Fife Council

Annual report on the 2011/12 audit

Audit Scotland

Prepared for Members of Fife Council and the Controller of Audit

October 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Key messages

2011/12 audit findings

We have given an unqualified opinion on the financial statements of Fife Council and its group for 2011/12.

Revenue and capital budgets are regularly monitored and reported over the year and this results in re-profiling of the budgets, as additional funding is made available or greater precision/clarity is achieved in determining carried forward balances for use in the current year. This process saw the approved net revenue budget for 2011/12 increase from £785.7 million to £799 million and the approved capital budget from £179 million to £188 million.

The general fund recorded a net surplus for 2011/12 of £16.9 million, increasing the balance to £62.5 million as at 31 March 2012. This balance includes earmarked and committed balances of £14.9 million leaving an unallocated general fund balance of £47.6 million which equates to 6% of the net revenue budget and as such, is above the council's target balance of 2%.

The council is continuing its financial strategy of building up balances to provide a sustainable level in anticipation of reduced funding levels and increased financial pressures. The most recent 2012/13 budget monitoring report as at September 2012 projects an underspend of £15.9 million against a budgeted surplus of £10 million to further bolster the general fund balance.

The Executive Director Finance and Resources has reported that balances remain under pressure given the potential costs of future workforce change, equal pay, financial uncertainties and other pressures. Although useable reserves are increasing and provide a sound financial position, the council's ratio of useable reserves to net revenue expenditure is one of the lowest in Scotland, a position which supports his view.

Capital expenditure actually incurred in 2011/12 was £172.5 million. This sum was £15.4 million below the revised budgeted amount of £187.9 million. This underspend resulted from slippage of £27.9 million, offset by programme overspends of £4.0 million and expenditure advanced from 2012/13 of £8.5 million. Despite the overall underspend, the council incurred its largest ever level of capital expenditure reporting a 20% increase on the 2010/11 level. This increased spending level resulted from a re-assessment of the council's capital investment plan which set out an estimated £1 billion of capital spend over the ten year period to 2021, with 66% of the programme front-loaded to the first four years.

The council has a Corporate Improvement Plan in place which seeks to deliver significant savings to meet the gap caused by reduced funding and increasing costs, while at the same time modernise the services provided by the council. The Corporate Improvement Plan is underpinned by a workforce reduction programme which is incurring short term costs with the intention of securing long term savings.

Following the May 2012 elections, the council now has a minority Scottish Labour Party administration. A change in administration inevitably leads to a change of direction by the council which will have different priorities and objectives. Work is ongoing on the production of the Council Plan 2012-17 based on the council's key corporate objectives and priorities. Since the elections the new administration has also revised the committee governance structure within the council. It is important that members and officers work together to achieve the best outcomes for the people of Fife.

Overall the council's corporate governance arrangements in 2011/12 were soundly based and operated effectively. No material weaknesses in the accounting and internal control systems were identified during the audit, which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

The council was last subject to a best value audit in 2009 which concluded that the council had many of the building blocks in place for achieving best value. At that time the council had the Fife Excellence Model (FEM) in place, a self-evaluation model based on the Improvement Service's Public Service Improvement Framework. However this was placed on hold in 2010/11 as a result of the significant organisational change within the council. The Council Management Team has recently agreed to re-instate the use of the FEM during 2012/13.

Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2013/14 to 2015/16 remains very challenging. High level figures announced by the Scottish Government indicate that significant budget reductions will be required in these years. At the same time the council is facing increasing demand for council services and rising costs.

The council has estimated a funding gap of £65.7 million for the period 2013-16, but has shown an understanding of the financial challenges it faces and is making progress in addressing these. However it is likely that it will become increasingly difficult to identify and release efficiencies to fund the gap.

A significant proportion of the identified savings will come from the council's workforce reduction programme which seeks to reduce the workforce by over 3,600 posts during the period 2010-2015. This presents a risk to the council which will need to be carefully managed.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of Fife Council. The nature and scope of the audit were outlined in the Audit Plan presented to the Standards and Audit Committee on 21 February 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.

2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of Fife Council.

3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that Fife Council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.

4. This report is addressed to members and the Controller of Audit and should form a key part of discussions with the Full Council and Standards and Audit Committees, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. Reports should be made available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.

5. This report will be published on our website (www.audit-scotland.gov.uk) after consideration by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

6. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.

8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
   - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
   - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

9. Auditors review and report on, as appropriate, other information published with the financial statements, including the foreword by the Executive Director Finance and Resources, the corporate governance statement and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of Fife Council for 2011/12 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2012 and of the income and expenditure for the year then ended.

