

# Stirling Council

Report to Members and the Controller of Audit on the  
2007/08 Audit



October 2008







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# Key Messages

## Introduction

In 2007/08 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 from the 2007/08 audit and the outlook for the period ahead.

## Key outcomes from 2007/08 Audit

We have given an **unqualified** opinion on the financial statements of Stirling Council. 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 2008 four trading organisations failed to achieve the statutory requirement. In the case of Building Cleaning this was due to costs associated with the settlement of equal pay claims.

The general fund balance of £13.697 million at 31 March 2008 was £1.460 million above the position budgeted at the start of the financial year. After recognising earmarked amounts for HRA and expenditure commitments carried forward, the uncommitted general fund balance of £5.846 million was 2.9% of budget. This was in line with the reserves policy which set a target range of 2.5% to 3% of budget.

The council had generally good governance systems in place that operated well within a sound control environment.

Public and internal performance reporting arrangements have been revised and continue to improve. The council's rate of improvement as measured by Statutory Performance Indicators is in line with Scottish Averages. The most recent quarterly StirlingStat performance report indicated that 68% of the 28 key performance measures were on target or within tolerance, and 32% were off target. The measures reported also showed improvement overall in comparison to the previous period.

More than three years after the publication of the Best Value Audit report the council has completed or significantly progressed many of the actions contained in its improvement plan. As a result, overall it has made good progress in addressing the key issues raised, although this has taken longer than originally envisaged. Changes to political governance arrangements, including the introduction of Service Delivery & Performance and Governance & Audit scrutiny committees, and a much improved approach to performance management have underpinned increasingly effective scrutiny and challenge by elected members. Some success has been achieved in addressing previously poorly performing services, although there remains work to be done.



## Outlook for future audits

In the course of our work we identified some of the strategic risks that the council needs to manage in delivering its corporate objectives and priorities. These have been grouped into the following themes:

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

The outlook for public expenditure remains tight, and the council faces significant challenges in ensuring that planned activity remains affordable and sustainable within a continuing council tax freeze. In setting its 2008/09 budget the council approved savings of £3.372 million to fund expenditure pressures, budget growth in priority areas and a council tax reduction. It also approved use of some capital grant to fund annual loan repayments and a reduced target range for uncommitted balances. The planned savings will prove challenging to deliver in the timescales envisaged and a £1.5m service budget overspend is currently projected for 2008/09. The Head of Resources has also advised of expected funding shortfalls in the year ahead that will have to be addressed in order to balance future budgets. The need for significant efficiencies will continue.

The council has recently published a new strategic plan for 2008 - 2012. It was developed in tandem with the Single Outcome Agreement (SOA), which should help ensure clarity of purpose in the period ahead. The performance targets in these documents are being integrated into the council's performance management framework. Continued improvement to the performance management and public reporting framework will mean that the council is better placed to demonstrate improved performance and outcomes.

Continued work is required to implement strategic and joined up approaches to the management of the council's resources – including a longer term financial strategy, corporate asset management plan and people strategies. This needs to be underpinned by roll-out of consistent processes for individual performance development. Single Status is still to be implemented, although the council intends to implement it during 2008/09. More robust approaches to option appraisal and improved self-evaluation are required. Significant time has been invested in reviewing the role and business frameworks for STOs.

The council's response to the National Fraud Initiative has been very positive, with it having the highest yields from their benefits investigations as part of the last two reviews. The council needs to remain vigilant in the years ahead, but is likely to continue to benefit from the robustness of its approach.

The co-operation and assistance given to us by Stirling Council councillors and staff during the year is gratefully acknowledged.

Audit Scotland, October 2008.



# Introduction

1. This report summarises the findings from our 2007/08 audit of Stirling Council, the second year of a five-year appointment. Findings are set out in four sections: financial statements, financial position, governance and performance. 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 is set out in our Annual Audit Plan (AAP), which was submitted to the council in February 2008. The AAP summarises the specific governance and other risks that could affect the council's financial statements. It describes the work we planned to carry out in response to these risks.
3. As part of the planned work we submitted a Strategic Audit Risk Analysis (SARA) to the council in May 2008. Under the following strategic themes, the SARA set out our views on the key business risks facing the council and described the work we planned to carry out as part of the annual audit:
  - Supporting political governance
  - Redesigning business
  - Funding future improvement
  - Demonstrating improved performance
  - Infrastructure improvements
  - Workforce management.
4. Overall conclusions about the council's management of key risks are discussed throughout this report. Appendix A sets out the key risks highlighted in this report which we wish to draw to the attention of members and the action planned by management to address them.



# Financial statements

## Introduction

5. In this section we summarise key outcomes from our audit of the council's financial statements for 2007/08. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.
6. 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.
7. 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

8. We have given an **unqualified** opinion on the financial statements of Stirling Council for 2007/08. We have, however, drawn attention to a 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.
9. 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. Four of the seven statutory trading organisations made aggregate losses in the three years to 31 March 2008, with the result that the council failed to meet this statutory requirement for the following trading organisations – Building Cleaning, Catering, Grounds Maintenance and Refuse Collection. See paragraph 43 for more information on STOs.

### Key Risk Area 1

10. The council's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation processes and working papers merit some review to ensure that the level of adjustments in the draft accounts is reduced, many of which were made as a result of changes required by the 2007 Statement of Recommended Practice. Audited accounts were finalised by the target date of 30 September 2008 and were presented to the Governance and Audit





Committee on 2<sup>nd</sup> October and to the council on 30<sup>th</sup> October and will now be 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

11. 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 2007 SORP required a number of significant changes to be made to the 2007/08 financial statements to make them more consistent with the accounts of other public and private sector entities. The major changes include:
  - accounting for financial instruments based on FRS 25, FRS 26 and FRS 29;
  - replacement of the fixed asset restatement account and capital financing account by a revaluation reserve and capital adjustment account; and
  - provision for penalties under the Landfill Allowance Schemes.
12. Overall, we were satisfied that the council had prepared the accounts in accordance with the revised SORP. There were a number of adjustments to the draft accounts submitted for audit, which resulted in some extra work both for accountants processing these changes and auditors reviewing the adjustments. While a number of areas of the accounts were affected we have particular concerns about the effectiveness of arrangements for accounting for fixed assets and reserves. Audit adjustments have resulted in an increase in the net cost of services of £7.6 million and an increase in net assets of £4.0 million.
13. The council adjusted the financial statements to reflect our audit findings. As is normal practice, immaterial unadjusted errors have been reported to the Head of Resources via our letter issued in line with International Standard on Auditing 260 (ISA 260) *Communication of audit matters with those charged with governance*. Details of significant accounting issues arising in the course of our audit are summarised below.

## Accounting for fixed assets and reserves

14. We have some concerns about the authority's approach to capital accounting and accounting for reserves. Audit adjustments in these areas had a significant effect on the draft accounts. These adjustments related to, for example, accounting for impairment of assets, duplication of assets within the fixed asset register and accounting for earmarked reserves. We intend to work with the council to ensure improvements are made in these areas prior to the preparation of the 2008/09 accounts.



## Categorisation of expenditure

15. Capital expenditure is defined in the SORP as all expenditure on the acquisition, creation or enhancement of tangible fixed assets. Enhancement is defined as the carrying out of works which *substantially* increase the useful life, market value or utility of an asset. All other expenditure must be treated as revenue. The council may only borrow to fund capital expenditure or for working capital reasons.
16. We identified £1.994 million of expenditure that had been wrongly categorised as capital in the unaudited accounts. The audited accounts have been adjusted to recognise this appropriately as revenue expenditure. Capital Funded from Current Revenue (CFCR) was reduced by the same amount, and there was no borrowing during the year to fund the wrongly categorised expenditure. However, there remains a risk that future capital budgets include similar items that should be correctly categorised as revenue, and that this is unable to be managed through amendments to budgeted CFCR amounts. The council has undertaken to review this in 2008/09.

