear vision but that significant work and resources are required to deliver fully functioning asset management at this level of detail.

46. There has been progress in some key capital projects but there is still some significant slippage. The council faces some challenges in terms of the capacity for delivering major projects on time. This could impact on the achievement of the council's corporate priorities, several of which require major capital investment.

47. Following the tenant vote against housing stock transfer, the council has developed a business case for retention of housing, but this remains a very challenging area, both to achieve the Scottish Housing Quality Standard by 2015 and to address the need for affordable accommodation within the Stirling area.

48. The council approved its first sustainable development strategy in October 2007. The strategy builds on earlier work by the council on this agenda and outlines a framework for action that is based on the UK shared framework for sustainable development. There is an accompanying action plan which details the wide variety of actions required to improve effectiveness in meeting the council's strategic aim on sustainability. The combined document offers a measurable plan for improvement which will be reviewed by regular reporting to the council.

Workforce management

49. The council has still to pull together a corporate workforce plan. In the absence of such a plan there is a risk that staff resources are not deployed as effectively as they could be to deliver best value services.

50. Elements of individual staff performance management are in place, such as the regular performance appraisal of the Chief Executive and Directors, but there is not yet a performance development plan for all staff. Developing this area is a key component of performance management across the council.

Key risk area 3

51. Single Status has dominated much of the workforce management agenda, but is still to be implemented. The council faces risks of service disruption due to industrial action or further legal action under equal pay legislation until the new pay and grading structures are in place. Details of progress and the implications for the financial outlook of the council are discussed in paragraphs 87 to 89 below.

National studies

52. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports of direct interest to the council are set out in paragraphs 53 – 60 below. Further information on these studies and other reports can be obtained from Audit Scotland's web page at www.audit-scotland.gov.uk.

Sustainable waste management

53. There is an increasing awareness of the need to protect the environment and to promote the sustainable use of resources. As a result of UN conventions and EU Directives, the UK government introduced a landfill tax to discourage the disposal of waste in landfill sites and set a (non-statutory) target that local authorities should recycle 25% of household waste by 2000. This target was not achieved.

54. Further EU Directives required member states to “take appropriate steps to encourage the prevention, recycling and processing of waste” and to set out details of measuring processes within waste management plans. Subsequently a series of targets was set over the period to 2020 to reduce the amount of biodegradable waste going to landfill. The EU can impose a fine on the UK of up to £350,000 per day if it fails to meet its targets.

55. Audit Scotland undertook a study to examine the performance of local authorities, the Scottish Environmental Protection Agency (SEPA) and the Scottish Government in reducing the amount of municipal waste being disposed of as landfill, including the impact and value for money achieved by the investment in this area. The report published in September 2007 highlighted that:

- Significant progress had been made in meeting interim recycling targets with the percentage of municipal waste recycled and composted rising to an average of 25% in 2005/06. Stirling reported recycling and composting levels of 36% in 2006/07. In February 2007, the council became the first local authority in Scotland to achieve the British Standards Institution’s Publicly Available Specification for Composted Materials (PAS 100) by meeting the highest standards in compost processing, meaning that recycled biodegradable waste is now fit for public use as compost.
- The slow progress in developing facilities to treat waste that is not recycled means there is a significant risk the EU Landfill Directive targets are not met, in particular the 2013 target. The council intends to address this through investment in household waste recycling facilities e.g. at Lower Polmaise.
- Increases in the amount of recycling have led to increased costs and it is estimated that £580 million in waste management expenditure could be incurred nationally by 2019/20. This is one of the on-going cost pressures the council has to manage.
- Councils, the Scottish Government and other agencies need to work more effectively together to make rapid progress in waste minimisation, recycling and waste treatment to achieve the Landfill Directive targets. Stirling, Falkirk and Clackmannanshire Councils have a Forth Valley Area Waste Plan in place and Stirling Council’s planned actions are recognised in the service plan for Environment Services.

Dealing with offending by young people

56. During 2006/07, Audit Scotland undertook a follow up study of *Dealing with offending by young people* which was originally reported in December 2002 and November 2003. This considered progress in implementing previous recommendations, in the context of a changing policy landscape.

57. The report published in August 2007 highlighted that although the Scottish Government has increased funding for youth justice services from £235 million in 2000/01 to £336 million in 2005/06, the extent to

which the new investment offers value for money and makes effective use of resources could not be demonstrated. The principle recommendations applying to local authorities were:

- Local authorities and other agencies should work to deliver on the local improvements required to successfully implement the agenda set out in the Youth Justice Improvement programme.
- Needs assessment activity should be strengthened at local authority level so that agencies are able to demonstrate that services are addressing local needs and reducing levels of offending behaviour.
- Local authorities and their partners should develop coherent and integrated approaches to services for children and young people not in education, employment or training, in particular for those excluded or not attending school.
- Local authorities should ensure that key departments such as education are engaged more actively with the youth justice strategy agenda.

58. The Fife & Forth Valley Community Justice Authority should be fully operational by 2007/08. Partners will require to develop an agreed and integrated agenda even though there may be differences in governance and resourcing arrangements. Working through this new partnership should help address many of the issues raised in the national report.

Managing long-term conditions

59. Long-term conditions, sometimes known as chronic diseases, last a year or longer, limit what a person can do and may require ongoing care. Managing long-term conditions is seen as the biggest challenge facing healthcare systems worldwide, with 60% of all deaths attributable to them. Audit Scotland conducted a study of services for adults with long-term conditions generally, focussing on two conditions in particular – chronic obstructive pulmonary disease (COPD) and epilepsy.