Legality

11. Through our planned audit work we consider the legality of the council's financial statements. In addition, the Executive Director Finance and Resources confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the Chief Executive and Corporate Management Team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Going concern

12. The council's balance sheet and the group balance sheet for 2011/12 show a net liability of £548 million and £535 million respectively. This liability is due to the existence of £1,291 million of pension liabilities under the Police and Fire Pension schemes which are unfunded schemes. The council has adopted the going concern basis for the preparation of the financial statements and we concur with this assessment. Whilst the deficit funding position of the pension funds indicates that the expected liabilities are not fully met at the balance sheet date, the funding policy seeks to ensure that these are met over the long term.

Corporate governance statement

13. We are satisfied with the disclosures made in the Corporate Governance Statement, which is included in the financial statements in line with good practice, as identified in the CIPFA publication *Delivering Good Governance in Local Government*. We are also generally satisfied with the adequacy of the process put in place by the council to obtain the necessary assurances for the Statement.

14. *Delivering Good Governance in Local Government* highlights that the wider governance arrangements of all of the group entities should be brought within the scope of the Corporate Governance Statement. The Corporate Governance Statement contained within the council's Annual Accounts is restricted to a review of the effectiveness of the council's governance arrangements. The council should consider wider governance arrangements for all group entities.

Refer Action Plan No. 1

Remuneration report

15. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2011/12 financial statements include all eligible remuneration for the relevant council officers and elected members.

Accounting issues

16. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011/12 Code). Overall we are satisfied that the council prepared the 2011/12 financial statements in accordance with the 2011/12 Code.

Accounts submission

17. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. The working papers package was not fully available by this date. Nevertheless, working papers were subsequently received to enable us to conclude the audit and certify the financial statements by the target date of 30 September 2012. The financial statements are now available for presentation to members and publication.

18. We have agreed to meet with the council's finance staff for a post audit review to explore ways that the council and ourselves can improve the accounts preparation and audit process for 2012/13.

Presentational and monetary adjustments to the unaudited accounts

19. A number of adjustments have been made to the 2011/12 unaudited financial statements in accordance with normal audit practice. These adjustments have not had any impact on the general fund balance of the council. The most significant adjustment has been the inclusion of the Common Good Fund and the Charities and Trust Fund in the Group Accounts. Further

detail on this is noted at paragraph 29 below. A number of presentational amendments have also been processed to improve the disclosures within the financial statements.

20. As is normal practice, unadjusted errors have been reported to the Executive Director Finance and Resources. The net effect of these adjustments, if they had been made, would have been to increase the general fund balance and reduce the net liabilities by £430k. Officers in finance have not adjusted the accounts for these errors and we have accepted this approach as the errors are not considered material to the accounts as a whole.

Prior year adjustments

21. The 2011/12 Code requires authorities for the first time to separately account for heritage assets in accordance with Financial Reporting Standard (FRS) 30. Heritage assets include historical buildings, archaeological sites, scientific equipment of historical importance, civic regalia, museum and gallery collections and works of art. In recognition of the difficulty in obtaining valuations for this class of assets, the Code permits value to be measured in any way which is appropriate and relevant. The separate accounting for heritage assets is a change in accounting policy and therefore requires the prior year figures to be restated.

22. In accordance with this Code requirement, the council has recognised assets to the value of £17.8 million in 2011/12 and in the prior year figures. This is the value placed on its fine art collections by an independent valuer in 2007. The collection is scheduled to be revalued in 2012/13.

23. The council has not included its museum collections or its historical buildings and sites in its heritage asset valuation on the grounds of the diversity and practicality in obtaining a valuation for these assets. Although excluded from the Balance Sheet valuation, the council has included a note to the accounts stating that an overall insurance value of £0.9 million has been placed on its museums collection.

Post balance sheet events

24. The 2011/12 financial statements contain the necessary post balance sheet event disclosures for reform under the Police and Fire Reform (Scotland) Act 2012. Under the Act, Police and Fire Services will transfer from the council to new central government bodies with effect from 1 April 2013. This will have a significant effect on the council as it will no longer be responsible for provision of these services. The council is currently assessing the impact of the reform and the mechanisms to be in place for the transfer.

Pension costs

25. The council is a member of the Fife Council Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the net liabilities for the pension fund in the balance sheet.

26. The valuation at 31 March 2012 provided by the scheme's actuaries increased the council's deficit from £1,116 million last year to £1,291 million this year. The £175 million increase is due to changes in actuarial assumptions such as salary increases, rates of inflation and mortality levels. Certain actuarial assumptions were lower this year and as a result, scheme liabilities increased.

27. Actuarial figures included in the accounts are based on data provided by the council during the year which is then projected by the actuary using a number of assumptions and rates to calculate the required contribution rates to meet future liabilities. We were advised that the council did not undertake any confirmation that the assumptions applied are appropriate to local circumstances. We would highlight that actuarial reports are only advisory and the council should confirm it is satisfied with the assumptions/rates used in these reports.

Refer Action Plan No. 2

Group accounts

28. The diversity of service delivery vehicles means that consolidated group financial statements are required to give a true and fair view of the activities of the council and its group. To enable the preparation of group financial statements, councils are required to consider their interests in all entities, including subsidiary companies, associated companies and joint ventures.