### Key Risk Area 2

## Legality

17. Each year we request written confirmation from the Head of Resources that the council's financial transactions accord with relevant legislation and regulations. Significant legality 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.
18. We reported last year that local authorities with registered charitable bodies (i.e. registered trust funds) are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund, although the date of full implementation has been deferred by the Scottish Charity Regulator. The Office of the Scottish Charities Regulator (OSCR) has indicated that the interim measures introduced in 2006/07, can again be used in 2007/08 and reliance placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.
19. There are no additional legality issues arising from our audit which require to be brought to members' attention.



## Financial reporting outlook

### IFRS adoption

20. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2009/10. The government also announced its intention to publish Whole of Government Accounts on an IFRS basis from 2009/10. The intention is that local government will adopt IFRS for 2010/11, although there is a possibility that early adoption may be required in some areas and this might include PFI.

### Identification and valuation of common good assets

21. There have been a number of Scottish parliamentary petitions concerning the proper recording, auditing and safeguarding of common good assets and this area continues to produce a significant amount of correspondence and complaints. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The note recognises the legislative distinction of the Common Good as a managed fund, which requires disclosure within the local authority financial statements this year, with common good asset registers in place by March 2009.



# Financial position

## Introduction

22. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2008, providing an outlook on future financial prospects, including our views on potential financial risks. Our findings and key messages are set out in this section, highlighting the significant challenges being faced by the council in managing ongoing financial pressures in funding existing service delivery and future improvement.

## Council tax and the general fund

### Operating performance 2007/08

23. 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 2007/08 was £180.132 million. This was met by government grants and local taxation of £179.643 million, resulting in an income and expenditure account deficit of £0.489 million. This is 0.3% of the net expenditure for the year.

24. 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 benefits are earned.

25. The budget set for 2007/08 was based on a Band D council tax level of £1,223 and a net contribution of £0.344 million to the General Fund. This comprised a sum of £0.800 million to help restore balances, offset by £0.456 million of net Service budget underspends brought forward from 2006/07 under the Scheme of Devolved Budget Management. During the year, the Council transferred £2.945 million into the overall General Fund, comprising net surpluses of £2.310 million on General Fund activities and £0.635 million on Housing Revenue Account (HRA) activities. (The HRA is an earmarked element of the General Fund.) The net surplus of £2.3 million from General Fund activities comprised an improvement of £1.5 million on the budgeted position for the year, together with an increase in earmarked balances of £0.8 million. In the Foreword to the accounts the Head of Resources outlined the various areas which contributed to the improvement on the General Fund



budgeted position, including £2.3 million of savings on loan charges offset by unplanned severance and closure costs of £1.0 million.

## Housing Revenue Account

26. The housing revenue account shows a deficit of £2.705 million for 2007/08 before adjusting for statutory and non-statutory proper practices. Overall, after adjustments for statutory and non-statutory proper practices, £0.635 million (budget: £nil) was transferred to the portion of the General Fund earmarked for the HRA. At year end, £2.280 million of the General Fund was earmarked for the HRA (2006/07: £1.645 million). This is £0.635 million more than planned and is due mainly to savings in capital financing charges, increased income and lower voids.

## Reserves and balances

27. At 31 March 2008, the council had total cash backed funds of £16.106 million, an increase of £3.883 million on the previous year (Table 1).

**Table 1: Reserves and Funds 2007/08**

Description	31 March 2008 £ Million	31 March 2007 £ Million
General Fund	11.417	8.066
General Fund – Housing Revenue Account Balance	2.280	1.645
Repairs and Renewals Funds	0.450	0.250
Insurance Fund	1.959	2.262
	<b>16.106</b>	<b>12.223</b>

28. The council achieved a general fund surplus of £2.945 million during the year. Added to the amount brought forward from 2006/07, the council has a general fund balance of £13.697 million. This equates to 7.6% of the council's net annual expenditure.

29. However, at 31 March 2008, £7.851 million of the general fund balance was earmarked for specific purposes leaving an unallocated balance of £5.846 million. The unallocated balance equates to 2.9% of the 2008/09 budget which is in line with the council's reserve strategy. The strategy sets a target minimum reserve level of 2.5% of budget with an ideal level of 3% to guard against financial risk. Significant earmarked amounts include the £2.280 million Housing Revenue Account balance, £1.473 million of Modernising Government/Customer First monies, £1.225 million for council tax income received in respect of second home discounts which is held for reinvestment in affordable housing and £1.183 million of schools PPP grant monies.



30. The Repairs and Renewals Fund can be used to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets. During the year £0.200 million was transferred into the fund through an insurance receipt for fire damage remediation works at the waste transfer station.
31. The Insurance Fund reflects the balance held for self-insured and uninsured losses. A net total of £0.303 million was transferred out of this fund in the year, representing the excess of expenditure over income on the council's insurance transactions.

## **Group balances and going concern**

32. The widening diversity of service delivery vehicles used by local authorities means that group accounts are required to present fairly all the activities of councils. The overall effect of inclusion of all of the council's subsidiaries, associates and joint ventures on the group balance sheet is to reduce net assets by £96.679 million, substantially as a result of pension liabilities. All group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.
33. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member (Central Scotland Joint Police Board, Central Scotland Joint Fire Board and Central Scotland Valuation Joint Board). All of these boards had an excess of liabilities over assets at 31 March 2008 due to the accrual of pension liabilities. In total these deficits amounted to £323.624 million, with the council's group share being £103.290 million.
34. Other group entities incurred a small net deficit of £0.118 million during 2007/08.

## **Spending on assets and long-term borrowing**

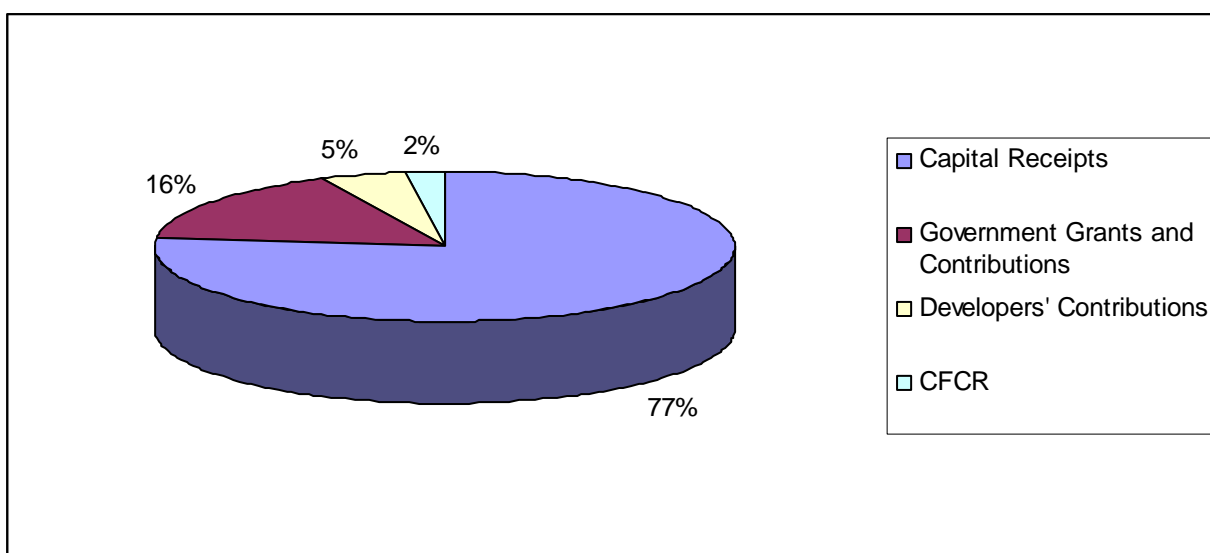
### **Capital performance 2007/08**

35. Since the introduction of the prudential code in April 2004, the council can decide locally on a capital investment strategy which meets best value requirements as well as being affordable. The council has used the code to increase significantly its capital expenditure to improve its asset infrastructure.
36. Capital expenditure in 2007/08 totalled £69.069 million, rising from £34.755 million in 2006/07. Of this, £22.292m relates to payments in relation to the residual value of schools under the PPP/PFI schemes. Capital investment in the last year was funded as shown in Chart 1. Sale of the Thistles Centre, former schools sites (PPP), Forthside and the SDA investment properties sale resulted in significant capital receipts during the year with a subsequent repayment of £19.794 million to the loans fund compared with initial plans which indicated expenditure of £19.607 million needed to be funded through borrowing.



