

## Clackmannanshire Council

Annual Report to Members and the Controller of Audit

November 2011



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# 1 Introduction

## Scope

- 1.1 The Accounts Commission for Scotland appointed Grant Thornton UK LLP as auditors of Clackmannanshire Council (the Council) under the Local Government (Scotland) Act 1973 (the 1973 Act) for the period of 2006-07 to 2010-11. This is therefore the final year of our appointment. This document summarises our responsibilities as external auditors for the year ended 31 March 2011 and our approach to issues impacting the Council's activities in that year.
- 1.2 We carry out our audit in accordance with our statutory responsibilities under the 1973 Act and in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB) and the wider responsibilities embodied in Audit Scotland's Code of Audit Practice (the Code).

## Summary of findings

- 1.3 We planned and performed our 2010-11 audit in accordance with our Audit Plan issued in March 2011. The Code objectives and key findings arising from the audit are summarised in Exhibit 1 below.

### Exhibit 1 - Key findings from the 2010-11 audit

	Summary
<b>Financial position</b>	<ul style="list-style-type: none"> <li>The Council reported a surplus for the year of £46.1 million, and the general fund balance increased by £1.16 million.</li> <li>The General Fund balance as at 31 March 2011 was £9.129 million, with the un-earmarked balance at £5.505 million (2.95% of net operating expenditure), which is in line with the approved Finance Strategy.</li> <li>The Council's net worth increased by £46.1 million to £96.3 million as at 31 March 2011 mainly due to changes in assumptions for calculating pensions benefits.</li> <li>The Council's Budget Strategy and associated Invest to Save Fund are in place to prepare and plan for the impact of the financial climate.</li> </ul>
<b>Financial statements</b>	<ul style="list-style-type: none"> <li>During the year, the Council's Finance Team successfully implemented IFRS. This was a major change to the way that the financial statements are prepared and presented, and therefore represents a significant achievement. We issued an unqualified report on the Council's financial statements for the year to 31 March 2011.</li> <li>The Council's trading organisations also achieved their statutory target of breaking even over the three year period to 31 March 2011.</li> </ul>

	Summary
<b>Governance</b>	<ul style="list-style-type: none"> <li>• The Council's proposed governance strategy is innovative in Scotland and we believe builds well on the improvements that have already been made in recent years.</li> <li>• A Governance Improvement Plan is in place to support the move to a best practice Annual Governance Statement. Actions include supporting risk management development within services, and developing internal audit arrangements.</li> <li>• The Council's shared services with Stirling Council for education and social work services continue to develop. Each council has agreed appropriate management and governance structures for services to be shared and senior appointments have been made to key roles.</li> </ul>
<b>Performance</b>	<ul style="list-style-type: none"> <li>• The Council has extended the Clackmannanshire Improvement Model (CIM) and performance management system to its Community Planning Partners ensuring consistency of approach to performance improvement.</li> <li>• All services are currently undertaking a revised Public Sector Improvement Framework (PSIF) assessment, which will provide key data on the impact of the CIM in improving performance by March 2012. Strong progress has also been made in services achieving Customer Service Excellence accreditation.</li> <li>• Our review of performance information from the SOA and SPIs found that the Council's current performance is strong and largely improving across key services. The Council is performing well in equal opportunities, waste management and planning services.</li> <li>• During the year we reviewed the Council's arrangements to respond to Audit Scotland's national reports. We noted that while services are aware of the reports and make use of them to improve, there is no clear process to ensure that elected members are aware of the reports.</li> <li>• Our follow up reviews of national studies noted that Clackmannanshire continues to perform well in relation to strategic waste management, with the highest recycling rate of any Council in Scotland, and plans to improve. Procurement practices have also improved during the year and the Council falls within Scotland Excel's "conformance" banding.</li> </ul>

### **Acknowledgements**

- 1.4 We would like to take this opportunity to thank the staff who have been involved in the 2010-11 audit for their assistance and co-operation.
- 1.5 This report is part of a continuing dialogue between the Council and Grant Thornton and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Council's systems and work practices.
- 1.6 The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on it.

## 2 Financial position

### Comprehensive Income and Expenditure Account

- 2.1 The Council reported total net comprehensive income and expenditure for 2010-11 of £46.1 million (restated 2010 deficit: £62.3 million). The net cost of services was £89.1 million (2010: £143.2 million).

**Table 1: Financial results for 2011 and 2010**

	2011 £'000	2010 £'000
Net Cost of Services	89,133	143,260
Other operating income and expenditure	(812)	(360)
Financing and investment income and expenditure	11,813	13,101
Taxation and non-specific grant income	(121,674)	(121,224)
<b>Surplus on the provision of services</b>	<b>(21,540)</b>	<b>34,777</b>
Other comprehensive income and expenditure	(24,552)	27,485
<b>Total Comprehensive Income and Expenditure</b>	<b>(46,092)</b>	<b>62,262</b>

Source: Clackmannanshire Council 2010-11 financial statements

- 2.2 The main movements in the Comprehensive Income and Expenditure Account relate to pension movements resulting from two changes to the actuarial assumptions used to calculate the Council's liabilities in the Falkirk Pension Fund, and to an impairment exercise undertaken in 2010.
- 2.3 The first change has arisen as a result of the change in the index used to measure pension inflation from the Retail Price Index (RPI) to the Consumer Price Index (CPI). Although both indices measure the average change in the cost of a basket of retail goods and services, CPI is calculated using the geometric average whereas RPI is calculated using the arithmetic average. As such CPI is generally lower than RPI and by switching to CPI for measuring pension inflation, the value of pension liabilities is reduced. The impact of the change is that a past service gain of £21.246 million is recognised in the 2010-11 accounts and this has been credited to Non-Distributed Costs within Net Cost of Services.
- 2.4 The assumption for salary increases has also changed in 2010-11 to take into account the Government's public sector pay freeze for all but those earning less than £21,000 per annum. This change to the salary increase assumption has led to a reduction in the value of active members' liabilities in the year. This change to the salary increase assumption has led to a reduction in the value of active members' liabilities in the year. This has contributed to actuarial gains on the Council's share of the Fund of £24.5 million (2010: an actuarial loss was recorded of £54.9 million resulting from a change in the discount rate).