29. Fife Council initially consolidated the results of four companies as associates (Fife Sports and Leisure Trust Limited, Arts and Theatres Trust Fife Limited, Fife Coast and Countryside Trust Limited and Fife Golf Trust Limited) into the group financial statements. Following the audit, the group financial statements were amended to include the Common Good Fund and Charities and Trust Fund Accounts. The council agreed to make this amendment on the grounds that the accounts are deemed to be under the control of Fife Council and have significant net assets totalling £6.5 million and £4.6 million respectively. Following inclusion of these accounts, the overall effect of inclusion of the group entities is to increase net worth by £12.2 million.

Whole of Government Accounts

30. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidated pack to support its 2011/12 WGA return to the Scottish Government prior to the deadline of 29 July. This has now been audited and the audited return submitted.

Outlook

31. The Police and Fire Reform (Scotland) Act 2012 will see the transfer of Police and Fire and Rescue functions from the council to new central government bodies with effect from 1 April 2013. This will require the disaggregation of assets and liabilities in the council's financial statements. We will monitor the activities of the council in preparing for the disaggregation during 2012/13.

32. The Code states that the fair value of council dwellings shall be measured using existing use value - social housing (EUV-SH). In October 2010, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued mandatory guidance on the valuation methodology to be applied in Scotland for council dwellings in determining EUV-SH. The guidance stipulates that the Beacon Approach (adjusted vacant possession) methodology is to be used as the standard valuation methodology. LASAAC permitted local authorities to move to this valuation methodology at their next full revaluation, with the proviso that the methodology is adopted by all Scottish councils by 2015/16. The council is revaluing its council dwellings in 2012/13 and will be adopting the revised methodology. This change in valuation methodology is likely to result in a substantial change in the value of council dwellings in Fife and will also require the restatement of comparative figures in the 2012/13 financial statements.

Financial position

33. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

34. Auditors consider whether audited bodies have established adequate arrangements and examine:

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- ability to meet known or contingent, statutory and other financial obligations
- responses to developments which may have an impact on the financial position
- financial plans for future periods.

35. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

36. In 2011/12, Fife Council spent £1,378 million on the provision of public services, with £1,205million on revenue services and £173 million on capital. The revenue budget for 2011/12 was based on Band D council tax (£1,118) with a planned contribution of £5 million to the general fund.

37. The revenue expenditure of £1,205million represents a £260 million increase from the prior year. This was largely the result of a £279 million increase in non distributed costs (NDC). These costs increased significantly due to an increase in pensions past service costs (2010/11 included a credit of £233 million for NDC largely due to a change in financial assumptions resulting in future pensions' increases being linked to the consumer price index rather than the retail price index). This cost was offset by a £9.9 million reduction in financing costs and £18.9 million reduction in services' expenditure resulting from savings plans.

Budgetary control

38. In February 2011, the council agreed a net revenue budget of £786 million for the provision of services. In addition a contribution of £5 million to the general fund balance was agreed to assist with the council's policy of restoring balances to a sustainable level, given the level of workforce change and corporate improvement activity within the council. Revenue budget monitoring reports were presented to the Policy, Finance and Asset Management Committee throughout the year with a final outturn position being reported to the new Executive Committee in June 2012. Explanations for variances in excess of £0.5 million are provided in the monitoring reports.

39. The net revenue budget was revised during the year with the final outturn budget at June 2012 increasing to £799 million as a result of additional monies of £13.1 million being made

available through the application of the council's budget carry forward scheme and ring-fenced balances of £9.7 million and £3.4 million of additional Scottish Government funding for additional teachers in the year.

40. The final outturn reported to members in June 2012 shows that the council had achieved a general fund surplus of £26.6 million, which represents an increase of £21.6 million above the budgeted surplus of £5 million. However, as noted above, in achieving this surplus the council has utilised £9.7 million of its carried forward balances. As a result the true impact on the general fund balance for 2011/12 has been an in-year surplus of £16.9 million i.e. an increase of £11.9 million above the budgeted £5 million surplus. The council also incurred a deficit of £1 million on its Housing Revenue Account.

41. The £21.6 million variance in the total net expenditure referred to above has been achieved in the main, through service cost savings of £7.1 million; savings on a contingencies budget for legislation options, feasibility studies and 'unallocated items' of £6 million; £8.4 million of savings in financing charges due to reduced borrowing arising from changes to the capital investment plan; lower interest rates; and interest received on a one off VAT settlement.

42. The service cost savings of £7.1 million achieved in 2011/12 resulted from underspends in Education Services (£3 million savings on Devolved School Management (DSM)), Social Work Services (£2.4 million primarily on the provision of front line services, reassessment of the workforce change provision and vacancy management), Police Services (£2.5 million arising from vacancy management and re-profiling of police officer recruitment), Corporate Services (£1.4 million arising from restructuring and vacancy management) and a reduction of £5.5 million in the equal pay provision. Offsetting these underspends were overspends of £3.1 million in Education Services (non-DSM), £1.5 million in Housing and Communities Services and £3.6 million in Environment and Development Services, all of which were mainly a result of workforce change costs.