60. The report published in August 2007 highlighted that care for people with chronic illnesses is improving but the health service, councils and the Scottish Government need to do more to build a joined up system of care. A lack of information about costs and activity means many decisions on the use of resources are made with limited evidence about what works for patients, and this needs to be urgently addressed by the NHS and councils. Key recommendations for councils include:

- The Scottish Government, NHS boards and local authorities should collect better information on activity, cost and quality of services to support the development of community services.
- The Scottish Government, NHS boards and local authorities should evaluate different ways of providing services to ensure cost-effectiveness and share good practice.

- NHS boards and local authorities, through Community Health Partnerships, should ensure comprehensive information is given to patients about their condition, and the health and social care services available, at the time of diagnosis.

Financial position

Introduction

61. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2007, providing an outlook on future financial prospects, including our views on potential financial risks. Under the strategic theme of 'funding future improvement', our Audit Risk Analysis and Plan recognised the significant challenges being faced by the council both in relation to delivery of its improvement agenda but also with regard to managing ongoing financial pressures such as implementing single status. Our findings and key messages are set out in this section.

Council tax and the general fund

Operating performance 2006/07

62. The presentation of the 2006/07 financial statements has changed significantly from previous years. They now include an income and expenditure account and a separate statement on the movement of the general fund balance, replacing the consolidated revenue account. The latter statement reflects items that require to be taken into account when determining a council's budget requirement and in turn its council tax level, as determined by statute. As a result, the figures that the council uses for setting budgets and Council Tax will differ in presentation from the way that funding is presented in the annual accounts.

63. The surplus or deficit on the income and expenditure account is the best measure of the council's financial result for the year, recognising the resources that have been consumed and generated in accordance with Generally Accepted Accounting Principles. The council's net operating expenditure in 2006/07 was £188.100 million. This was met by government grants and local taxation of £170.487 million, resulting in an Income and Expenditure deficit of £17.613 million which was funded by the council's working balance. A major reason for this deficit position is that accelerated depreciation on existing schools that will cease to be in use as a result of the schools PPP project has been charged to the income and expenditure account during 2006/07.

64. However, the movement on the general fund balance is also an important aspect of the council's stewardship as the main budget reference point, the main differences being:

- capital investment is accounted for as it is financed, rather than when fixed assets are consumed;
- retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future befits are earned.

65. After adjusting for these items the council achieved a general fund surplus of £5.038 million. When this deficit is added to the amount brought forward from 2005/06, the council has a general fund balance of £8.066 million (excluding the Housing Revenue Account). The budget set for 2006/07 was based on a Band D council tax level of £1,201 and no contribution to or from the unallocated general fund was planned.

66. In the foreword to the accounts the Head of Resources highlighted underspends in all services with the exception of Children's Services. Additional savings were made on loan charges and interest, and some additional income was generated.

Reserves and balances

67. At 31 March 2007 the council had total cash backed reserves and funds of £12.223 million, including an insurance fund that underpins the council's self-insurance arrangements and repair and renewal funds to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets.

Reserves and Funds 2006/07

Description	2006/07 £ Million	2005/06 £ Million
General Fund	8.066	3.028
General Fund – Housing revenue account balance	1.645	1.477
Repair and Renewal Funds	0.250	0.250
Insurance Fund	2.262	2.060
	12.223	**6.815**

68. In the foreword to the financial statements the Head of Resources highlighted that after allowing for earmarked balances of £4.328 million the unallocated general fund balance as at 31 March 2007 was £3.738 million. The council aims to maintain a reserves balance of at least 2.5% of budget, equivalent to £4.5 million. In setting the 2007/08 the council has planned a contribution of £0.8 million to the general fund to restore unallocated balances to planned levels.

69. Significant earmarked amounts include £0.830 million for devolved education management balances held by individual schools, grant monies of £0.923 million for the Raploch Urban Regeneration Company and £0.785 million from council tax discounts on second homes to be reinvested in affordable housing.

70. The level of reserves decreased significantly in 2005/06 largely as a result of equal pay settlements and provisions. In 2006/07 the council has been able to restore reserves to a level much closer to planned levels. The council has agreed steps to restore the balance fully by 31 March 2008, although services are currently experiencing some serious budget pressures and it is not certain if the planned target balances of at least 2.5% of budgets will be achievable, even allowing for a budgeted £0.8m increase in reserves for 2007/08. A range of financial issues which could further impact on the reserves position are discussed in our Financial Outlook section below.

Group balances and going concern

71. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. All of these boards (Central Scotland Joint Police Board, Central Scotland Joint Fire and Rescue Board and Central Scotland Valuation Joint Board) had an excess of liabilities over assets at 31 March 2007 due to the accrual of pension liabilities. In total these deficits amounted to £432 million, with the council's group share being £216 million. These are significant amounts as the pension schemes for police officers and fire fighters are unfunded and met entirely from current and future council tax payers as payments fall due.

72. The overall effect of inclusion of all of the council's subsidiaries and associates on the group balance sheet is to reduce net assets by £124.640 million, substantially as a result of these liabilities. All group bodies' accounts have been prepared on a going concern basis.