### Performance against budget

- 2.5 The Council reported a surplus of £0.65 million against budget (before the impact of audit adjustments), which represents both good financial management, and a significant improvement in budget forecasting throughout the year. The underspend primarily relates to higher than anticipated savings achieved through vacancy management. Other savings such as a reduction in rateable values, and energy costs, efficiencies made through waste management, and less expenditure on homelessness costs have been offset by additional foster care costs and additional spending on winter maintenance.

### Balance sheet

- 2.6 The total net worth of the Council at 31 March 2011 was £96.3 million (2010 restated: £50.2 million).

**Table 2: Balance sheet as at 31 March 2011 and 2010**

	31 March 2011 £'000	31 March 2010 £'000
Long term assets	314,125	324,991
Current assets	44,082	30,669
Current liabilities	(22,532)	(21,690)
Long term liabilities	(239,347)	(283,734)
<b>Total assets less liabilities</b>	<b>96,328</b>	<b>50,236</b>
Unusable reserves	82,833	36,563
Usable reserves	13,495	13,673
<b>Total reserves</b>	<b>96,328</b>	<b>50,236</b>

Source: Clackmannanshire Council 2010-11 financial statements

- 2.7 The movement in net worth reflects the significant fall in the Council's share of pension liabilities in the Falkirk Pension Fund. The pension liability within the Balance Sheet was reduced from £105 million to £61.6 million as a result of changes outlined in sections 2.3 and 2.4.

### General Fund

- 2.8 For the year ending 31 March 2011, the Council had a total general fund reserve balance of £9.129 million, of which £5.505 million was earmarked for specific purposes, leaving £3.624 million available for new expenditure or to meet the costs of contingencies and unforeseen events. Table 3 below provides a breakdown of general fund balances at 31 March 2011.

**Table 3: General Fund balances as at 31 March 2011 and 2010**

	31 March 2011 £'000	31 March 2010 £'000
Secondary Schools PPP	2,613	1,656
Service Improvement Contracts	1,005	815
Implementation of Single Status	943	1,769
Modernising Government	164	164
Zero Waste Fund	134	134
Adult Care carry forward scheme	370	59
Public Sector Housing/Homeless	50	-
Homeless Assessment Centre	120	160
Pre Fives	106	-
Devolved management within schools		235
<b>Earmarked</b>	<b>5,505</b>	<b>4,992</b>
<b>Unearmarked</b>	<b>3,624</b>	<b>2,974</b>
<b>Total General Fund</b>	<b>9,129</b>	<b>7,966</b>

Source: Clackmannanshire Council 2010-11 financial statements

- 2.9 The unearmarked proportion of the general fund at 31 March 2011 is 2.95% of the Council's budgeted net expenditure for 2011-12, which is in accordance with the Council's Financial Strategy. The Council's reserves have been increasing over recent years in reflecting the Council's greater focus on improving financial management. It is essential that the Council maintains sufficient reserves to enable it to minimise the impact on front line services and to enable it to respond flexibly and effectively to financial pressures emerging from the recent Comprehensive Spending Review.

### Trading accounts

- 2.10 The Council maintains two trading accounts: Property Contracts and Environmental and Engineering. Section 10 of the Local Government in Scotland Act 2003 requires that local authorities' significant trading organisations break even over a three year rolling period. Figure 1 below highlights the performance of the Council's two trading accounts over the three year period.

**Figure 1: Surpluses achieved by the Council's Significant Trading Organisations**



Source: Clackmannanshire Council Annual Accounts 2010-11

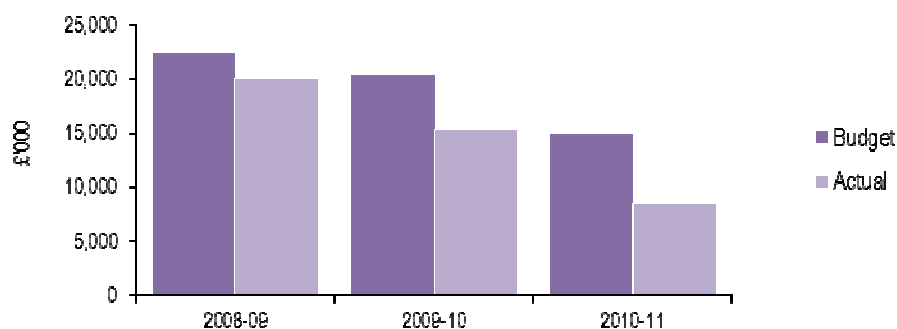
- 2.11 Under the terms of the Act, the identification of significant trading operations is the responsibility of individual authorities, but we noted in our 2009-10 report that the Council had not reviewed these arrangements for some time. The Council has recently commenced a review of the status of each of the STOs by applying a number of tests to determine the trading status of each activity and its level of significance. During 2011, the Council has also reviewed the performance of the STOs to ensure that they remain competitive. Benchmarking information from APSE has been used to confirm that costs are in line with comparators. We also note that surpluses are reallocated to services in line with the proportion of charges levied.