Financial position

43. Exhibit 1 shows the balance in the council’s funds at 31 March 2012 compared to the previous year. At 31 March 2012, the council had total reserves of £66.9 million, an increase of £16.7 million on the previous year.

Exhibit 1: Reserves

Description	31 March 2011 £ million	31 March 2012 £ million
General Fund	45.5	62.5
Housing Revenue Account Balance	2.6	1.6
Capital Receipts Reserve	0.4	1.1
Capital Grants Unapplied	0.1	0.0

Description	31 March 2011 £ million	31 March 2012 £ million
Insurance Fund	1.6	1.7
Total	50.2	66.9

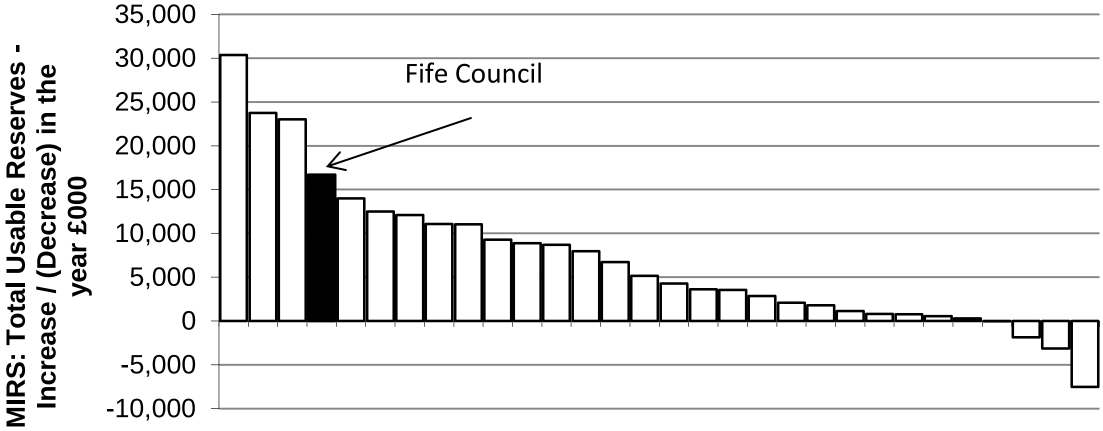
Source: Fife Council 2011/12 financial statements

44. The general fund balance has increased to £62.5 million as at 31 March 2012. This balance includes earmarked balances and commitments of £14.9 million, leaving an unallocated general fund balance of £47.6 million (6% of the annual budgeted net expenditure). The unallocated balance of £47.6 million is above the target range of 2% of the annual budgeted net expenditure as set out in the council's reserve strategy to meet unforeseen circumstances or risks.

45. The earmarked balances and commitments of £14.9 million includes earmarked balances for the energy management fund (£1.4 million to improve energy efficiency in council buildings); a landfill aftercare fund (£1.5 million to cover the cost of aftercare following the closure of landfill sites in accordance with regulations) as well as other committed balances covering: devolved schools management (£3.0 million of balances held by individual schools), provision of a budget carry forward scheme (£6.1 million) and ring fenced projects (£1.9 million).

46. The overall increase in total useable reserves in 2011/12 is consistent with the picture across the majority of Scottish councils, as demonstrated in exhibit 2 below. The council's useable reserves have increased by 33% on the previous year, which is well above the median for all Scottish councils. This upward movement in reserves indicates a sound financial position going forward into 2012/13.