37. There was an underspend of £3.876 million against the plan, £2.198 million was due to delays in spending on the City Transport Strategy, with the majority of this underspend relating to an upgrade project which is with the Scottish Government for planning approval. We have been informed that work on this project is expected to begin on site in February 2009. All general fund services and a number of individual projects experienced some slippage against budget, although the slippage on around half of these projects was not significant.
38. Spending on the council's housing stock was overspent by £0.112m.

**Chart 1: Sources of finance for capital expenditure 2007/08**



## **Borrowing and temporary investments**

39. In recent years, some councils have held significant amounts of cash and temporary investments to take advantage of favourable interest rates for planned capital programmes. In these circumstances, early borrowing must be justified in its own right as representing the best time for borrowing the amount required. This should be assessed without regard to temporary investment possibilities, otherwise the action may be judged to be unlawful or to have subjected public money to unnecessary speculation risk.
40. As at 31 March 2008, the council held cash and temporary investments totalling £44.411 million. Since the year-end the level of temporary investments has remained high. We considered the level of temporary investments in the context of planned capital expenditure and actual borrowing activity. The council did not undertake any new borrowing during the year (it has not done so for a number of years) and has used its surplus cash to fund capital expenditure.



41. The level of temporary investments gives the council a continuing degree of flexibility in managing its exposure to future interest rate increases in the short-term. Over 80% of long-term borrowing at the year-end matures after more than 10 years. The council has actively managed its exposure to variable interest rate movements with minimal debt exposed to variable interest rate risk.

## Significant trading operations

42. 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.
43. The council had seven STOs in 2007/08, of which four continued to return a cumulative deficit for the three years to 31 March 2008. In the case of Building Cleaning, this was due to the impact of equal pay costs. The council has invested a significant amount of work in addressing its STO deficits, and in 2007/08, all but Catering made a surplus before equal pay costs were charged. Notably, both Grounds Maintenance and Refuse Collection, which have been in deficit in recent years, have made an annual surplus in 2007/08. The Building Cleaning contract has been re-specified and priced for 2008/09 to reflect changes in service standards required by client services. A review of Catering has been undertaken, with a view to improving its financial performance. We note that Technical Services has been restructured and will no longer operate as an STO from 2008/09, and that an 'in principle' decision has been taken that Catering will no longer operate as an STO from 1<sup>st</sup> April 2009. In addition, the strategic direction of the council's letting of commercial properties has been fundamentally changed, with the transfer of significant assets to the Stirling Development Agency, and it is likely that this service will not continue as an STO.

### Key Risk Area 1

## Financial outlook

44. At the time of writing this report all councils across the United Kingdom face a financial risk in relation to the current pressures facing the global banking industry. The council should continue to monitor its exposure and where necessary should consult treasury management advisors with a view to minimising risk to these pressures. This issue will be considered in more detail during the 2008/09 audit.

## Council tax freeze

45. The council is party to the concordat between the Scottish government and COSLA. The financial features of this include an agreement to freeze council tax levels for three years in return for some additional funding and the removal of some ring-fencing. Stirling Council was the only Scottish local





authority to decrease its council tax in 2008/09 (1.1% decrease in Band D council tax from £1,223 to £1,209).

46. In setting its 2008/09 budget the council approved budget savings and redirection of previously ring fenced funding of £3.372 million to redirect resources to fund budget growth and the council tax reduction. It also approved an annual contribution of £1.45 million to a capital fund that would be used to fund loans fund principal repayments and a real terms reduction of the target range for uncommitted general fund balances from 2.5% - 3%, to 2% - 2.5% of net expenditure. (This reduction in the target was due to the overall budget increasing, as a result of the removal of ring-fencing of grants in the overall financial settlement for councils.)
47. The outlook for future public expenditure remains tight, and the council faces significant challenges in ensuring that planned activity remains affordable and sustainable within available resources. The planned savings will prove challenging to deliver in the timescale envisaged. The Head of Resources has also advised of expected funding shortfalls in 2009/10 and 2010/11 after expenditure pressures and identified spending priorities. He has highlighted that the council will require to continue to find further efficiencies and policy savings, review corporate priorities and consider council tax levels in order to balance future budgets.

### **Key risk area 3**

## **Equal pay**

48. 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 2006/07.
49. As detailed in our 2006/07 report, estimated costs of £3.41 million were provided for in the financial statements to deal with the equal pay legislation. During 2007/08, the council reviewed its provision in light of the delay to implementing single status and further provision has been made. £4.82 million has been reflected as a provision in the balance sheet at 31 March 2008 with regard to backdated pay claims. A further £4.27 million contingent liability has been identified in the accounts. The council has determined that it is unlikely that all outstanding claims will be paid out before April 2009.

## **Single status**

50. In 1999 a single status agreement was reached between Scottish local authorities and trade 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.

51. 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.
52. The council has negotiated a new terms and conditions package with the trades unions. Letters have been issued to all employees within the scope of Single Status, notifying them of their new grade under Job Evaluation and inviting them to indicate by 7th November 2008 whether or not they accept the new terms and conditions package. The position on voluntary sign up will be reported to a special meeting of the council on 13th November at which decisions on further process will be taken. The implementation date for Single Status has been set for 16th February 2009. Provision for the ongoing costs of single status/ job evaluation was increased in the 2008/09 budget by £0.7 million to £2.7 million per year.

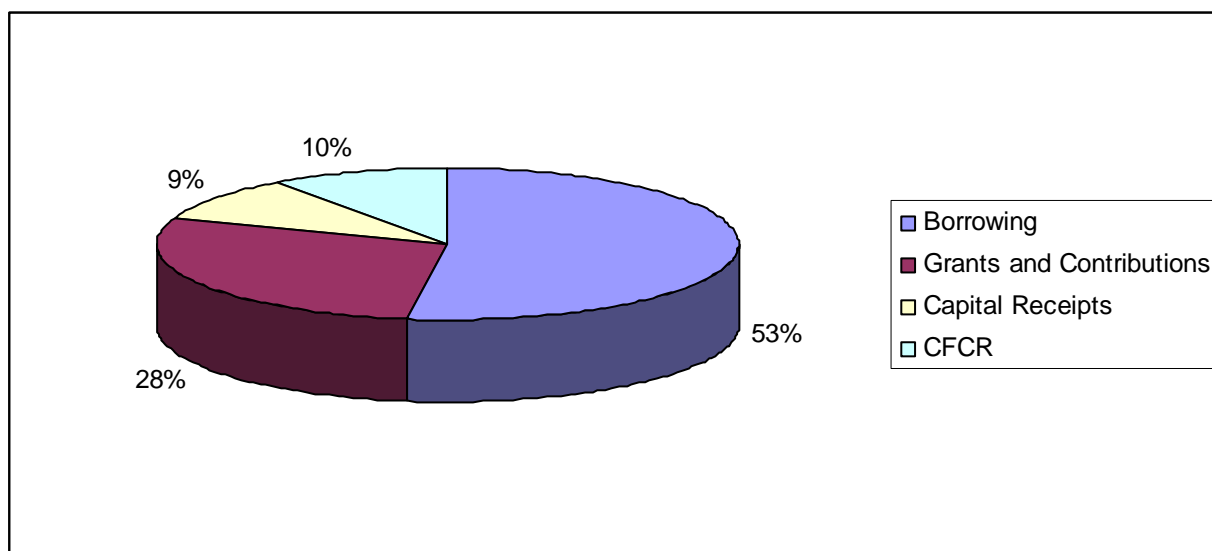
**Key risk area 4**

## **Future capital programme**

53. The revised capital investment programmes for general fund and housing revenue account for 2008/09 anticipate annual capital expenditure of £35.649 million and £9.893 million respectively. Capital funding in the 2008/09 is shown in Chart 2. After relying on other sources of finance in 2007/08 a significant level of borrowing (£23.813 million) is planned in 2008/09. The current economic downturn is likely to reduce the potential for capital receipts and developer contributions and the council is monitoring the situation closely.