### Capital expenditure

- 2.12 During 2010-11, the Council reported significant underspends against both the Housing and General Services capital budgets. This continues the trend of underspends against the Council's capital budget in recent years (refer to Figure 2). Total capital expenditure in the year was £8.5 million versus a budget of £15 million, an underspend of £6.5 million (over 43%).

- 2.13 Table 4 below highlights capital expenditure by funding source versus budget, and the budget position for 2011-12 financial year.

**Figure 2: Capital budget underspends**



Source: Clackmannanshire Council Capital Programme

- 2.14 A significant proportion of the work planned for 2010-11 has been carried forward to the 2011-12 programme as a result of timing or slippage of projects. Other projects within the capital programme have been amended, for example the vehicle replacement policy has been revised to replace vehicles less frequently following a review by the Head of Facilities Management. This programme was therefore £1m underspent in 2010-11.
- 2.15 The key areas of underspend in the Housing capital programme are in the replacement bathroom programme (£2.1m) and other areas such as the external walls and kitchen programme. These projects have a direct impact on the Council's ability to meet the Scottish Housing Quality Standard. We do, however, note that SPI data places the Council as 3rd most advanced in bringing its housing stock to the SHQS standard. In 2010-11, 84.5% of the Council's houses met the standard, compared to a national average of 53.6%.
- 2.16 The Council's Budget Strategy places a strong focus on the capital programme. As a result, a cross-party Capital Investment Forum has been established to begin work on a Corporate Asset Management Plan. The Forum includes representation from Finance, Facilities Management and the Strategy and Performance Team to ensure co-ordination across strategies and services. Initially, the members will review the existing capital programme to agree priorities for the short and medium term, in advance of the 2012-12 budget.

### Three Schools PPP Scheme

- 2.17 The most significant area of expenditure for the Council is the Three Schools PPP Scheme. The original financial model supporting the Council's investment in the Scheme incorporated a number of assumption which have not been borne out since the agreement was signed. For example, the model assumed the cost of the Schools would be partly funded by increases in council tax and also assumed an inflation rate of 2.5%. The current government's policy of freezing council tax has prevented the Council from using that funding stream to fund the PPP Scheme and inflation in the economy is currently exceeding 5% resulting in a higher cost to the Council than anticipated at the outset.
- 2.18 During 2011, the Council therefore reviewed and remodelled its funding plan for the PPP Scheme. The financial model has been revised to a straight repayment basis with a plan to meet the projected funding gap by setting aside future capital receipts to fund future payments.



- 2.19 In 2010-11 the Council transferred £1.470m from the capital receipts reserve to the General Fund for this purpose. The set aside element of reserves for the PPP project (see Table 3) is now £2.613m. PPP costs are therefore fully covered for the next two years without any additional budgetary increase required. Thereafter, current estimates are that £14.4 million will be required over the 7 years from 2013-14 to 2019-20, for which the Council will rely upon achieving capital receipts.
- 2.20 The Council has recently approved the Property Asset Management Plan 2011-15, which includes proposals to rationalise the Council Office accommodation. Other improvements in asset management include partnership working with Alliance partners to review accommodation requirements for the public sector across the area. A risk does, however, remain, that in the current economic climate the Council may not achieve the level of capital receipts required to fully meet the project funding gap for the PPP Scheme. Funding plans will therefore remain a focus for scrutiny in the future.

### **Treasury management**

- 2.21 Local authority capital expenditure and borrowing is regulated by the Prudential Code which requires councils to ensure capital plans are affordable, borrowing is prudent and sustainable, and treasury management arrangements reflect good practice. The Council approved a set of prudential indicators for 2010-11 and managed capital expenditure within these approved limits.
- 2.22 The Council was one of only 4 in Scotland in 2010-11 to reduce their level of net borrowing, principally as a result of underspends in the capital programme, and reflecting the implementation of the Investment Strategy approved in December 2010. The Council has plans to proactively seek to further reduce debt in 2011-12 by exploring opportunities for debt rescheduling and early repayments.

### **Future financial position**

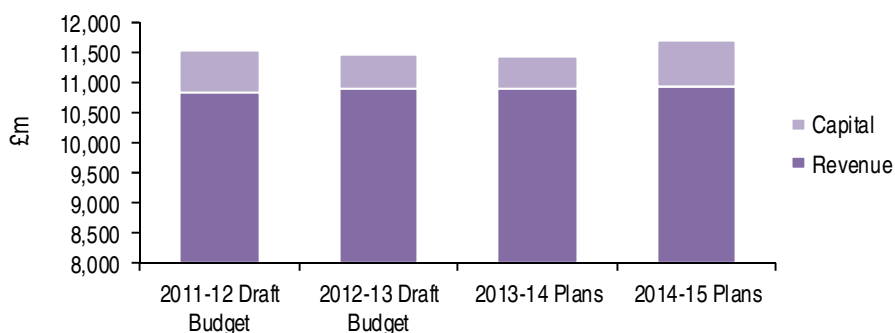
- 2.23 The Scottish public sector continues to face a period of sustained financial austerity. The initial reduction in the Council's budget settlement for 2011-12 was £7 million (2.6%), which is in line with the national average of 2.59%, and slightly less than the Council had planned for.
- 2.24 The Council faces significant budget cuts in line with the rest of the local authority sector public sector more widely. We have reviewed the Council's financial projections and its plans to ensure it can continue to deliver services in light of significant budget cuts.
- 2.25 The Council approved a Budget Strategy in August 2010 to prepare for the impact of expected reductions in future funding. The Budget Strategy is based on:
- reducing expenditure
  - increasing income
  - redesigning service provision
  - other initiatives such as procurement and integrated partnerships.
- 2.26 During the year, the Council has taken steps to implement each part of its strategy. Savings of over £6 million were identified during the budget setting process following challenge at 'star chamber' events. Significant steps have also been taken to improve the recoverability of debts due to the Council. A review of the Council's approach to debt management led to a number of write offs of old debts during the year, but also evidenced significant improvements in debt collection rates. Further improvements planned include greater use of the Sherriff office for debt recovery, joint working across services to co-ordinate debt recovery and improving payment methods available to customers.