Exhibit 2: movement in usable reserves

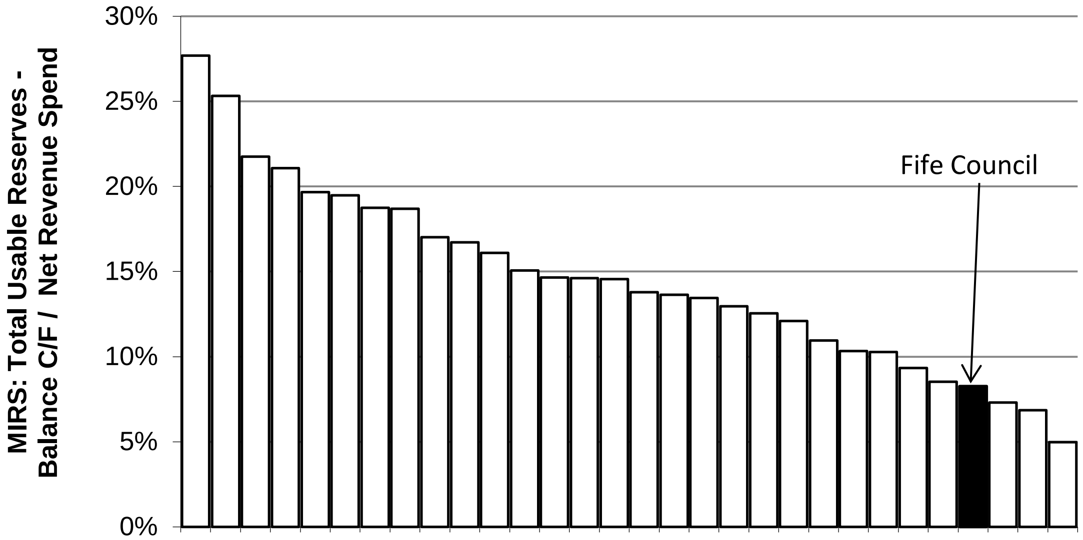


Source: Scottish councils' unaudited 2011/12 financial statements

47. Although the useable reserves have increased significantly in 2011/12, the Executive Director Finance and Resources states in his foreword to the Annual Accounts, that balances remain under pressure given the potential costs of future workforce change, equal pay, financial uncertainties and other pressures. This is supported by exhibit 3 below which presents the council's useable reserves position in relation to net revenue spend for the year in comparison to other Scottish councils. This highlights that the council has a lower ratio in comparison to the majority of Scottish councils.

48. The council is continuing to follow a strategy of building up these balances to provide a sustainable level in anticipation of reduced funding levels and increased financial risk. We also note that the September 2012 Revenue Budget Monitoring Report for 2012/13 shows a projected net surplus of £15.9 million at the year end, to further bolster the general fund balance.

Exhibit 3: Total useable reserves carried forward as a proportion of net revenue spend



Source: Scottish councils' unaudited 2011/12 financial statements

Capital investment and performance 2011/12

49. At its meeting on 16 June 2011, the Policy Finance and Asset Management Committee agreed a review of the council's Capital Investment Plan, including proposals for extending the duration of the plan, identifying savings proposals, establishing a contingency fund and re-profiling major projects and programmes of work.

50. Following the review, a revised Capital Investment Plan 2011-21 was approved by members in September 2011. The revised plan captures the proposals above and identifies planned expenditure of £1 billion over a ten year period. However, the expenditure is front loaded with 66% of the expenditure to be spent in the first four years. Uncertainty over the longer term funding availability for capital purposes limits the extent to which the council can provide

detailed information, however the plan is a rolling 10 year programme and will continue to be reviewed every two years.

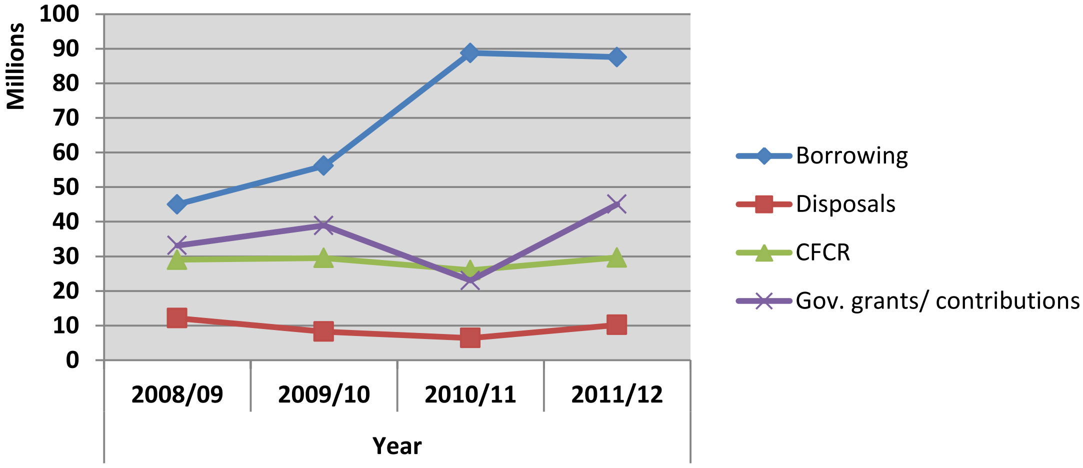
51. Initial estimated 2011/12 expenditure per the new Capital Investment Plan was £178.8 million, covering both the general services and housing programmes. The housing programme includes areas such as work on meeting the Scottish Housing Quality Standard programme, new housing projects and structural works, while the general services programme includes investments on new secondary schools in Glenrothes and Dunfermline, improvements to the roads infrastructure, new leisure facilities in Glenrothes and Kirkcaldy, property rationalisation and vehicle replacement. Estimated capital expenditure was subsequently revised to £187.9 million, mainly resulting from additional government grant monies received and in-year service revenue underspends (which were used to bolster capital funded from current revenue (CFCR)).