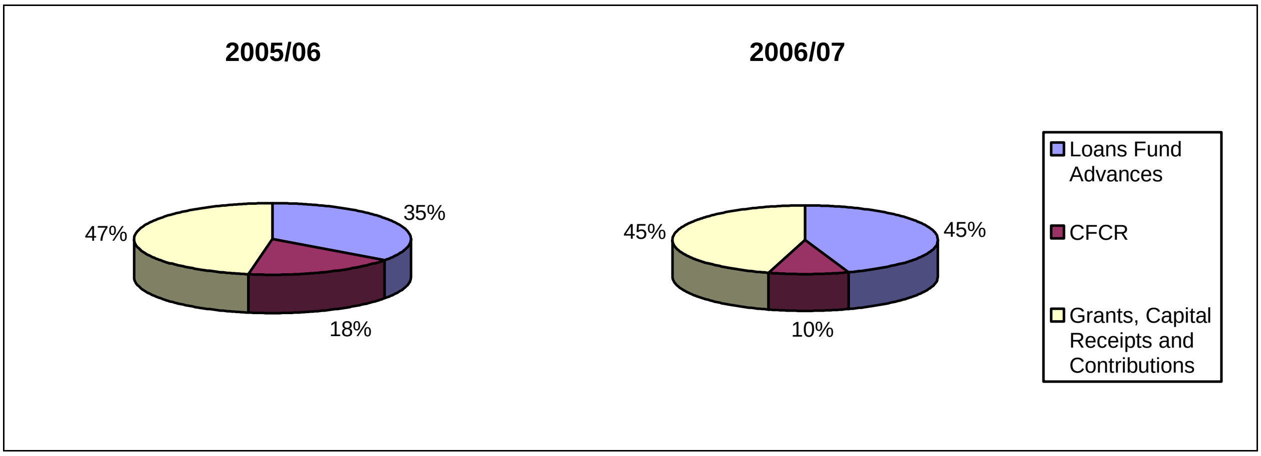
Spending on assets and long-term borrowing

Capital performance 2006/07

73. Following the introduction of the prudential code in April 2004 the council can decide locally on a capital investment strategy which must meet best value requirements as well as being affordable. The council's prudential indicators for 2006/07 to 2008/09 were set in February 2006. Capital expenditure in 2006/07 totalled £34.755 million, rising from £33.109 million in 2005/06, as the council seeks to improve its asset infrastructure.

74. Capital investment in the last two years was funded as shown below.

Sources of finance for capital expenditure 2006/07



75. Around 85% of long and medium term loans at the year-end mature after more than 10 years and the council has actively managed its exposure to variable interest rate movements with most of its debt on fixed interest.

76. The general services capital programme experienced significant slippage during 2006/07. An element of this was due to additional allocation of Schools Fund capital grant being announced during the year, resulting in the decision to carry forward some core programme work and prioritise spending to ensure that the Schools Fund grant would be spent in its entirety in 2006/07 to comply with the grant terms and conditions. Another significant underspend occurred on the East-West Public Transport Corridor. Although the east side of the park and ride scheme is completed and operational, discussions on the location of the west side of the scheme had not been concluded. The Capital Strategy Group continues to monitor the delivery of capital expenditure programmes, but there remains a risk that if projects are not delivered as planned, this will impact adversely on the corporate priorities requiring significant capital expenditure.

77. The Housing Revenue Account capital programme was £0.765 million overspent in 2006/07 due to changes in income from house sales, some elements of the programme being ahead of schedule and regeneration costs in Cornton and Cultenhove.

Forward capital programme

78. General services capital plans for 2007/08 and 2008/09 anticipate annual capital expenditure of £38.268 million and £22.4 million respectively, including the Sports Village project (£27.3 million gross capital expenditure over 3 years). This is expected to be funded by a number of sources including capital receipts, borrowing and grants. The corporate plan priorities of Forthbank Sports Village and the City Transportation Strategy may require some prudential borrowing, although not if significant asset sales are concluded.

79. The Housing Revenue Account 2007/08 capital programme has a budget of £7.909 million. There is currently a projected underspend of £0.243 million, largely due to the letting of roof contract work which has been delayed until next year.

Significant trading operations

80. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period. The first three year period ended in 2005/06.

81. The council has seven STOs: roads repair, building services, grounds maintenance, refuse collection, building cleaning, catering and letting of commercial properties. In the three years to 31 March 2007, the grounds maintenance, refuse collection, building cleaning and catering STOs failed to meet the statutory target. These STOs also failed to achieve the statutory break even requirement in 2005/06. It should be noted that the building cleaning STO would have met the statutory breakeven had it not been for the inclusion of the costs of equal pay claims.

82. The council is continuing to take action to address the deficits returned by these STOs. The Building Cleaning contract and payment arrangements are currently under review, to update the contract specifications. The council is considering how best to address the drop in demand for school meals following the introduction of the government's healthy eating agenda, which has seriously affected the Catering STO's financial performance. The substantial amount of work invested in the Grounds Maintenance and Refuse Collection services (e.g. restructuring of Streetscape, introduction of new financial management system, improved vehicle performance and reliability etc.) is now paying dividends as these services are both projected to break even in the current year.