2.27 The strategy has also enabled the Council to set aside £1m of unarmarked reserves to be used as an Invest to Save fund. The Council has budgeted £500k for this purpose in 2011-12, and a further £500k in 2012-13. Four applications for invest to save schemes have been approved by the Management Team to date, resulting in an investment of £220k. The Council estimates that these projects will save £1.2m over the next 4 years.

**Local government settlement in the Spending Review**

2.28 The Spending Review announced by Cabinet Secretary for Finance and Sustainable Growth to the Scottish Parliament on 21 September 2011 allocates a total funding package amounting to £11.5 billion to local government. Figure 3 below highlights the 2011-12 allocations and plans for expenditure levels in subsequent years.

**Figure 3: Scottish Local Government Allocations**



Source: Scottish Government Spending Review, September 2011

2.29 As in prior years, the level of spend available to local authorities will be dependent on agreeing a council tax freeze for the fifth consecutive year. The Review also announced the Scottish Government's commitments to maintain police and teacher numbers in Scotland.

2.30 The Council will be reviewing the impact of the spending review on its forecast of future revenue support grant funding, and individual council allocations will be known in December 2011.

## 3 Financial statements audit

### Introduction

- 3.1 We have audited the Council's 2010-11 accounts in accordance with our Audit Plan issued in February 2011. The key messages arising from our financial statements audit are contained in our Report on the 2010-11 Accounts Audit, issued on 21 September 2011, and summarised below.

### Audit opinion

- 3.2 We gave an unqualified opinion on the Council's 2010-11 financial statements on 30 September 2011.
- 3.3 During 2010-11, the Council prepared the financial statements under the International Financial Reporting Standards for the first time. This was a major change to the way that the financial statements are prepared and presented, and relatively minor level of audit adjustments therefore represents a significant achievement. The audit adjustments identified include:
- corrections to accounting entries relating to the sale of fixed assets
  - a requirement to recognise the police capital grant as income, with an equivalent amount of expenditure
  - two adjustments relating to accruals.
  - an accounting adjustment to the carrying value of market loans.
- 3.4 There were two unadjusted misstatement, which were immaterial in value but which management will review in preparation for the 2011-12 accounts.

### Significant accounting issues

#### Implementation of IFRS

- 3.5 Local authorities are required to comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). From 2010/11 this Code is based on International Financial Reporting Standards (IFRS) rather than a UK GAAP based Statement of Recommended Practice (SORP). The Code requires a restated balance sheet at 1 April 2009, restated 2009/10 accounts and full published IFRS accounts for 2010/11. During the year, we performed an arrangements review to provide feedback on the Council's approach to restatement with detailed work on the restated figures taking place during the 2010/11 final accounts audit.
- 3.6 We reviewed the arrangements for implementation of International Financial Reporting Standards (IFRS) during our interim visit. Overall we found that the Council had made good progress in the transition to IFRS, by creating an IFRS working group with representation from across services. Although initial timescales were not met, the accounts were produced in time and we identified relatively minor adjustments, mainly relating to reclassifications and transposition errors.

### **Remuneration Report**

- 3.7 During the year, Scottish Ministers approved an amendment to the Local Authority Accounts (Scotland) Regulations 1985 to publish a remuneration report as part of their annual accounts. The report is similar to that produced for listed companies and public sector bodies that report under the Government Financial Reporting Manual.
- 3.8 The amendments to the Regulations require the Council to disclose:
- remuneration policies for senior members and senior officers
  - remuneration paid to senior members and senior officers for 2009-10 and 2010-11
  - pension benefits including pension contributions paid by the Council and the value of accrued pension benefits at the balance sheet date
  - information of the number of employees earning in excess of £50,000 per year.
- 3.9 Clackmannanshire Council chose to present the Remuneration Report before the core financial statements in the Statement of Accounts. We believe that this represents open and honest reporting, reflecting the spirit of the Regulations. In future years, Councils will also be required to disclose summary information in relation to exit packages, including compulsory and voluntary redundancy costs, ex-gratia payments and other departure costs.

### **Equal pay claims**

- 3.10 In 1999, local authorities in Scotland agreed that a new pay and grading system would be introduced (single status), which would ensure equality in pay structures across employee grades. The Council implemented its new pay and grading model in March 2009.
- 3.11 Under the Equal Pay Act 1970, employees are entitled to make claims for equal pay settlements for a period up to six years. As at 31 March 2011, the Council recognised a provision of £2.778m relating to the claims received, with a contingent liability for any further claims that may be received.
- 3.12 Towards the end of the financial year, the Council made significant progress in settling residual equal pay claims. Payments totalling £856k were made by a transfer from the existing equal pay provision.