**Chart 2: Sources of finance for capital expenditure 2008/09**



## **EC landfill directive**

54. The EC Landfill Directive sets limits on the disposal of biodegradable waste to landfill and requires the pre-treatment of waste prior to landfill. There are technical and financial challenges facing the council in delivering solutions and the implications of landfill penalties could be significant. The Scottish Minister for the Environment has the power to waive penalties in certain circumstances, and he has advised COSLA that he may be prepared to do this for local authorities who have made genuine efforts to maximise landfill diversion and had not met targets due to circumstances outwith their control. From 2008/09 onwards, Scottish councils will be allowed to trade landfill allowances. If one council performs better than its targets, it has the power to sell its excess allowances to other councils, although this trading position is currently constrained by the lack of demand for allowances by councils in Scotland.
55. Stirling Council consistently remained well within its allowance for biodegradable waste disposal to landfill in 2007/08 but targets will get tougher in future years. The council has recognised budget pressures of £0.250 million in relation to landfill tax increases in 2008/09.

## **Pension liabilities**

56. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, and the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. 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.

57. The council's estimated pension liabilities at 31 March 2008 exceeded its share of the assets in the Falkirk Pension Fund by £41.757 million, reducing from £77.807 million in the previous year. Budgeted contributions are expected to rise from 270% of employee contributions in 2007/08 to 295% in 2008/09, reflecting the actuarial valuation at 31 March 2005.
  
58. The next full actuarial valuation will assess the position at 31 March 2008, and is expected to be reported in early 2009. This will determine contribution rates for 2009/10 and the next two financial years. Recent changes to the Local Government Pension Scheme regulations are expected to release some future financial benefits, while providing additional flexibility to future pensioners. The financial markets have recently been subject to significant volatility, which is likely to affect the valuation of the fund's assets. However, until the revaluation is complete the extent of any further increases on superannuation costs is unknown.



# Governance

## Introduction

59. In this section we comment on key aspects of the council's governance arrangements during 2007/08. We also provide an outlook on future governance issues, including our views on potential risks.

## Overview of arrangements in 2007/08

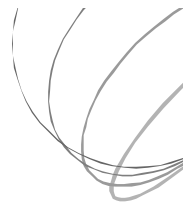
60. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Based on the work undertaken, we concluded that, overall, the council had systems in place that operated well within a sound control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

## Political Governance

61. The political context for councils changed significantly in 2007, with a new Scottish Government and a shift to more coalition and minority administrations in local government. Nearly half of the councillors elected in May 2007 were new to local government. In Stirling there were a considerable number of new councillors and no overall party control following the elections. The council's Administration changed in 2008, and is now SNP led. The council has kept its political management arrangements under review and has recently increased the number of committee cycles, which should improve the speed of decision making.
62. The creation of multi-member wards has required new ways of working to support efficient representation and sharing of the workload. The council has informal protocols established in most wards for responding to constituency issues and communications between members. However, multi-member wards are still fairly new in Scotland and the practical issues will become clearer as the new arrangements mature.

## Governance and Audit Committee

63. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda.
64. The council is committed to good practice principles for audit committees as set out by CIPFA, and in February 2008 members of the Governance and Audit Committee attended a training event covering the principles and responsibilities of an audit committee and its members. The committee also assessed itself against CIPFA's good practice principles. Members were issued with details of



CIPFA's Audit Committee Principles Matrix and assessment of compliance each principle was scored in the matrix as Red, Amber or Green. The committee complies in full (assessed as 'Green') with most of the principles. The committee has requested the Director of Corporate Services, in consultation with the Chair, to prepare a draft Action Plan to address any of the principles not scored "Green" according to the matrix. The committee has also agreed to review its performance at the end of each financial year, commencing 2008/09. We have agreed to provide scrutiny training to members in 2008.

## **Internal Audit**

65. Internal audit provides an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the council's internal audit arrangements. Our review covered the following:
- organisational status – specific status of internal auditing in the entity and the effect this has on the ability to be objective;
  - scope and coverage of the internal audit function – the nature and extent of internal auditing assignments performed;
  - staffing and technical competence – whether internal audit is performed by persons having adequate technical training and proficiency as internal auditors; and
  - due professional care – whether internal audit is properly planned, supervised, reviewed and documented.
66. We found that the function continues to deliver quality work in accordance with a risk based framework. We reviewed internal audit's self assessment against the CIPFA Code of Practice for Internal Audit in Local Government in the UK and confirm that the service performed very well against the requirements of the Code. Steps have been taken to rectify areas of non-compliance and there were no significant risks identified by non-compliance issues. During 2007/08 internal audit's full staffing level was below the planned complement, and as a result there was a reduction of actual days input against the plan. This had an impact on planned 2007/08 internal audit work, as reported to the Governance and Audit Committee in June 2008. Some of the work on which we had intended to place reliance will now be reported as part of the 2008/09 audit.

## **Systems of internal control**

67. A Statement on the System of Internal Financial Control (SSIFC) for the council and its group was included within the financial statements. In accordance with the Code of Practice on Local Authority Accounting, the Statement reflects the internal control environment for the group position. Following receipt of a range of assurances from managers across the council, the internal auditor manager and



subsidiary companies, the Head of Resources concluded that he was satisfied that reasonable assurance could be placed on the adequacy and effectiveness of the systems of internal control operated by the council and its group.

68. Internal audit and the Head of Governance have worked with services throughout the year to improve the self assessment process which provides assurances for the SSIFC. The council's corporate governance framework underpins the self assessment process. Services have provided self assessment questionnaire responses, with additional supporting evidence where required, and also identified areas for improvement in their systems of internal financial control. We will continue to monitor the self assessment process and the progress of improvement actions.
69. 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 assessed the following central systems as having a satisfactory level of control for our purposes:
- Payroll;
  - Housing rents;
  - Main accounting system;
  - Accounts receivable;
  - Accounts payable;
  - Council tax;
  - Non-domestic rates.
  - Housing and council tax benefits;
  - SWIFT;
  - Capital accounting;
  - Treasury management;
  - Building & Roads Maintenance (MISC job costing system);
  - Budgetary control;

## Prevention and detection of fraud and irregularities

70. 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

71. During 2007/08 we continued to monitor the council's participation in the 2006/07 National Fraud Initiative (NFI). This 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. The NFI has generated



significant savings for Scottish public bodies (£9.7 million from the 2006/07 exercise and £37 million including previous exercises). Where fraud or overpayments are not identified in a body, assurances can usually be taken about internal arrangements for preventing and detecting fraud.

72. Audit Scotland's national NFI report highlighted Stirling Council as one of the councils, taking account of size, which had the highest yields from their benefits investigations at both the 2004/05 and 2006/07 NFIs.
73. Overall, 17,727 matches were identified in respect of the Stirling Council. At October 2008, the majority of the matches have been cleared or were under investigation with the exception of single person discount council tax matches (report 802) where the 979 cases are an indicator that the single person discount may be coming to an end. We therefore encouraged the council to progress the matter. At April 2008 savings of £0.058m had been identified with nine potential frauds being investigated. One hundred and nineteen cases have resulted in recoveries of £0.096m.

## Housing Benefit

74. From April 2008, Audit Scotland took over responsibility for inspecting the housing and council tax benefit functions from the Department for Work and Pensions. We are carrying out risk based inspections on a cyclical basis and all councils will be inspected during an 18-month period. The council will be advised in due course as to when it will be inspected.

## Data handling and security

75. Data handling and security has received increased public and media attention recently as a result of a number of national incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to civil and criminal litigation.
76. Organisational culture was identified by a recent Cabinet Office report as critical to achieve acceptable levels of information security. As part of our 2007/08 audit we looked at cultural aspects of information handling and security, including risk awareness, leadership, governance, operating methods and training.
77. We are pleased to report that Stirling Council has core operational processes in place to ensure effective data handling:





- Responsibility for information management aspects of security are with the Governance unit, supported by the data protection officer and the records management team;
- The council demonstrates its commitment to good data handling through team briefings on data protection and publication of a range of security policies on the intranet;
- The data protection officer and the records management team have helped to raise awareness of data handling issues across all services;
- Clear responsibility for technical aspects of security lies with the Business Transformation and Technology unit (BT&T) and is supported by appropriate disciplines;
- The Risk Management unit consider information risks at each service and agree treatment plans.