83. The council is currently reviewing which services it will operate as STOs in the future.

Financial outlook

Current budget

84. The council's revenue budget for 2007/08 was approved in February 2007. The budget is based on a Band D council tax level of £1,223, a 1.8% increase from the previous year. The budget included planned savings of £2.069 million and included provision of £2 million per year for additional costs associated with the single status agreement (see below). Services are currently reporting some serious budget pressures, especially in Children's Services, although it is hoped that corrective action will improve any projected overspend by the end of the current financial year. It is not certain if the council will be able to build up its level of reserves as planned during 2007/08.

Equal pay

85. The 1970 Equal Pay Act 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. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an Employment Tribunal. Following cases pursued against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2005/06.

86. Estimated costs of £5.338 million were recognised in the 2005/06 financial statements for the total one-off cost of dealing with the equal pay legislation. A number of payments have been made during the year together with a further assessment of the level of funding required resulting in a revised provision level of £3.407 million as at 31 March 2007. A further contingent liability of £4.090 million has identified. The council has determined that it is unlikely that the outstanding claims will be met before April 2008.

Single status

87. In 1999 a single status agreement was reached between Scottish local authorities and trades unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). There was a presumption that single status would be cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.

88. The original national single status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, was extended by agreement between local authorities and unions to April 2004. Following lengthy negotiations with trades unions, the council has just started a 90 day consultation period with staff prior to the implementation of a revised structure of terms and conditions.

89. Until single status is implemented the initial and continuing costs to the council cannot be finalised. Estimates have therefore been used for the purposes of financial planning, based on the pay model that is being developed and negotiated on with the trade unions. This represents some financial risk to the council. Evidence from other councils is that variation in the level of potential costs can be up to 10% of the current pay-bill on a continuing basis. In implementing the agreement, the council needs to maximise the value for money from its investment in staff.

Key risk area 4

Efficient government

90. As part of the continuing drive to improve the efficient use of resources committed to delivering public services, the Scottish Government expects public sector organisations to apply the principles of the efficient government initiative in their day-to-day operations with an aspiration to achieve recurring efficiency gains of £1.5 billion by 2007/08. In the case of councils, efficiency savings have been incorporated into the annual financial settlement provided to councils by the Government. The principles of the efficient government initiative encourage the delivery of services for lower unit cost without compromising the quality of the service provided.

91. In setting the 2007/08 budget, efficiency savings of £2.1 million were planned and the council recognised the need to make additional savings to balance the books in the year's ahead.

92. During 2006, councils across Scotland recognised that as part of their partnership arrangement with the Scottish Government, they had a responsibility to report efficiencies on the Government's five key operational themes as set out in "Building a Better Scotland" (Procurement, Absence Management, Asset Management, Shared Services and Streamlining Bureaucracy) on a consistent basis. As a result, the Improvement Service was commissioned to devise a set of standard measures which would allow councils to publish unaudited efficiency statements on a common basis. Guidance was issued to all councils in May 2007.

93. The council has produced an efficiency statement for 2006/07, reporting savings of £2.793 million cashable efficiency gains. Further non-cashable gains were reported but not quantified. The council has to still to develop its approach to non-cashable savings. The efficiency statement has not yet been published, but the intention is to publish it on the council's website in the near future.

94. In 2005/06 the previous external auditor reported that, in line with most other councils, Stirling did not have an effective system to evidence that efficiency savings resulted in there being either no loss of service for less resources or improvements to the service for the same resources. While the introduction of efficiency statements improves the information available there is still some way to go until this issue is fully addressed. In a tightening fiscal environment and in pursuance of best value objectives, there will be a continuing need to identify and release efficiencies on an ongoing basis.

Key risk area 5

Asset management

95. Scottish councils control land, property and equipment valued at around £22 billion. Capital assets are the second highest cost incurred by local authorities after staffing. Prior to 2004, the legislation that controlled capital investment by local government did not contribute towards good asset management. Part 7 of the Local Government in Scotland 2003 Act introduced the Prudential Code which gave local authorities freedom to invest as long as their capital spending plans are affordable, prudent and sustainable. The Code is a fundamental component of an authority's financial governance and management which requires authorities to have regard to option appraisal, strategic planning and asset management planning.

96. The Government's Efficient Government Initiative identified asset management as one of five key areas for achieving efficiency improvements. Proper asset management is a vital part of being an efficient organisation including arrangements to ensure there are:

- strategies to reduce maintenance costs;
- proactive asset disposal policies;
- long-term capital planning and budgeting; and
- robust asset management monitoring information.

97. Our 2006/07 Audit Risk Analysis and Plan highlighted that there is no cohesive and demonstrable approach in place at the council to ensure that corporate strategies and objectives are supported by asset management plans in the long-term. Staff vacancies in the Corporate Asset Management team have resulted in a significant delay in the furtherance of the asset management planning approach to producing operational efficiencies. A significant amount of work is required to gain "buy-in" to a corporate approach to asset management planning, including acceptance of the corporate ownership of assets. The corporate AMP will not include infrastructure assets as these will form part of the national highways AMP due to be completed in 2009/10 which will cover all Scottish councils.

Key risk area 6

98. Given the current development stage of both the corporate and national highways AMP, there are no indications, as yet, of any potential savings generated or increased costs likely to be incurred.

Pension liabilities

99. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. A recent Audit Scotland report on public sector pension schemes highlighted that the combined funding shortfall and unfunded liabilities of the six local government pension schemes in Scotland may be as high as £53 billion. There are proposals to amend the Local Government Pension Scheme which are designed to reduce the ongoing cost, although these have not yet been implemented.