### **Group accounts**

- 3.13 The Council's group accounts consolidate the following bodies:
- Central Scotland Police Joint Board
  - Central Scotland Fire and Rescue Joint Board
  - Central Scotland Valuation Joint Board
  - Forth Valley GIS Limited
  - CSBP Clackmannanshire Investments Limited
  - CSBP Clackmannanshire Developments Limited.
- 3.14 The net worth of the Group is a surplus of £18.6 million compared to the Council's individual net worth of £96.9 million. The difference reflects the Council's share of deficits in the pension schemes of the Central Scotland Police Joint Board and the Central Scotland Fire and Rescue Joint Board, both of which are unfunded schemes. The schemes are effectively underwritten by the Scottish Government from funding provided to local authorities.
- 3.15 In September 2011, the Cabinet Secretary for Justice announced plans to establish a single police force and a single fire brigade for Scotland. It is anticipated that single forces will be established

from April 2013. The creation of single police and fire services will be a significant change in how such services are provided and lead to a fundamental change in the group structure of the Council when implemented.

## 4 Governance

### Introduction

- 4.1 In accordance with our 2010-11 Audit Plan we have reviewed key aspects of the Council's governance arrangements.

### Governance Strategy

- 4.2 We noted in our 2009-10 audit that the Council was one of only four in Scotland to continue to prepare a Statement on the System of Internal Financial Control, rather than a more advanced Statement of Internal Control, or best practice Annual Governance Statement. In March 2011, the Council appointed a Governance Manager to lead and develop its approach to improving governance arrangements. Since then, substantial steps have been made to improve governance in a way that is tailored to the needs of the Council, and builds on the approach within the Clackmannanshire Improvement Model to drive continuous improvement.
- 4.3 The Council's draft Governance Strategy aims to ensure that strategies, processes and people are aligned to secure the best possible outcomes for Clackmannanshire. The Strategy sets out a number of key areas necessary to develop and maintain an effective governance framework. Those highlighted include:
- a programme of consultation with elected members and staff to build awareness of the purpose and impact of good governance
  - the development of a Local Code of Governance, and
  - the creation of a Governance Panel to evaluate assurances provided by individual services.
- 4.4 The Governance Panel will adopt the same 'star chamber' approach that has been used successfully to improve the quality of budget forecasting and monitoring. The Panel will be made up of officers of sufficient experience and seniority to be able to challenge service management teams effectively. This approach therefore acts as an internal quality assurance framework to challenge the robustness of assurance reports presented to the Scrutiny Committee. We view this approach as pioneering within local government in Scotland.
- 4.5 We would, however, highlight two key risks to the success of the Strategy. The first is the level of risk maturity within services. Corporate measures to improve risk management, such as the implementation of Covalent and business planning processes must be fully understood and embedded at service level. Secondly, the Council has acknowledged that internal audit arrangements must be strengthened. A strong and effective internal audit service will support the implementation of the Strategy, and ultimately the Annual Governance Statement. We therefore support the Council's internal audit options appraisal process but would recommend that expertise and the ability to challenge governance arrangements effectively forms part of the assessment.

### Statement of Internal Control

- 4.6 The Council's 2010-11 financial statements include a Statement of Internal Control, rather than Statement on the System of Internal Financial Controls for the first time. The statement outlines the key elements of the Council's internal control environment, including the strategic framework outlined within the Single Outcome Agreement, the revised and updated Scheme of Delegation

and the Clackmannanshire Improvement Model. Key improvements within the year such as the self-assessment against the Code of Good Governance, and the review of the role and remit of the Scrutiny Committee are also highlighted.

- 4.7 The Statement acknowledges that more needs to be done to embed risk management arrangements, and explains that a Governance Improvement Plan is in place to address weaknesses highlighted during their review. We do, however, note that the Statement does not explicitly refer to weaknesses in internal audit arrangements.

### **Scrutiny Committee**

- 4.8 During 2010-11, the Council's Scrutiny Committee conducted a review of its own effectiveness to help develop and improve the culture of constructive challenge across the Council. The review drew on interviews with elected members and key officers, a review of the Council's scheme of delegation, and the training needs assessments for individual committee members.
- 4.9 An improvement plan has been developed to address the key findings of the review. We noted two key improvements to arrangements to date. Firstly, the Committee's forward planning arrangements have been revised to ensure that agendas are appropriate and relevant. The Committee has also undertaken two scrutiny reviews to date, on Employment and Financial Resilience. These reviews allow the Committee to consider prioritised, cross-cutting issues that aim to help the Council to achieve its strategic objectives.

### **Internal audit**

- 4.10 We reported ongoing concerns about the Council's internal audit arrangements in our interim report to management. The report highlighted two main concerns, around audit independence, following the Audit Manager's appointment as Revenue and Payments Manager, but her ongoing role in reviewing and approving final audit reports. We also have a number of concerns about the level of staffing resources available to internal audit.
- 4.11 In October 2011, as a result of resourcing difficulties, the Scrutiny Committee agreed to the reprioritising of the internal audit plan. As a result, six of the reviews planned to be undertaken in 2010-11 were deferred to the following year. We do, however, note that a further three audits were not started at the end of the financial year.
- 4.12 An options appraisal on the internal audit service is underway to ensure that a long term strategy is in place to protect the independence of internal audit and ensure that sufficient resource and experience is available to fulfil the audit plan. The review must consider the Council's developing internal audit requirements to support the Governance Strategy and move to an Annual Governance Statement.

### **Shared Services**

- 4.13 The Council's shared service for Education and Social Work continues to develop and evolve. Each service has a management structure in place and appointments are being made to the roles. We highlighted in our interim management report that such innovative arrangements bring operational risks as organisational changes are implemented.
- 4.14 The Chief Executives of the two Councils are jointly accountable for the services to a Joint Steering Group for the new arrangements. The Steering Group meets monthly and comprises of the Leaders of the two Councils along with Depute Leaders and the two main Opposition Leaders. They report separately to their Councils. Management meet monthly at a Joint Programme Board chaired jointly by the Chief Executives, with senior managers from both Councils and representation from the Trades Unions. The Councils have also approved a joint

Scheme of Delegation that legally gives the Heads the authority to direct services in both Councils.