78. We also noted opportunities to improve elements of the information security management system:

- Increase coordination between data protection, infrastructural security and records management;
- Improve the depth and scope of the council's knowledge of its information assets;
- Tighten the council's electronic boundary through changing policies and technical fixes;
- Update security guidelines;
- Standardise and monitor local arrangements for access control of application systems;
- Review application system training materials to update them with appropriate advice for off-line data handling;
- Devise risk monitoring arrangements for third party data transfer agreements.

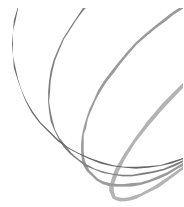
## **Payment card standards**

79. The Payment Card Industry Data Security Standard (PCI/DSS) was developed by major credit card companies as a guideline to assist organisations that process card payments to prevent credit card fraud, hacking and various other security threats. Any organisation processing, storing or transmitting payment card data must be PCI/DSS compliant or risk losing their ability to process credit card payments. The council has completed a gap analysis in respect of payment card security and is working with its software provider to achieve full compliance.

## **Governance outlook**

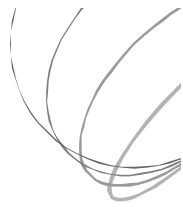
### **Single outcome agreements**

80. The concordat between the Scottish Government and COSLA sets out the terms of a new relationship between the Scottish Government and local government. It underpins the funding to be provided to local government over the period 2008/09 to 2010/11. Central to the concordat is the single outcome



agreement (SOA) between each council and the government. The SOA sets out the council's contribution to the government's 15 key national outcomes as set out in the concordat. It also reflects established corporate and community planning commitments. In this way progress at a national level is supported by outcomes at a local level.

81. Stirling Council has developed its Single Outcome Agreement and its new strategic plan in tandem. The Single Outcome Agreement emphasises the outcomes the council wishes to achieve, and the Strategic Plan emphasises commitment, actions and plans which are needed to deliver the outcomes. Measurement and reporting of performance against the targets in the SOA is being integrated into the council's performance management framework.
82. For 2008-09, the Single Outcome Agreement is an agreement between a local authority and the Scottish Government, but from 2009-10, the Single Outcome Agreement will broaden to encompass the commitments and shared accountability of the local Community Planning Partnerships in delivering improved outcomes for local areas. In recognition of the move towards a joint Community Planning Single Outcome Agreement, the Stirling Community Planning Partnership has been closely involved in the development of the first Single Outcome Agreement.



# Performance

## Introduction

83. In this section we summarise how the council manages its performance. We discuss the overall arrangements before giving an outlook on future performance, including our views on the current status of identified risks. Finally we comment on the findings of Audit Scotland's national performance studies.

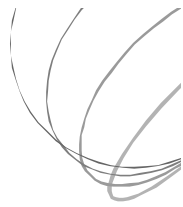
## Corporate objectives and priorities

84. In June 2008, the council approved a new strategic plan, "Shaping Stirling," incorporating the council's vision and priorities for the next four years. The plan contains five strategic topics which set out the areas of work the council will concentrate on over the next four years and three strategic themes which underpin all council activities:

- Making Stirling a place with a vibrant economy that is open for business
- Making Stirling a place with jobs and opportunities for all
- Making Stirling a place where lifelong learning is valued and encouraged
- Making Stirling a place where improved wellbeing adds life to years, not just years to life
- Making Stirling a place with a high quality environment
- Making services better
- Encouraging participation and responsibility
- Making Stirling more sustainable.

85. A total of 56 targets to be met by 2012 are linked to these themes and some of the more significant are listed below:

- 90% of young people moving on to positive and sustained destinations after leaving school (Further or Higher Education, training or employment);
- an increase to 69% of the council housing stock meeting the Scottish Housing Quality Standard by 2012 with 100% meeting the Standard by 2015;
- an increase to 50% in the percentage of municipal waste that is recycled or composted;
- 100% of unintentionally homeless households assisted into settled accommodation;



- a reduction from 10% to 8% in the numbers of people in the Stirling area who are income deprived and those who are employment deprived;
- an increase in the percentage of individuals aged 65+ with high and long term levels of care needs who are cared for at home.

## Overview of performance in 2007/08

### Annual report

86. The Council's Annual Report is out for consultation and is due to be reported to the council in November 2008. A summary of performance is also to be included in the Focus magazine concentrating on indicators that are of concern to the public. It presents progress towards the council's objectives for 2007-08 and is the final report on progress towards the Corporate Plan 2003-08.
87. The Annual Report comments on progress on each of the five strategic priorities in Shaping Stirling. This analysis includes details of progress against priority actions (including a traffic light indicator of progress to date) and graphical representations of the trends of statutory performance indicators including commentary against each indicator.
88. The progress against priority actions include:
- **Vibrant Economy** – construction of park and ride facilities, the continuing development at Forthside and completion of Forthside way and the public transport route.
  - **Jobs and opportunities for all** – development of Hillpark Community Centre, ongoing work with Compass for Life and Forth Valley College on courses to help young people into work and training, the establishment of the Housing Advisory Group to allow tenants more say on the future housing service delivery and the implementation of a new strategy to assist those in housing need to prevent them becoming homeless – work is ongoing to meet the 2012 national target.
  - **Lifelong learning** – completion of the schools PPP programme, development in line with new curriculum framework, implementation of an improved quality assurance process and establishment of a parent council in most schools.
  - **Improved wellbeing** – extension of community warden scheme, the development of Forth Valley information sharing system to help tackle antisocial behaviour, care management service review and restructure, implementation of the new joined-up services approach to the national “Getting it right for every child” proposals, introduction of a reward scheme to encourage the uptake of healthy school meals and continuing with partners to review personal care, support and housing services for individuals with complex needs. The council has established a project team to explore the best ways of meeting the needs of vulnerable children with high care requirements – this work



is ongoing. The need to increase the availability of home support services to meet the growth in demand remains a priority for the council and is included in the Annual Improvement Statement 2008-09.

- **Quality environment** – Raploch Community Campus, work has commenced on enhancing Stirling’s Old Town cemeteries, resurfacing 12 ‘C’ class roads, promoting recycling through rolling out the collection of plastic bottles across the Stirling area, the new household waste recycling centre at Lower Polmaise, the ongoing development of a flood management plan. The council is currently in consultation regarding the development of an Open Space Strategy to ensure Stirling’s parks and other open spaces are effectively developed and maintained.

## Measuring Performance

89. The council has made significant progress on developing its performance management framework during the last year. StirlingStat is now well embedded and is supporting regular reporting to senior officers and members on predominantly customer facing services. Reports identify exceptions and provide a good basis for addressing identified areas of poor performance. A review of the indicators and targets currently in use has recently been concluded with a qualitative review of the usefulness to members also under way.
90. The most recent StirlingStat quarterly report for July 2008 included 31 key performance indicators. Of the 28 for which data was available for the quarter 15 (54%) were on target, 4 (14%) were below target but within tolerance and 9 (32%) were off target. Twenty indicators (71%) had improved or remained broadly the same when compared to the previous quarter and eight (29%) had declined.
91. The council continues to develop its performance management system, approving revised performance reporting arrangements and starting to integrate measurement and monitoring of the local and national outcomes contained within the Single Outcome Agreement. Continuing reporting improvements include:
  - the introduction of quarterly service performance reports for the first two quarters of 2008/09. These are expected to be made available to members in November;
  - a new corporate performance information report covering a broader set of indicators explicitly linked to the new strategic plan. This is also expected to be made available to members in November;
  - the introduction of an Annual Improvement Statement;
  - updated web pages providing improved public performance reporting information.
92. The first Annual Improvement Statement was reported to the council’s Executive in August 2008. This incorporates actions from the Best Value Improvement Plan that are of continuing importance and



also any high level improvement actions subsequently identified through other mechanisms, including those identified by:

- External and internal audits, scrutiny reviews, and inspections by external agencies, although the action plan covering the HMIE inspections of services to protect children and young people has yet to be incorporated;
- Performance monitoring mechanisms, i.e. Statutory Performance Indicators, StirlingStat, and other quality control mechanisms, e.g. Resident's Survey;
- KPMG's advisory report on improved performance management.