52. Actual capital expenditure is reported at £172.5 million in the 2011/12 financial statements, an underspend of £15.4 million. The June 2012 capital investment monitoring report identifies the main reasons for the variance as being slippage of £27.9 million (6.7% of estimated capital expenditure), offset by net project overspends of £4 million and advancement of projects from the 2012/13 programme to the value of £8.5 million (mainly relating to Auchmuty and Dunfermline High Schools and the housing programme). Slippage occurred as a result of a number of factors including delays in the implementation of the mobile and flexible working programme, delays in the commencement of the Future of Leisure project at Kirkcaldy to accommodate festive car parking, delays in appointing contractors and delays in acquiring land.

53. Despite this level of slippage, the council incurred its highest ever level of capital expenditure in 2011/12, which saw a 20% increase over the capital expenditure incurred in 2010/11.

54. Exhibit 4 shows the sources of finance for capital expenditure in 2011/12. The graphical presentation shows that borrowing increased significantly in 2010/11 and this level has been maintained in 2011/12. However, the main source of the additional capital expenditure in 2011/12 funding has been through government grants and contributions which saw an increase of £22 million in 2011/12. Other sources of finance, i.e. disposals and capital financed from current revenue (CFCR), have remained relatively stable over the 4 year period from 2008/09. The availability of future finance from government grants is uncertain in light of reductions in the Scottish Government's budget and this may result in an increased reliance by the council on borrowing to fund capital expenditure. In the event that the council will need to ensure this remains affordable and sustainable.

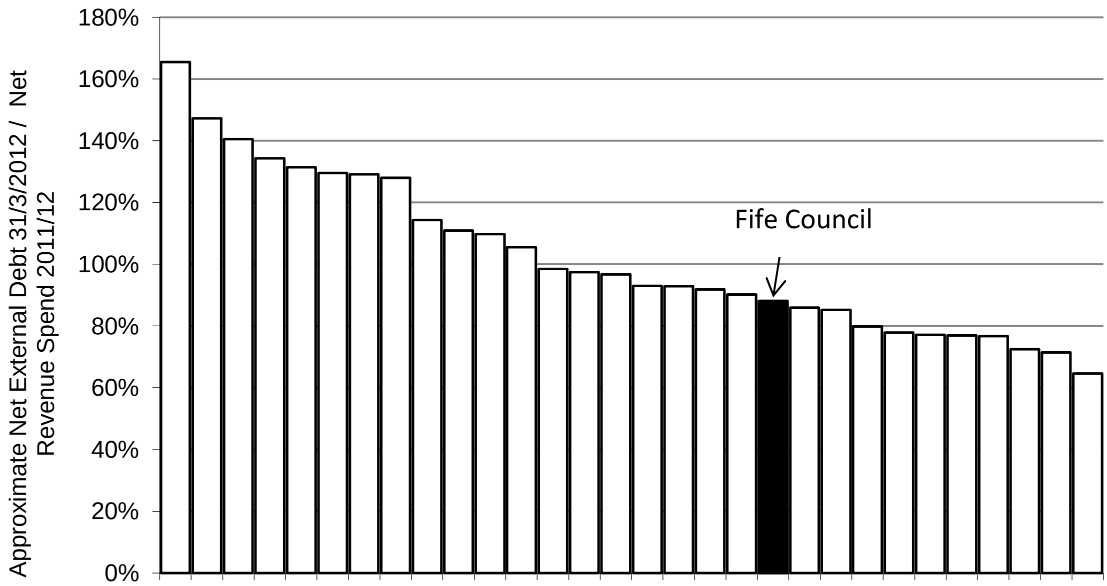
Exhibit 4: Sources of finance for capital expenditure 2008/09 - 2011/12



Source: Fife Council Annual Accounts 2008/09 to 2011/12

55. As noted above borrowing has increased significantly since 2008/09. However exhibit 5, which shows the council's net external debt at 31 March 2012 as a proportion of net revenue expenditure for the year in comparison to other Scottish councils, shows that the council is towards the lower end of the scale.

Exhibit 5: Net external debt as a percentage of net revenue spend



Source: Scottish councils' unaudited 2011/12 annual accounts

Treasury management

56. The current economic climate means that interest rates on investments continue to be low and the council received £1.0 million in investment income this year (2010/11 £0.3 million). As at 31 March 2012, the council held cash and cash equivalents totalling £0.4 million, a decrease

of £8.1 million on the 2010/11 balance of £8.5 million. This decrease mainly reflects the absence of cash advances from the Pension Fund as a result of the new requirement for pension funds to maintain their own bank accounts.

57. As at 31 March 2012, the council held combined short term and long term borrowing balances of £635.7 million. This is an increase of £47.4 million over the £588.3 million balance held as at 31 March 2011. Borrowing rates are also low, and have been relatively stable over the last two years and as a result interest paid over 2010/11 and 2011/12 has remained constant at £35 million.

58. In 2011/12 the council took out £75.5 million of new long-term borrowing, of which £30 million was required to repay maturing loans. The council did not undertake any rescheduling of existing debt in 2011/12.