- 4.15 The Steering Group is charged with ensuring that effective risk management arrangements are in place to mitigate the impact of change. We noted that whilst a risk register is in place, there is scope to improve the overall risk management arrangements. For example, a risk map would help the Programme Board to identify a more comprehensive assessment of risks associated with the project, and therefore where mitigating measures have reduced the risk. We do, however, understand that governance arrangements are subject to a more comprehensive review as part of an overall 'taking stock' review.
- 4.16 The Programme Board recognised during the year that there was scope to consider what the Councils still want to achieve, and what has been achieved to date to allow lessons to be learned for the next phase of the project. An improvement plan will be developed to take forward the key findings, which centre around clarifying the purpose of the shared services, the governance arrangements supporting the services, and improving communications. A Programme Manager will shortly be appointed to manage the change process, and to embed the lessons learned within the improvement plan.

### **Core Financial Systems**

- 4.17 During the year we reviewed the effectiveness of the Council's core financial systems and financial management and budgetary control arrangements.
- 4.18 Our overall conclusion is that the core financial systems continue to operate effectively, however we identified two medium risk issues in our financial statements audit:
- reconciliations to the financial ledger do not appear to be performed on a regular basis for the payroll and council tax sub-systems
  - the bad debt provision methodology should be reviewed on an annual basis, including a review of significant individual debtors for impairment.
- 4.19 We reviewed the Council's progress in implementing agreed recommendations to improve financial planning and budgetary control arrangements. We found that the budget challenge days and 'star chamber' approach to budgeting have significantly improved budget monitoring and forecasting. The Scrutiny Committee's planned review of the financial resilience of the Council will provide further assurance.

### **The National Fraud Initiative**

- 4.20 The National Fraud Initiative (NFI) is a nationwide data matching exercise run jointly by Audit Scotland and the Audit Commission. The Council's internal auditors continue to process the matches that have been identified during the exercise. We are due to complete a summary review of the Council's participation in the NFI scheme for Audit Scotland. A national report on the process in Scotland is due to be published in 2012.



## 5 Performance

### Introduction

5.1 In accordance with our Audit Approach Memorandum and the Assurance and Improvement Plan, we continue to review the Council's arrangements for delivering Best Value and reporting on performance. The Local Government in Scotland Act 2003 established Best Value as a statutory requirement for all councils. The Act defines Best Value as 'continuous improvement in the performance of the authority's functions'. The objective of Best Value is to ensure that councils deliver better and more responsive public services by:

- balancing the quality of services with cost
- continuously improving the services provided
- being accountable and transparent, by listening and responding to the local community
- achieving sustainable development in how the council operates
- ensuring equal opportunities in the delivery of services.

### Assurance and Improvement Plan

5.2 Under the National Scrutiny Plan for Local Government 2010-11, Scotland's scrutiny agencies work together to develop a shared risk assessment and AIP for each council area. As part of our 2010-11 audit, we have followed up the progress made by the Council, both in addressing the improvement agenda and against specific areas of risk or uncertainty identified by scrutiny partners.

5.3 The Council's Local Area Network (LAN) published an updated Shared Risk Assessment and Assurance and Improvement Plan in April 2011. The scrutiny partners agreed that Clackmannanshire Council has a number of areas of strong performance, and there are no significant concerns about performance overall. The LAN pointed to the strong leadership, clear vision for the area and Clackmannanshire Improvement Model as key strengths.

### Managing Performance

5.4 One of the key sources of information for the LAN is the Council's approach to performance management and self-evaluation. The Clackmannanshire Improvement Model adopts the Public Service Improvement Framework (PSIF) approach to self-evaluation and continuous improvement, but all services are also expected to work towards the Customer Service Excellence framework and Investors in People. Initial reviews to provide a baseline of performance across the Council were completed for all service areas by March 2010. Since then services have been progressing with tailored action plans. The next programme of self-assessments is underway, and scheduled to be completed by March 2012. This will provide useful information on the level of progress achieved across services.

5.5 The Council validates the self-assessment scores by submitting the corporate score to the 2011 Scottish Awards for Business Excellence. In 2009-10, the Council's Business Improvement and Technology Service was recognised for excellence in the same awards. This provides the Council with assurance that the scores arising from the self-assessments are broadly consistent with other bodies, and findings are therefore realistic.

- 5.6 The Council has adopted a managed approach to improvement action plans, with individuals responsible for co-ordinating themes, such as progress towards Customer Service Excellence. The implementation of the Covalent performance management system, with mandatory performance indicators is also helping to drive consistency across services. The Council can point to a number of successes, for example a number of services achieved CSE accreditation during the year. We were also pleased to note that the Care Inspectorate reported that the CIM is leading to a thorough approach to performance management, and to developing quality assurance processes within Social Services, in their recent Scrutiny Report (October 2011).