100. In accounting for pensions, Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account 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. This requirement results in very large future liabilities being recognised in the annual accounts.

101. The council's estimated pension liabilities at 31 March 2007 exceeded its share of the assets in the Falkirk Council Pension Fund by £77.807 million, reducing from £97.690 million in the previous year. The actuary is required to make a three-year assessment of the contributions that should be paid by the employing authorities from 1 April 2006 to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions, normally 6% of salary. This shows that budgeted contributions are expected to rise from 240% of employee contributions in 2006/07 to 295% by 2008/09.

102. The next triennial valuation is due to be reported in March 2008. The impact of this on future budgets is unknown. Recent changes to the Local Government Pension Scheme regulations are expected to release some future financial benefits, while providing additional flexibility to future pensioners. For example, on retirement members can now elect to receive a larger lump sum payment in return for a reduced annual pension which has the effect of reducing the overall cost to the pension fund. The 2005 valuation occurred prior to these changes and they are expected to be reflected in contribution rates established following future actuarial assessments.

Governance

Introduction

103. In this section we comment on key aspects of the council's governance arrangements during 2006/07. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2006/07

104. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Based on the work undertaken, we concluded that the council had systems in place that operated well within a sound control environment.

Governance and Audit Committee

105. Effective scrutiny is central to good governance, with a significant role for councillors to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda. The Governance and Audit Committee was reformed with several new members after the May election and shows early signs of being effective. Whilst we are aware that the council is committed to the good practice principles for audit committees as set out by CIPFA, to date there has been no formal comparison of the Governance and Audit Committee against the CIPFA principles.

Internal Audit

106. The environment in which Internal Audit functions operate has changed markedly since the publication of CIPFA's Code of Practice for Internal Audit in Local Government in 2003. To ensure that the Code's requirements, which are mandatory for all local authorities and other relevant bodies under Section 95 of the Local Government (Scotland) Act 1975, continue to be fit for purpose, CIPFA's Audit Panel published a revised Code in December 2006. In general, the Code was brought in line with existing good practice and current professional standards.

107. Such changes to the Code have expanded Internal audit's role and status within the council's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. The council's internal audit unit has assessed itself against the Code and concluded that it complies with the Code requirements.

108. We note that within the council's Corporate Services structure, the Internal Audit Manager reports to two Heads of Service: the Head of Resources and the Head of Governance. This means that the Internal Audit Manager does not report directly to a member of the council's management team. Given the significance of internal audit within the overall governance framework, it is good practice for internal audit to report to Director level or above. However, the Internal Audit Manager has confirmed that he has unrestricted access to all members of the management team and the Governance and Audit Committee.

109. We carry out an annual review of the council's internal audit arrangements and found that the function continues to deliver quality work in accordance with a comprehensive strategic plan. All work on which we planned to place reliance was completed and the relevant assurances obtained.

Risk Management

110. The Corporate Risk Management Group (CRMG) has responsibility for developing Stirling Council's risk management arrangements. The council has appointed a Corporate Risk Manager (jointly employed by Stirling and Clackmannanshire Councils) and he is progressing risk management arrangements through the CRMG, including:

- agreement of a reporting structure for reporting risk management work to the council's management team on a quarterly basis;
- the Corporate Risk Manager has met with all service 'risk leads' to discuss their service risk registers and prioritisation of risks. The top 3 risks for each service will be discussed at a future CRMG meeting. The CRMG is considering how best to display service risk registers for staff to access;
- the council risk register, which contains strategic risks for the council, has been updated to more accurately reflect the risks facing the council. The CRMG is involved in developing a model to describe risk tolerance factors for these risks and their consequences. The council's management team will review the council risk register on a quarterly basis.

111. The council is making progress in developing its risk management arrangements but more work is required to integrate risk management into planning and increase the focus on strategic risks and opportunities.

Systems of internal control

112. In his annual report for 2006/07 the Internal Audit Manager provided his opinion that, based on the internal audit work undertaken during the year, the council's corporate governance arrangements were adequate and operating effectively.

113. However, he found weaknesses in the self assessment process which provides assurance for the council's Statement on the System of Internal Financial Control (SSIFC). The SSIFC assurance process relies on services' own assessment of the effectiveness of their internal financial controls as well as any audit coverage within services by internal audit and external audit. The quality of services' Internal Financial Control self assessments varied considerably, requiring the Internal Audit unit to work with services to revise and improve the self assessments. The council is considering ways to enhance the robustness of the assurance process. As the SSIFC covers group entities as well as the council, any improvements to the assurance process should also be applied to group entities.

Key risk area 7

114. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on a number of the council's main financial systems. We have placed reliance on the work of internal audit where possible, to avoid duplication of work and minimise the audit burden on services. We relied on internal audit's work on the payroll, housing benefits, council tax benefits, creditors, treasury management, debtors and income systems. We assessed the following central systems as having a satisfactory level of control for our purposes:

- Payroll
- Housing rents
- Non-domestic rates
- Treasury management
- Housing and council tax benefits.
- Creditors payments
- Council Tax
- Main accounting system
- Debtors and income

Prevention and detection of fraud and irregularities

115. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include an anti-fraud and corruption policy, a whistle blowing policy, codes of conduct for elected members and staff, and defined remits for relevant regulatory committees.

NFI in Scotland

116. 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.

117. 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.