Financial planning to support priority setting and cost reductions

59. Like all public sector organisations, the council is facing significant financial pressures. Until recently the council had been working to a funding gap of £13.6 million in 2012/13, rising to £32 million in 2013/14 and £81.6 million in 2014/15. Based on the figures presented in the draft Scottish Government Budget in September 2012, the council has reviewed their funding levels and subsequently identified a revised funding gap of £5.9 million for 2013/14, rising to £26.7 million in 2014/15 and £65.7 million in 2015/16. This position continues to create uncertainty over the council's ability to maintain service levels and deliver outcome targets, however the council shows an understanding of the financial challenges it faces and is effectively planning to minimise the risks.

60. The council has a Corporate Improvement Plan in place which aims to modernise services while delivering savings to contribute to the gap caused by the funding reductions. Key strands of the Corporate Improvement Plan include property rationalisation (supported by increased mobile and flexible working), customer management and service delivery changes. All of this is underpinned by a workforce reduction programme which aims to deliver significant savings to the council, while maintaining the staff skills to meet the modernised agenda.

61. Monitoring reports to the Corporate Improvement Board and the Policy, Finance and Asset Management Committee during 2011/12 indicate that savings already identified to help fund the gap will be met and in some cases will be exceeded. However these savings will not fully fund the gap and a Budget Strategy Group (a member/officer group comprising three senior members of the Administration, the Chief Executive, the Executive Director Finance and Resources and senior finance staff) has been set up to consider proposals for further savings.

Workforce Management

62. The council is committed to a programme of planned workforce reduction as part of a council-wide programme of improvements and efficiencies to mitigate the impact of budget reductions projected over the period 2011-2015. The council is building up its reserves to help meet future workforce change costs.

63. The workforce change strategy relies partly on voluntary redundancies and early retirements, although every effort is made to mitigate this through vacancy management, employee turnover, natural retirals etc. The workforce change programme is intended to lead to a reduction of over 3600 full time equivalent posts over the period of the programme between 2010/11 and 2014/15. Of these, 596 employees had already left the council's employment during 2010/11 with a further 648 leaving in 2011/12 including 49 leaving under compulsory redundancy arrangements in 2011/12.

64. The council have implemented a workforce transformation programme, the aim of which is to increase the capability and productivity of staff to help meet the increasing future demand for services. The council also implemented a revised workforce change policy in June 2011 which included training for managers to enable them to implement the required workforce changes.

65. The council also introduced a performance management and appraisal project in December 2011 to support employees in the performance of their roles and is currently developing a leadership framework for all managers

66. The council does not have a corporate workforce plan however and much of the work to manage the workforce reductions is being carried out at a service level with instruction that services need to meet the workforce savings targets while maintaining service provision. The council recognises that there is scope for a more corporate approach to staff reductions, including more planning to map the workforce reductions against the council's objectives and the future organisational structure and work is ongoing in this area.

Refer Action Plan No. 3

67. During our audit of the financial statements we reviewed the exit packages disclosures in the Remuneration Report. This resulted in a significant change in the exit package disclosure due to the exclusion of pension strain costs in respect of teachers and added years costs (elements of the 'capitalised' costs). We noted however that these 'capitalised' costs had been excluded when calculating the future 'payback periods' for individual exit packages i.e. the period by which the cost would be recovered and as a result may influence the decisions on value for money of each package. The cumulative affect of this might be to overstate the amount of savings that will be made from the current workforce reduction programme.

Refer Action Plan No. 4

Outlook

2012/13 budget

68. The general fund revenue budget 2012-15 presented to the Council on 9 February 2012 identified a funding gap for 2012/13 of £13.6 million. There is a continuing requirement to make significant savings to address the gap.

2012/13 budget reporting

69. The latest estimate of the 2012/13 financial position (as at September 2012) predicts an underspend of £15.9 million for the year on general fund services, relative to a budgeted surplus of £10 million The Housing Revenue Account is estimated to break even during the year.

70. The general fund underspend includes devolved school management (£2.7 million), better than expected surplus for Police Services (£1.5 million), reduced capital financing charges as a result of agreed changes to the capital investment programme leading to reduced borrowing and lower interest rates (£2 million) and increased council tax income (£1 million). These underspends are offset by an overspend in Transportation and Environmental Services (£1.2 million) mainly arising from continuing difficulties in achieving income targets and delays in implementing savings on refuse collection vehicles.

Financial forecasts beyond 2012/13

71. Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2015/16 remains very challenging. The continuing economic difficulties mean that significant budget reductions will be required in these years. Following the publication of the Scottish Government's draft budget in September 2012, the council has estimated its revenue funding gap of £5.9 million in 2013/14, rising to £65.7 million in 2015/16. Continuing to deliver vital public services with a reducing budget will be a significant challenge for the council.