### **Single Outcome Agreement**

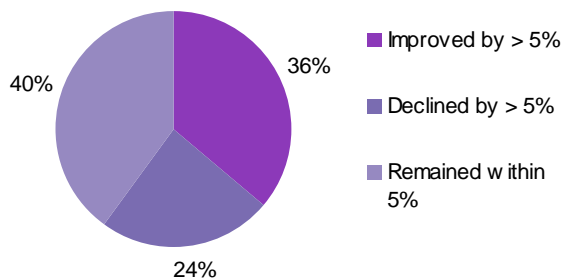
- 5.7 Single Outcome Agreements (SOAs) are the main mechanism in place to align and report on public sector activity with national priorities. The shared risk assessment and BV2 processes draw upon evidence contained within SOAs in order to consider outcomes more widely, as planning for and managing the delivery of outcomes should be central to all aspects of the council's activity.
- 5.8 Successful delivery of SOAs depends on the degree to which they are supported by effective planning, budgeting and performance management arrangements at service-level, within councils and across partner agencies. We noted that during the year, the Council extended the CIM to the Clackmannanshire Alliance, the Community Planning Partnership (CPP). Alliance Partners will also be able to use the Covalent performance management system to help co-ordinate and populate performance and risk information as efficiently as possible.
- 5.9 The Partners' Community Plan set the priorities and vision for the Clackmannanshire area. Key priorities within the Community Plan are translated into outcome indicators within the SOA. The SOA Progress Report for 2010-11 outlines a number of areas of success. Of the 77 measures that are in the SOA for which data is available, performance has improved in 46 (60%) of cases, and performance has been maintained in a further 10 (13%). Successes in the year include the development of the Alliance's Employability Strategy and Framework for Action. The SOA reports that the latest employment figures at the highest annual levels since 2004 (at 76.1%). However, the unemployment claimant count continued to rise, and the Future Jobs Fund programme finished in December 2010, which may have an impact on figures in 2011-12. The Alliance also reported improvements in overall educational attainment and in school leavers destinations.
- 5.10 Areas for improvement include the effects of substance misuse. Alcohol related road collisions and driving incidents increased during the year, and the number of referrals to the children's reporter on the grounds of misuse of alcohol or drugs also increased. Perceptions of sport and leisure facilities have also fallen for the third consecutive year, although we noticed that attendance at indoor sports facilities improved during the year.

### **Statutory Performance Indicators**

- 5.11 One of the key ways that members of the public can measure council performance is through the statutory performance indicators (SPIs). In 2009/10, the Accounts Commission made a significant change to the SPI direction. The 2008 direction, which was introduced in 2009/10, has been retained for 2010/11. This direction requires that councils report:
- a range of sufficient information to demonstrate best value in relation to corporate management (SPI 1)
  - a range of information sufficient to demonstrate best value in relation to service performance (SPI 2).

- 5.12 In reporting against SPI 1 and SPI 2 above, all councils are required to report performance against 25 specified indicators, as defined in the 2008 direction. In addition, councils must select a range of non-specified indicators to demonstrate best value and compliance with the 2008 direction.
- 5.13 The Council's Public Performance Reporting Framework recognises that it must meet the requirements of the Direction, but also the needs of users of the data. Following feedback from the Clacks 1000 survey group, the Council therefore try to produce most performance information in a newspaper style using 'The View'. The View is sent to every household in Clackmannanshire on a quarterly basis. Performance information is published in themes reflecting Council priorities, and include a range of comparators and trend information. We believe that these tailored reports, along with the performance reports and range of information on the Council's website, is sufficient to demonstrate that the Council has met the requirements of SPI 1 and SPI 2.
- 5.14 Our review of SPI data submitted to Audit Scotland found that performance was maintained or improved for over three-quarters of the specified indicators. Clackmannanshire Council has the highest performance of any Scottish Council in two indicators. Firstly, the Council has the highest percentage of female employees in the top 2% of earners. Secondly, the Council has maintained its position as the highest level of recycling.

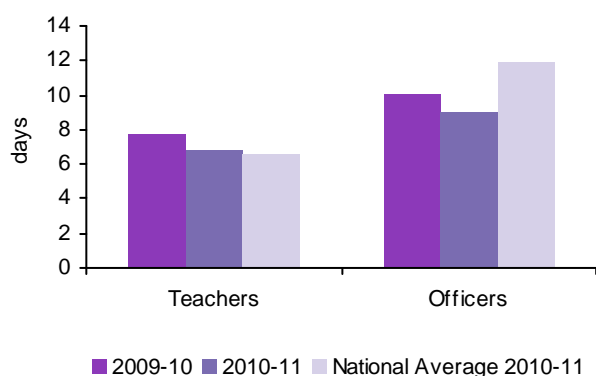
**Figure 2: Overall performance against specified performance indicators**



Source: Clackmannanshire Council Statutory Performance Indicators 2010-11

- 5.15 The Council's development services also perform well nationally. The planning service has the 2<sup>nd</sup> highest performance for the percentage of planning applications dealt with within 2 months for both householders (at 94.3%) and non-householder (82.8%) applications.
- 5.16 Figure 4 highlights that the Council's sickness absence rates continue to fall, and are now below the national average.

**Figure 4: Sickness absence rates are improving**



Source: Audit Scotland Statutory Performance Indicators 2010-11

- 5.17 The robustness of data is critical for all models of self-evaluation, which Council's and their scrutiny partners rely on. We were therefore pleased to note that the Council has plans to train Business Improvement and Technology staff to provide internal quality auditing. This will support the use and development of the Covalent performance management system.

### **National Studies**

- 5.18 Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports published in the last year with a direct impact on the council include:
- How council's work: roles and working relationships: are you getting it right?
  - Improving energy efficiency: a follow up report
  - Getting it right for children in residential care
  - Physical recreation services in local government.
- 5.19 Audit Scotland ask us to ensure that local government bodies review the national studies relevant to them and action them accordingly. We review whether the council has considered the national report at a council committee and whether the council has carried out a self-assessment against the national report and plans to take forward any improvements.
- 5.20 At Clackmannanshire Council, individual reports are circulated to relevant departments, but there is no consistent approach to ensuring that elected members or the Scrutiny Committee are aware of the reports. We would therefore recommend that a summary of national reports is prepared on a regular basis and circulated for information. This would allow Scrutiny Committee members to ask for further work to be done, or for copies of the full reports.