93. The Annual Improvement Statement splits priorities between Council Wide and Service Specific with each priority given a star rating. Some of the main priorities outlined (ranked as 3 stars by the council) in the Statement include:

- Reducing the level of staff absence;
- Continuing to develop a strategic approach to identifying and releasing efficiency savings;
- Negotiate new working practices under the single status agreement;
- Improve outcomes for older people and the low level of satisfaction with services through improving and upgrading the level and range of home care services;
- With partners, implement actions arising from Forth Valley Multi-Agency inspection of services for older people;
- Continue to implement actions in relation to the HMIE follow-up report of the education function of the council;
- Implement the action plan in response to the investigation of the projected overspend on the residential care placement budget;
- Implement and manage progress against the key aims for the roads and transport service taking action to reduce the percentage of the road network that should be considered for maintenance.

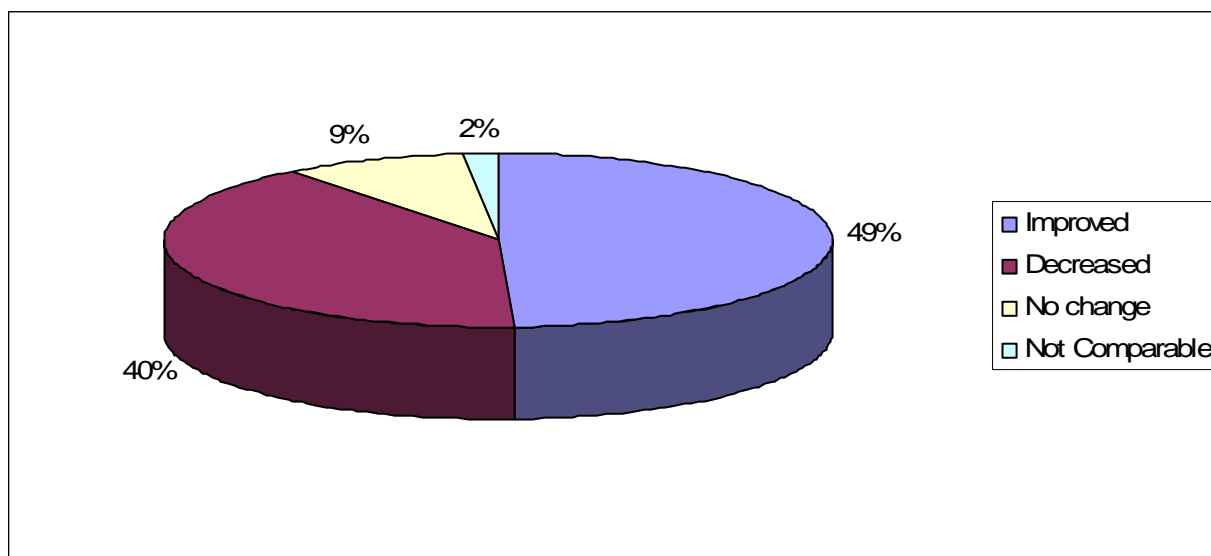
## **Statutory performance indicators**

94. One of the ways of measuring council performance is through the statutory performance indicators (SPIs). Within Stirling Council, key SPIs feature within the basket of measures monitored through StirlingStat. Between 2004/05 and 2006/07 performance improved by at least five percent on 17 SPIs and worsened by at least five percent on 11 measures, producing a 1.5:1 ratio of improvement to decline which is in line with the Scottish average.



95. National comparative data is not yet available for 2007/08, but the council's results have indicated that performance has continued to improve overall (chart 3), although performance reduced in a significant minority of measures. SPIs were published by 30 September 2008 and were submitted to the council's Executive and the Service Delivery and Performance Committee.

**Chart 3 : Improvements demonstrated by SPIs**



96. 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 satisfactory. One indicator (Cultural and Community Services 5a – number of visits to libraries per 1,000 population) was classified as unreliable: it was also assessed as unreliable in 2006/07.

97. In addition, one indicator was not reported by the council (Adult Social Work 1 - median time between identification of need and delivery of community care services). Reporting for this indicator was subject to the collation of a wider range of data for reporting to the Scottish Government to meet other requirements. However, these data reporting requirements were withdrawn by the Scottish Government after the Accounts Commission had given the 2006 Direction (for 2007/08 SPIs) which placed a statutory duty on councils to report the information for the year. In the circumstances, the council did not consider it best use of resources to collate data for this indicator.

### **Best Value Audit**

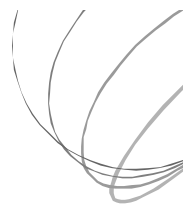
98. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In March 2005 the Accounts Commission published a report on the Best Value Audit (BVA) of the council together with its own findings. This section of the report comments on the council's overall progress in delivering its BV improvement plan and the impact of



the actions taken. Best Value applies across all of the council's activity and more detailed comments on a number of areas included in the improvement plan are provided throughout this report.

99. While the council was recognised as performing strongly overall against BV criteria, the BVA report highlighted the need for elected members to become more involved in scrutiny, a more systematic approach to performance management, better public performance reporting, tackling poorer performance and ensuring services are subjected to adequate challenge and option appraisal. The council also recognised the requirement to make a number of improvements to corporate processes and aspects of service performance and set these out in a detailed BV improvement plan.
100. More than three years after the publication of the BVA report the council has completed or significantly progressed many of the actions contained in its improvement plan. As a result, overall it has made good progress in addressing the key issues raised, although this has taken longer than originally envisaged. Changes to political governance arrangements, including the introduction of Service Delivery & Performance and Governance & Audit scrutiny committees, and a much improved approach to performance management have underpinned increasingly effective scrutiny and challenge by elected members. Some success has been achieved in addressing previously poorly performing services, although there remains work to be done. A more coherent approach to public performance reporting is in place, although improvements in internal performance information remain to work through fully to balanced public reports.
101. The main issues that remain to be fully addressed or where improvement work is continuing include:
- Continued improvement to the performance management framework and public performance reporting;
  - Continued work to align plans, underpinned by strategic plan priorities and the Single Outcome Agreement;
  - Continued improvement to roads maintenance and homecare services;
  - Completion and implementation of a corporate people strategy;
  - Roll-out of consistent processes for individual performance development;
  - Implementation of a corporate asset management plan.
102. The council is also giving further consideration to whether a formal programme of best value reviews is required. While some aspects of an effective approach to self-evaluation are evident, for example in self-assessment against best practice for audit committees and internal audit, the council needs to develop robust approaches across its services, ensuring that option appraisal is more rigorous.





103. The council has approved a revised reporting mechanism for its progress against the best value improvement plan, and other inspection and audit recommendations. The council has agreed to conclude the existing BV Improvement Plan and introduce an Annual Improvement Statement. It is clearly important that outstanding actions that remain of continuing priority are addressed within the new approach. We understand that this is the council's intention.

## **HMIE**

104. HMIE carried out a multi-agency inspection of services to protect children and young people in the Stirling area in December 2007 and January 2008. This covered health and police services as well as relevant council services. The joint inspections of services to protect children and young people are based on eighteen quality indicators. The indicators for the Stirling area included one very good, eight good, eight satisfactory and one weak (recognising and assessing risks and needs).

105. Inspectors found a number of key strengths in how well children were protected and their needs met in the Stirling area. Children and families were listened to and understood, and staff communicated effectively with them. Staff responded promptly to immediate concerns and took appropriate action. Services provided a wide range of support to children to keep themselves safe. When there were concerns about children, information was shared effectively by staff. Chief officers, managers and staff in services had a shared vision, values and aims for protecting children and meeting their needs.

106. Key areas identified for improvement included:

- ensuring that children living in longer term care placements have their needs met, including the need for permanent placement;
- fully involving health staff in initial referral discussions and joint investigations, and continue to improve arrangements for medical examinations;
- improving assessment of risks and needs for unborn children and children living with parental substance misuse;
- ensuring plans to meet children's needs are carefully monitored and reviewed;
- improving the leadership and direction and senior officers to better support the work of the Child Protection Committee; and
- better developing shared self-evaluation and improvement of services for children.