118. It is evident that the council is very committed to the NFI exercise and it has made very good progress with its investigation of data matches. An effective and structured approach to investigation has been taken and the results are recorded on an ongoing basis using the web-based programme. To date, the council has identified savings of £44,280 - an excellent result, especially for a council the size of Stirling.

Governance outlook

119. Overall internal control arrangements mean that the council is well placed to address future challenges, but continued work is required to improve risk management arrangements and address weakness in internal financial control assurance arrangements. The new Governance and Audit Committee should review its performance in due course and ensure that it plays a full role in supporting continuing improvements to the overall governance of the council.

120. Following the May 2007 elections, there is no overall party control of Stirling Council (8 Labour councillors; 7 SNP; 4 Conservative; 3 Liberal Democrat). Last year, Stirling revised its political management structure to a cabinet style of management led by an Executive supported by scrutiny committees. This arrangement was reviewed after being in place for several months and the results of the review placed before the newly elected council. Members agreed to retain these arrangements, making minor changes to the role of the two scrutiny committees, the Service Delivery and Performance Committee and the Governance and Audit Committee.

121. Thirteen of Stirling Council's twenty two members are newly elected, making training and development a key issue. Officers have designed and delivered a detailed training programme for members. Elected members in Stirling prior to the election were very positive about the level of support provided by officers and this support is continuing.

122. The council has a history of restructuring services to achieve efficiencies and find new ways of working. For example, following a review of service design within Community Services, to address the challenges of improving efficiency and reducing management costs, the management structure has been reconfigured, removing a Head of Service post. In addition, the council has restructured Corporate Services and the Chief Executive's Service, moving certain functions into the Chief Executive's Service and creating the post of Assistant Chief Executive. This is intended to reflect the Chief Executive's direct responsibility for certain functions and refocus the purpose and role of Corporate Services.

Financial statements

Introduction

123. In this section we summarise key outcomes from our audit of the council's financial statements for 2006/07. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues. We audit the financial statements and give an opinion on:

- whether they present fairly the financial position of the council and its expenditure and income for the year; and
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

124. We also review the Statement on the System of Internal Financial Control by considering the adequacy of the process put in place by the council to obtain assurances on systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the council.

Overall conclusion

125. We have given an **unqualified** opinion on the financial statements of Stirling Council for 2006/07. We have, however, drawn attention to failure to comply with a statutory requirement. This does not impact on the fairness of the financial statements and, therefore, does not affect the opinion on the accounts.

126. The Local Government in Scotland Act 2003 requires councils to maintain and disclose trading accounts for significant trading operations, which are required to break-even over a three year rolling period. As highlighted in paragraph 81 of this report, four of the council's seven significant trading organisation made an aggregate loss in the three years to 31 March 2007, with the result that the council has failed to meet this statutory requirement.

127. The council's un-audited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation processes and working papers were generally good and this enabled the audit to progress smoothly. Audited accounts were finalised prior to the target date of 30 September 2007 and have now been presented to the council and published. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

Accounting practice

128. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the 'SORP'). The 2006 SORP required a number of significant changes to be made to the 2006/07 financial statements to make them more consistent with the accounts of other public and private sector entities. These included:

- replacement of the consolidated revenue account with a traditional income and expenditure account;
- a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit;
- similar changes to the housing revenue account;
- replacement of the statement of total movement in reserves with a statement of total recognised gains and losses; and
- parallel changes to the group accounts that would result in them being easier to understand and have a common format to single entity statement of accounts.

129. The Income and Expenditure Account shows the council's actual financial performance for the year, measured in terms of the resources generated and consumed within that period in accordance with UK GAAP. This differs from the accounting basis used when setting the council tax for the year. The key differences are:

- capital investment is accounted for as it is financed rather than when the assets are used; and,
- retirement benefits are charged as amounts become payable to pension funds rather than recognising the future benefits earned.

130. Overall, we were satisfied that the council had prepared the accounts in accordance with the revised SORP. Several adjustments were made to the figures included in the un-audited accounts provided for public inspection. The most significant of these was the accelerated depreciation of school buildings due to be replaced by new schools under the PPP scheme. The net effect of this was to create a deficit for the year of £17.613 million. Details of this adjustment and other significant accounting issues arising in the course of our audit are summarised below.

131. In addition to recognition of accelerated depreciation for schools to be transferred under the PPP contract, there were a further number of changes made to the draft accounts submitted for audit, the most significant being:

- the recognition of various funding streams totalling £3.042 million as earmarked portions of the general fund balance;
- the removal of notional interest £0.716 million from the income and expenditure account;
- the removal of the Raploch Regeneration grant income of £0.923 million from deferred government grants;
- the transfer of monies between council funds (i.e. council tax discount on second homes and empty properties £0.389 million and interest on revenue balances for the Insurance Fund £0.093 million;
- the inclusion of £0.5 million insurance settlement for Polmaise waste transfer station
- an adjustment to recognise outstanding balances on purchase card debt of £0.775 million as at 31 March 2007;
- the inclusion of penalty charges for Council Tax and NDRI of £0.219 million; and
- various adjustments to presentation and disclosure in line with the requirements of the SORP.

Fixed Assets

132. The council has introduced component accounting for capital expenditure, such as replacement kitchens, bathrooms and central heating, on council houses. Our initial review identified that the council may not be correctly applying this capital accounting technique. At 31 March 2007, council houses were valued at £127.2 million. There are a number of council houses sold during the year. However, no adjustment has been made to the carrying value of component assets to write down the associated kitchens, bathrooms etc for these disposals. There is a risk that the council is overstating the value of components included in houses that have subsequently been sold.