### **Public Sector Purchasing**

- 5.21 During the year, we also followed up the Council's progress against specified Audit Scotland's national performance reports. Audit Scotland's report *Improving public sector purchasing* was published in July 2009. The report examined the progress and impact of the Public Procurement Reform Programme, which was introduced in 2006. This programme aimed to make significant improvement in public sector purchasing practice and make substantial savings. The report found that the public sector in Scotland was improving its purchasing and making some savings, although there was uncertainty about how future savings would be made, measured and reported.

Overall, the report highlighted that there was potential for the public sector to buy goods and services more efficiently and deliver more significant savings through increased collaboration and better management.

- 5.22 The results of Scotland Excel's Procurement Capability Assessment show that the Council's performance has significantly improved over the last year, and the Council is now within the 'conformance' banding. During the year, we found that the Council's corporate approach to Procurement has been strengthened with the approval of the Procurement Strategy and Procurement Improvement Plan. The Procurement Manager has produced a corporate procurement healthcheck, which will be produced annually in the future.

### **Strategic Waste Management**

- 5.23 In September 2007, Audit Scotland published a report on *Sustainable Waste Management*. Collecting household waste is a vital and universal council service. The aim of the study was to review the work of councils, SEPA and the Scottish Government in reducing the amount of waste being sent to landfill. The aim of this follow up work was therefore to assess what steps Scottish Councils have taken, or still need to take, to ensure that they will be able to meet future EU and Scottish Government targets.
- 5.24 We noted that the Council continues to implement the Forth Valley Strategic Outline case for waste management, based on the best practical environmental option calculated at the time of the Forth Valley Area Waste Plan. A revised Waste Management Strategy is currently being developed in partnership with Stirling and Falkirk Councils, with the assistance of Zero Waste Scotland. This will allow the Council to respond to changes in regulation as required, such as the potential imposition of food waste collection.
- 5.25 Overall, however, Clackmannanshire Council has been Scotland's top performer in Audit Scotland's recycling statutory performance indicators for a number of years. The Council has achieved 48.9% of municipal waste recycled, in 2010-11, a further improvement from 2009-10 when at 46.7%. The national average for Scottish local authorities in 2010-11 was 38.2%.

## 6 Looking Forward

- 6.1 Scottish public spending will continue to reduce significantly over the next four years to 2014-15, with capital budgets facing the largest reductions. The demand for public services is increasing, and this is likely to continue in the future. An ageing population, the effects of the recession and heightened expectations of the public all increase the demand for public services. This places an additional pressure on Councils to provide efficient and quality services at a time when budgets are already stretched and reducing. This means that all public bodies, including the Council, may find it difficult to continue to deliver the current level of services to citizens and continue to achieve efficiency savings in future years.
- 6.2 The Council faces an added challenge to meet the projected funding gap (estimated at around £15 million by the 2019-20 financial year) for its Three Schools PPP Scheme. At the time this scheme was approved inflation was expected to remain at 2.5% and increasing council tax to meet the costs of the scheme remained a policy option. The viability of the Council's current plan to use capital receipts to meet the projected funding gap is subject to a number of risks including the availability of assets for disposal and the state of the market for capital assets which is currently depressed. It will be important for the Council to keep its funding strategy for the PPP Scheme under review.
- 6.3 Audit Scotland's recent report, *Scotland's public finances: addressing the challenges*, suggests that good workforce planning and a better understanding of costs will be critical to help Councils deliver a balanced budget. We believe that the Clackmannanshire Improvement Model and inter-linked strategies such as the Budget Strategy, Investment Strategy, Governance Strategy and Asset Management Plans mean that the Council is well-placed to respond to the challenges. As part of the CIM, all services are developing efficiency indicators to help the Council understand its costs relative to other providers and authorities. The revised assessments, and support for the performance management information system will be key for the development of the Council over the next few years.
- 6.4 The Council's approach to sharing resources with Stirling Council aims to improve outcomes in the education and social care services, but it also has significant potential to deliver cost savings and is an example of the Council's willingness to work in partnership and be innovative in its approach to future service delivery. The governance and financial arrangements associated with these new arrangements are in their infancy, but may require a further review to ensure they remain fit for purpose following a suitable interval.
- 6.5 Local government elections are due to take place in May 2012 and have the potential to change the political dynamic of the Council. This presents a good opportunity for the Council to review its political management arrangements and ensure they continue to effectively meet the needs of the Council.

6.6 A number of initiatives and policy changes will also impact the future direction of the Council:

- Implementation of the Christie Commission report on the Future Delivery of Public Services in Scotland, including a focus on more preventative spending.
- Efforts to increase collaboration and shared services amongst local authorities in Scotland, although many council's will be looking to the Clackmannanshire and Stirling Council's Shared Service Model.
- Reforms to the provision of housing and council tax benefit arising from UK government policy and the Welfare Reform Bill 2011.
- Changes to Non Domestic Rates charges in Scotland, which could see an increase in this tax.

6.7 The Council is alert to all of these issues and has implemented a range of significant improvements in recent years covering its corporate working arrangements, financial management arrangements and performance management framework. These changes have improved the Council's ability and capacity to meet the challenges of the future and placed it in a good position to meet new challenges effectively. We wish the Council every success as it takes forward this exciting new agenda.



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