107. The Chief Officers have prepared an action plan indicating how they will address the main recommendations of the HMIE report. Inspectors will revisit the area within two years to assess and report on progress.



## Performance outlook – opportunities and risks

### Introduction

108. In the course of our audit work we identified some of the strategic risks to Stirling Council delivering its stated objectives and priorities in the years ahead. These risks were set out in our SARA 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. Risk exists in all organisations which are committed to continuous improvements 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

109. The council approved revised political management arrangements in 2006 and continues to monitor the effectiveness of these arrangements. A revised committee cycle was agreed recently, which has increased the number of cycles and should lead to timely decision making based on up to date information. The new Strategic Plan has been approved and will provide direction for service plans and budget decisions. See paragraphs 61-62 for further comments on political governance.

### Redesigning business

110. The council has decided not to proceed with large scale joint service delivery with Clackmannanshire Council. It has stated a commitment to pursuing shared services on a small scale, where possible, and needs to identify opportunities through a continuing programme of reviews.

111. We are undertaking a high level overview of the council's involvement with a number of arms length companies and will issue a separate audit report by the end of 2008. While the use of arms length arrangements can offer innovative ways of delivering services, strong governance arrangements need to be in place to ensure that they contribute effectively to delivery of the council's corporate objectives and priorities. Internal audit has recently identified some concerns about contract monitoring in its recent report on Active Stirling. There is also a need to consider the overall risk exposure of the council across its portfolio of companies regularly, keeping the overall mix under review as well as the contribution of each individual arrangement. There is a need for guidance and training to be provided to elected members and officers who serve as directors on the boards of companies. Crucially, individual directors assume personal responsibilities under Companies Acts, which may lead to the risk of conflicts of interest between company and council responsibilities. We are pleased to note that training was recently provided to members and officers in October 2008.



## **Funding future improvement**

112. 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. There is currently a £1.5 million service budget overspend forecast for 2008/09, placing pressure on services to achieve savings and deliver their plans within the available resources. A detailed review of the council's financial position is provided above at paragraphs 22-58.
113. The council has committed to policy led budgeting, but there is still room for improvement in linking planning and budgeting/resource allocation. The introduction of Single Outcome Agreements and the removal of ring fencing from certain funds provides an opportunity for the council to prioritise services. The council has approved its SOA outcomes for the Stirling area and also the Strategic Plan which covers the council's role for the next four years in delivering these outcomes. As part of the budget setting process for 2009/10, the council's Administration and the management team are to consider the prioritisation of council activities set out in the Strategic Plan, which should allow clearer prioritisation of resource allocation to council plans.
114. The council has medium to long term planned outcomes in its SOA, but is still to develop a comprehensive long term financial strategy to pull together the impact of these longer term plans.

### **Key risk area 5**

## **Demonstrating improved performance**

115. The council has a statutory duty to publicly report performance in a manner that is transparent and accessible. Stirling Council continues to improve its public performance reporting arrangements, alongside development of internal performance monitoring. The 2006/07 annual report was published in November 2007 and the 2007/08 annual report is due to be published in November 2008. A summarised annual report is published in Focus magazine, which is delivered to all households in Stirling, as well as being available on the website. The Residents Survey 2008 confirmed that Focus is the most preferred medium for receiving council information, followed by local newspapers and the council website. The 'Stirling performs' section of the website contains information on the best value audit, SPIs, the annual accounts, equalities, complaints, sustainability and the council's efficiency statement as well as the annual report and a summary of performance reporting arrangements.
116. StirlingStat is a key part of the Council's performance management and improvement approach, providing real time data on core customer services to allow improvements in performance to be made when necessary. Improvements to this and other performance monitoring approaches described in paragraphs 86 to 93 above will mean that the council is better placed to demonstrate how the council's performance has improved and the impact this has had on outcomes for the Stirling area.



## Infrastructure improvements

117. 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. The council previously identified corporate priorities covering a wide range of areas including school buildings, housing, transport and waste management, which require significant investment.
118. In line with the city transport strategy, the Castlevue Park & Ride opened in August 2008.
119. The five secondary schools and the Raploch community campus included in the PPP Schools Project are now open and the impact of these improved facilities is reflected in the increased satisfaction levels expressed in the 2008 Residents Survey. The council has also invested in further refurbishment in primary schools through its Priority Primary Schools Programme.
120. The council's new strategic plan includes the target of 70% of council housing meeting the Scottish Housing Quality Standard by 2012, with 100% achievement by 2015. The council's new build programme for social rented accommodation will start in 2010/11. The council is also planning development of specialist and adapted housing to address the housing need of individuals with additional care needs.
121. The council has also approved the creation of a new community at Durieshill, comprising 2,500 new homes and appropriate community facilities and infrastructure. The design of this new development will incorporate relevant sustainability requirements.
122. The council continues to invest in its roads network, as the percentage of the roads network that should be considered for maintenance continues to be an area of concern, and featured as one of the areas in the Residents Survey 2008 which gave a negative impression of the council. Further additional investment was agreed in 2008/09 to fund a 5 year improvement programme, although demonstration of improvement in this area will take some time.
123. We reported last year that the council did not have an overarching asset management strategy in place. The council's Executive has recently approved the Asset Strategy for Land and Buildings, which sets out the council's strategic asset management approach and suggests the implementation framework to be adopted to create asset management plans that can continually be reviewed and monitored. There is still some way to go, however, before a comprehensive corporate Asset Management Plan is in place. The council intends having draft service asset management plans and an overarching asset management plan submitted to Council by June 2009. Work is also to commence on examining individual settlement plans as part of this exercise, when it may be appropriate to review service objectives in settlement areas. Completion of this aspect of the council's approach will be a longer-term objective and we will continue to monitor the council's progress.



## **Workforce management**

124. Last year we reported that the council did not yet have an overarching corporate workforce plan in place and that in the absence of such a plan there was a risk that staff resources are not deployed as effectively as they could be to deliver best value services. The council agreed to implement their proposed management actions by December 2008.
125. Progress on the council's HR Strategy has been advanced by the centralisation of the HR Service and the remits given to Senior HR Advisers to support the development of workforce plans. The vacant HR Advice and Policy Manager post was filled in August 2008, and the manager is working on and coordinating the work on pulling together, updating and developing, as appropriate, the various policies which form part of the HR Strategy.
126. A draft Organisational Development and Learning Strategy, which aims to provide a framework to address and support the positive development of Stirling Council's culture in line with its Strategic Plan, was presented to the council's Directors and Heads of Service in August 2008, and they have established a small group to further develop the strategy with a view to it being presented to council before the end of 2008. We will continue to monitor progress in this area.
127. Single Status is still to be implemented, although the council intends to implement it during 2008/09. 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 50 to 52 above.

## **National studies**

128. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are described below. Further information on these studies and copies of the reports can be obtained from Audit Scotland's web page at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

## **Sustainable waste management**

129. Collecting household waste is a vital and universal service. In recent years significant new investment has been made to reduce the amount of waste sent to landfill. Our national report on sustainable waste management, published in September 2007, highlighted that:
- Significant progress has been made in meeting interim recycling targets, but the rate varies considerably between councils. The percentage of municipal waste recycled and composted increased from 7% in 2001/02 to 25% in 2005/06. Co-mingled collections appear to achieve higher recycling rates.



- There has been slow progress in developing facilities to treat residual waste and there is a significant risk that EU landfill directive targets might not be met.
- Increased recycling has led to increased costs for councils.
- All parties need to work more effectively together to make progress in waste minimisation, recycling and waste treatment.

130. The council has invested in improved facilities at Lower Polmaise Waste Management Complex: in 2007/08 the new Household Waste Recycling Centre was diverting well over 60% of its waste from landfill. Overall the council is recycling or composting 38.6% of its municipal waste, an increase from 32.7% in 2005/06 and 36.1% in 2006/07.

131. Public perceptions of waste services are also showing significant signs of improvement as the recent 2008 Resident's Survey shows 76% of the public grading the refuse service as "very satisfied and satisfied" and an 80% rating for the recycling service. This compares to 40% and 60% respectively from the previous Resident's Survey.