133. We have concluded that any impact on the 2006/07 financial statements would be immaterial to a reader's understanding of the accounts but will keep this under review as part of future audits. The council should take this opportunity to review its approach and related information needs.

Key risk area 8

Group accounts

134. Modified arrangements for the preparation of group accounts were mandatory for the first time in 2005/06. The widening diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to present fairly the activities of an authority. The council prepared group accounts in accordance with the new requirements following a review to determine its interest in subsidiaries, associated entities and joint ventures.

135. Where the group accounts include 2006/07 results based on un-audited accounts, the auditors of these bodies have confirmed that there are no planned changes to the draft accounts. We have also been assured by the Head of Resources that the council is not aware of any matters which would significantly affect the council's group accounts.

Public Private Partnership

136. When considering public private partnership arrangements, key stages are the audited body providing an initial and final views on the accounting treatment of a project, based on business case information. The auditor then reviews the audited body's position and comments on whether the proposed treatment is in accordance with current underlying guidance. The council is in the process of providing a final view on the accounting treatment of the schools PPP project, for construction of six new schools, and we will then provide an opinion on the proposed accounting treatment.

137. The schools which are due to be replaced by new buildings under the PPP scheme should be considered for accelerated depreciation as their useful economic life is therefore shortened. The unaudited accounts were amended to include £23.535 million depreciation for these schools, creating a £17.613 million deficit for the year.

Legality

138. Each year we request written confirmation from the Head of Resources that the council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Head of Resources has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with the relevant legislation and regulations governing its activities.

139. Local authorities with registered charitable bodies (including relevant trust funds) are required to comply with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006. The effect of the Act and regulations appears challenging with the volume of individual trusts under the control of some authorities - a full set of charities SORP compliant financial statements being required for each charitable trust fund.

140. The Office of the Scottish Charities Regulator (OSCR) is responsible for facilitating and monitoring compliance with the Act and regulations. In discussion with the CIPFA Directors of Finance section, OSCR has agreed transitional arrangements for 2006/07, highlighting a wish to adopt a proportionate approach to any remedial action taken in response to breaches of the legislation. In particular it will be sufficient that the audited accounts of the council under the local government SORP be passed to OSCR by 31 December 2007 together with a further analysis providing a breakdown of the accounts of each registered charitable body. Discussion is continuing in relation to arrangements for the future transition toward full compliance with the requirements of the Act and regulations.

141. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

142. Overall the council is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It has responded positively to audit issues and to changing accounting rules. It now needs to review its approach to component accounting and reach a final view on the appropriate accounting treatment for the schools PPP scheme.

Changes to the 2007 SORP

143. Amendments have been made to the 2007 SORP to incorporate the requirements of new accounting standards on financial instruments (FRS 25 and FRS 26). This will require any premium or discount on loans that have been re-scheduled to be charged to income and expenditure in the year it is incurred rather than being written off over the period of the replacement loan, which can be up to 40 to 50 years. The Scottish Government has issued statutory guidance which mitigates the impact on council tax by permitting authorities to reverse the entries in the statement of movement on general fund balance and replace an amount writing-off the premium or discount over the life of the replacement loan. However, the statutory guidance restricts the write-off period where replacement debt is a variable interest loan, or has an option or condition which allows the lender to vary the interest rate (known as LOBOs), to a maximum of 20 years.

144. The effect of this change will be to significantly increase the annual charge to the income and expenditure account in the year that any future restructuring takes place, with an adjustment being made to the charge to the general fund. Where the replacement debt is subject to a variable interest rate or is a LOBO the annual charge to the general fund will typically be greater than currently experienced (broadly about twice as much). In other cases there will be no change to the impact on the general fund compared to current practice. Existing balances may continue to be written off over current periods.

145. Further changes within the 2007 SORP include the introduction of a revaluation reserve and a requirement for a note to the group accounts to enhance disclosure in respect of charitable trusts.

International Financial Reporting Standards

146. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IRFS) with effect from 2008/09. The government also announced its intention to publish whole of government accounts on an IFRS basis from 2008/09.

147. After discussion, CIPFA/LASAAC has agreed for 2008/09 to continue to adopt IFRS within the SORP through the application of UK GAAP. It is considered that the accounts are likely to be materially similar to those prepared under IFRS because the SORP has been following the Accounting Standards Board's international convergence agenda. This option also allows for consideration of the long term future of the due process for the development and maintenance of proper accounting standards for local government.

148. CIPFA/LASAAC will also work with the Treasury to ensure that consolidation information, appropriate to the sector, is available in 2008/09 for local government whole of government accounts.

149. A move toward full IFRS compliance is anticipated in 2009/10. Any future move to IRFS in local government is likely to have a significant impact in two primary areas:

- accounting for fixed assets, particularly in relation to infrastructure and heritage assets. The first significant practical implication is that councils will need information systems to identify sufficient data, such as road lengths, to support new valuation models to be used in whole of government accounts from 2008/09. Comparative information will be required as at 31 March 2008.
- accounting for Public Private Partnership (PPP) schemes.

150. Existing IFRS do not address PPP accounting in the public sector, although they do address how these transactions should be accounted for in the private sector. The existing accounting practice in the public sector is significantly different from that indicated in the IFRS for the private sector. Current practice is based on an assessment of relative risk borne by either party to the PPP contract. The IFRS is based on who controls the services to be provided, to whom and at what price; and who controls the residual interest at the end of the PPP. The Treasury is considering the appropriate form of accounting for the public sector side of PPP transactions over the summer and expects to bring proposals to the Financial Reporting Advisory Board in the autumn.

151. Looking ahead, if IFRS principles are applied in the public sector then many PPP assets may well be brought onto public sector balance sheets.

Final Remarks

152. We have made a number of recommendations in the various reports we have issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate.

153. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of members. In response, officers have considered the issue and have agreed to take the specific steps set out in the column headed 'planned management action'. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management's response to the identified risks.

154. A mechanism should be considered and agreed by members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2007/08 audit.

155. The co-operation and assistance given to us by Stirling Council members and staff is gratefully acknowledged.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	12	**Public performance reporting** Public performance reporting arrangements are still being developed and will rely on continued development of the internal performance monitoring framework. More comprehensive and balanced performance information should be published within an annual report. ***Risk: the public do not have access to appropriate and timely performance information.***	The Council will continue to develop its public and internal performance reporting arrangements to ensure scrutiny and accountability by elected members and the public. An improved Performance section on the public website is currently under development. The Council's Annual Report for 2006/07 is being published through its magazine for households to increase accessibility. An attempt has been made to provide more balanced information.	Assistant Chief Executive	Ongoing 31st March 2008 30th Nov. 2007
2.	41	**Integrated planning framework** There is still much to be done to ensure that all plans are properly integrated and take into account all resource and capacity issues. ***Risk: resources are not effectively targeted at priorities.***	This will be continue to be addressed through the development of the Council's new strategic plan and corresponding budget and service planning processes	Assistant Chief Executive Head of Resources	31st March 2008

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3.	50	**HR strategy/ workforce planning** While a number of individual policies have been progressed, much still needs to be done to prepare an overall HR and Organisational Development Strategy and to underpin this with corporate workforce planning. ***Risk: the council does not have the right people in the right place at the right time.***	Progress on the draft HR Strategy is scheduled to follow centralisation of HR, and the implementation of Job Evaluation/Single Status contains following elements:- ▪ Reward and grading ▪ Employee relations ▪ Recruitment ▪ Employer of choice ▪ Policy development ▪ Employee development. Key to progressing the workforce planning element of the Strategy will be the implementation of 'position management' on the HR system. The centralisation of HR administration early in 2008 will facilitate this and updated HR Adviser job remits will include supporting annual workforce reviews.	Head of Customer Services	HR Strategy/ workforce planning introduced by December 2008.
4.	89	**Single status** The council remains to implement the single status agreement. ***Risk: Initial and continuing costs are considerably in excess of expected levels.*** ***Industrial relations difficulties restrict the ability to deliver on key objectives.*** ***The council may be judged to be contravening the Equal Pay Act.***	Negotiations with the Trades Unions are continuing with the aim of reaching a negotiated agreement before the expiry of the formal consultation period, which expires mid-December 2007. The Council on 13 December will consider the action required to achieve its target implementation date of April 2008 for Job Evaluation/Single Status. The estimated costs of implementing the policy will continue to be aligned with the new pay model that is being developed by Corporate HR. Any changes that are made through negotiation will be reflected in these costs.	Chief Executive	1st April 2008

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5.	94	**Efficient government** In a tightening fiscal environment and in pursuance of best value objectives there is a need to identify and release efficiencies on an ongoing basis. ***Risks: failure to achieve the targets set will increase financial pressures as savings have already been top-sliced from financial settlements.*** ***Savings achieved impact on service quality and outputs to a greater extent than intended.***	Service Directors are making every effort to achieve efficiency targets that they have agreed, and are regularly reporting on progress. This process will continue. If directors feel that efficiency savings may have an impact on service delivery levels, Members are briefed on the impact before they are implemented.	All Service Directors Head of Resources	Ongoing
6.	97	**Asset management** The council does not yet have an overarching Corporate Asset Management Plan. ***Risk: Best value may not be achieved in the use of assets. Council budgets set on the basis of asset realisation may not be sustainable in the longer term.***	An umbrella asset management plan is being formulated and will be forwarded to Council within the next 3 months. A revised approach to Service asset management plans and Individual Settlement Plans to take cognisance of community planning activity is also being worked on and will be consulted on shortly.	Corporate Asset Manager	January 2008 February 2008
7.	113	**SSIFC assurance process** Weaknesses have been identified in the process for gathering information from services on their systems of internal financial control to support the SSIFC in the financial statements. ***Risk: Services do not provide adequate information or evidence in support of the SSIFC leading to potential qualification of the financial statements.***	Officers from Internal Audit, Accounting Services and Corporate Governance will be working to improve the process for gathering SSIFC information from Services in preparation for the 2007/08 final accounts processes. This will be discussed in advance with External Audit.	Head of Resources Head of Governance	31st March 2008

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
8.	133	**Component accounting** In applying component accounting to capital expenditure on housing in areas such as replacement kitchens, no adjustment has been made to asset values for subsequent disposals. ***Risk: the carrying value of council houses is overstated as the aggregate amount of capital expenditure on these items increases.***	Components will continue to be valued when they are installed and matched to individual properties. The council's new asset register system will greatly assist with this process.	Chief Accountant	31st March 2008