## **Free personal and nursing care**

132. Since July 2002, all councils have had systems in place to deliver free personal and nursing care (FPNC). People of all ages living in care homes are entitled to free nursing care and people over 65, living in any setting, are entitled to free personal and nursing care. Our national report about the financial implications of FPNC, published in September 2007, found that:

- Councils have interpreted the legislation and guidance relating to food preparation differently across Scotland.
- Councils should improve their information systems to enable them to collect comprehensive and accurate information of FPNC and other aspects of care and support services.
- Councils should provide clear information to older people on what is covered by FPNC.
- Councils should work with local health partners to evaluate the longer-term consequences of reducing domestic homecare services.

133. Stirling Council continues to charge for assistance with food preparation in some circumstances: specialised food preparation, such as for special dietary requirements and/or assistance with eating does not incur a charge. Other cooking, meals on wheels and related activity does incur a charge. The council states that this is in line with statutory guidance and has made no provision for potential repayment of these charges. There is no legal action pending against the authority.



## Scotland's school estate

134. A major programme of school building renewal started at the end of the 1990s and is continuing today. The programme aims to create a school estate that achieves the government's vision for 21<sup>st</sup> century schools that are well designed, well built and well managed. Our national study reviewed what has been achieved so far, how much it is costing, how effective the improvements are and how well the Scottish Government and councils are working together to manage improvements to the schools estate. One of the main conclusions of our report, published in March 2008, is that the current rate of progress will take up to 20 years to remove all schools from poor or bad condition. The report recommends actions for the Scottish Government and councils to help improve arrangements and support future achievements. These include:

- Better planning by councils and the Scottish Government to set specific, measurable and meaningful targets for the school estate strategy.
- Greater use of the Scottish Government guidance by councils to make sure future school design strikes a good balance for the comfort of everyone who uses the building.
- Making environmental sustainability a key element of school design.
- Doing more to identify and share good (and bad) practice in school design and estate management.
- Estimating pupil rolls for at least ten years ahead with a minimum annual review.

135. The council's School Estate Management Plan covers all of Stirling's schools. Further development of the School Estate Management Plan and individual school asset management plans will be undertaken by March 2009.

136. All of the schools in Stirling's second PPP schools project (Balfron being the first) are now open. The PPP project has provided:

- a new build Community Campus in Raploch with two primary schools, one school for children with special needs, a nursery, a range of community facilities and further education hospitality, and hair and beauty suites provided by Forth Valley College
- four new build high schools - Dunblane, Stirling, Wallace and St Modan's - with housing due to be built on the existing school sites
- one refurbished and extended high school - McLaren High School in Callander.

137. Other council investment in the schools estate includes refurbishment of Bannockburn High School and the Priority Primary Schools Programme covers improvements at a number of primary schools.



There has been significant investment at Braehead, Bridge of Allan, Aberfoyle, St Mary's Bannockburn & Riverside primary schools.

## **Overview of sport in Scotland**

138. Public bodies spend, on average, £558 million a year on sport in Scotland. Councils are responsible for 90% of this expenditure. Most of the money is spent on providing and maintaining facilities as well as programmes to encourage participation and support individual athletes. Our national report, published in April 2008, found that:

- The provision of sports facilities and other services is fragmented, with no clear links between the government's national strategy for sport and councils' investment. The development of single outcome agreements is an opportunity to clarify and align the links between national and local strategies.
- The level of participation and funding in sport has been declining and participation by younger people falls short of targets.
- Sportscotland estimates that an additional £110 million a year is needed for the next 25 years to bring sports facilities up to an acceptable standard.

139. Construction of the Stirling Sports Village is progressing well. The 5-a-side and full size all-weather football pitches were handed over to the council in November 2007 and the all-weather hockey pitch in May 2008. Around 140 car parking spaces were completed and handed over during 2007, with the remainder of spaces to be handed over as the building is complete. A footpath linking the new St Modan's High School to the Sports Village facilities is currently being installed. The building handover of the main Sports Village building ("the Peak") is planned for December 2008, with the formal opening of the Peak's facilities to the public in April 2009.

## **The impact of the race equality duty on council services**

140. In November 2008, Audit Scotland will publish a national report about the impact of the race equality duty. The report will:

- Examine the impact of the duty on council services and people from minority ethnic communities.
- Consider the main factors that affect the performance of councils on race equality.
- Set out how councils can now improve their performance.
- Make recommendations to councils as well as to national bodies that are active in the equalities field and have a role to play in supporting councils meet their race equality responsibilities.

141. Following publication, Audit Scotland will track councils' progress in addressing the recommendations.





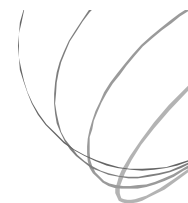
# Final Remarks

142. 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.

143. 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 issues 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.

144. Members of the Governance and Audit Committee agreed to receive updates on progress against last year's action plan as an appropriate mechanism for monitoring the effectiveness of planned action by officers. We would like to see this arrangement continue.

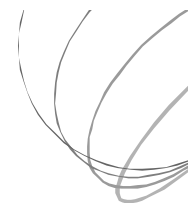
145. The co-operation and assistance given to us by Stirling Council members and staff is gratefully acknowledged.



# 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.	9 43	<p><b>Significant trading organisations (STOs)</b></p> <p>Four of the STOs continue to return cumulative losses.</p> <p><b>Risk: The council may not be achieving best value from current arrangements for services provided by those STOs.</b></p>	<p>The Council will continue to operate the STOs in a financially effective manner, and it is anticipated that the rolling three-year deficit position will reduce. For the Catering STO, work is ongoing between Children's Services and Environment Services to put the services onto a revised delivery model.</p>	<p>Directors of Environment &amp; Children's Services</p>	<p>31/3/09</p>
2.	16	<p><b>Capital accounting</b></p> <p>The council's capital budgets included expenditure that should not be classified as capital. Other weaknesses in capital accounting were noted during the audit of the annual accounts.</p> <p><b>Risk: The incorrect categorisation of capital spend leads to borrowing outwith council's powers.</b></p>	<p>Officers will be working with Audit Scotland to ensure that capital and revenue expenditure is appropriately treated in future. This will include discussing with the auditors areas where there may be disagreement about how particular items should be treated.</p>	<p>Head of Resources</p>	<p>31/03/09</p>
3.	47	<p><b>Financial pressures</b></p> <p>In a tightening fiscal environment there is increasing pressure to achieve efficiencies and other savings.</p> <p><b>Risks: The council may not be able to deliver planned services within its available resources;</b></p> <p><b>Savings achieved impact on service quality and outputs to a greater extent than intended.</b></p>	<p>The process to set budgets for 2009/10 and beyond has already begun and a key component of the process will be how to deliver a high level of efficiency savings. A certain level of policy savings is also likely to be required. The Management Team recognise that the target will be challenging, but they are committed to achieving it.</p>	<p>Council Management Team</p>	<p>February 2009</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4.	52	<p><b>Single status</b></p> <p>The council remains to implement the single status agreement.</p> <p><b>Risks: Initial and continuing costs are considerably in excess of expected levels;</b></p> <p><b>Industrial relations difficulties restrict the ability to deliver on key objectives;</b></p> <p><b>The council may be judged to be contravening the equal pay act.</b></p>	<p>The Council is implementing Single Status with effect from 16 February 2009. It had been hoped to reach a collective bargaining agreement with the Trades Unions, but, following the Council's decision on 11 September 2008, implementation is through individual employee sign up"</p>	John Risk	February 2009
5.	114	<p><b>Strategic resource planning</b></p> <p>Continued work is required to implement strategic and joined up approaches to the management of the council's resources – including a longer term financial strategy, corporate asset management plan and people strategies.</p> <p><b>Risks: Resources are not effectively targeted at priorities;</b></p> <p><b>Resource plans are not properly aligned and do not take account of capacity or longer term implications of council decisions.</b></p>	<p>Progress towards strategic/integrated planning &amp; budgeting will continue to be worked on.</p>	Management Team	Ongoing