Refer Action Plan No. 5

72. The council has set an ambitious ten year capital investment programme for 2012-21 which identifies planned expenditure of £1 billion over a ten year period much of which is front loaded in the first four years. There is continued uncertainty over the longer term funding availability for capital purposes and this will present a challenge to the council to ensure its capital investment programme can be achieved.

Governance and accountability

73. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

74. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

75. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:

- corporate governance and systems of internal control
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption.

76. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

77. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. Following the local government elections in May 2012, the council's administration changed and the council is now led by a minority Scottish Labour Party administration.

78. Following the change in administration, the committee structure was reviewed and a revised structure consisting of an Executive Committee, two scrutiny committees (the Education, Social and Communities Committee and the Environment, Finance and Corporate Services Committee) and 6 Advisory Groups was put in place. In addition, committees have been set up to oversee the arrangements for an orderly transition to the national police and fire services which is scheduled to take place in April 2013. It will take time for these new arrangements to bed in and the council plans to review the effectiveness of the revised structure within one year of it being applied.

79. In total, 30 of the council's 78 councillors were newly elected members in May 2012. The council recognised that this would require a programme of training to be developed to assist in the development of members as they take up their role. A training programme was developed following consultation with members and discussions with the cross-party Elected Member

Development Focus Group. This group meets regularly to plan and evaluate development opportunities for all members.

80. General induction training was provided along with specific training on areas such as corporate governance and the planning system. Other training for members of specialist committees has also been provided and further sessions are planned in the coming months. Additional training events have been made available where requested by members. Attendance at the training events has generally been good and the events have been well received.

81. The council continues to operate a Standards and Audit Committee with a remit which includes risk management, consideration of the adequacy of the council's control environment, approval of the Internal Audit strategy, ensuring that there is an effective relationship between internal and external audit. The composition of the committee is in line with best practice, with the chair being a member of the opposition party and membership drawn in proportion to the political balance of the council. From our attendance of the initial meetings of the Committee there are early signs that it is acting apolitically and is providing good levels of challenge on subject matters.

82. The Local Government (Scotland) Act 1973 established the role of the Chief Financial Officer (commonly referred to as the Section 95 Officer) as being the key officer responsible for the financial affairs of the council. The Chartered Institute of Public Finance Accountants (CIPFA) has also set out their expectations in the publication '*The role of the chief financial officer in local government'* that the Chief Financial Officer:

- be professionally qualified
- report directly to the Chief Executive and be a member of the leadership team (which in practice usually means the corporate management team or equivalent).

83. The Section 95 officer within Fife Council is the Executive Director Finance and Resources, who meets those requirements. We have confirmed that the Executive Director Finance and Resources has considered the requirements of the '*The role of the chief financial officer in local government'* in his role as the Section 95 Officer for Fife Council.

84. Fife Council is one of two Scottish councils which is a police and fire authority and provides those services directly to the public. As noted at paragraph 24, the Police and Fire Reform (Scotland) Act 2012 will transfer Police and Fire Services from the council to new central government bodies with effect from 1 April 2013. There is an important continuing role for elected members in the remaining months to oversee the transition and to maintain effective governance during this time of change. The council has established two new committees, the Police Transition Committee and the Fire and Rescue Transition Committee to fulfil this role.

Internal control

85. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial

systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

86. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

87. As part of our work, we took assurance from key controls within the council's financial systems. The results of our review of key controls have been reported to management. Any identified weaknesses were taken into account in our approach to the audit of the financial statements. Areas where key control improvements could be made have been discussed with officers and have been included in an action plan within the report.

88. In his annual assurance report the Audit and Risk Management Services (internal audit) Manager reported that "a medium/high level of control exists and that reasonable assurance can be placed upon the adequacy and effectiveness of the council's systems of Corporate Governance and internal control system in the year to 31 March 2012". As noted in our annual audit plan we carried out an assessment of the internal audit function provided in Fife Council. Our review confirmed that internal audit met the requirements of the CIPFA Code of Practice for Internal Audit in Local Government.

89. Due to the timing and scope of the respective internal and external audit work, only one area of internal audit work was identified where we planned to place reliance on the work to support our own work on the financial statements in 2011/12. We have scheduled a meeting with internal audit to discuss improving the co-ordination of internal and external audit work going forward.

Information Communication and Technology (ICT)

90. In June 2011 the previous external auditors issued a report on their review of Information Technology (IT) Service and Support Management in Fife Council. The report detailed 40 recommendations for improvement and the actions were agreed with IT services, along with expected completion dates. In November 2011 the council's Audit and Risk Management Services carried out a review on the progress with the recommendations and produced a report which was presented to the Standards and Audit Committee on 10 January 2012.

91. At the request of the Standards and Audit Committee we undertook an independent review of the progress achieved by IT services. Our review covered the period up to the beginning of October 2012 and took account of the work undertaken by Audit and Risk Management Services.

92. Our review found that overall there has been good progress on reported recommendations, with 24 of the recommendations having been addressed and becoming embedded in the normal procedures of the IT Service. Work is ongoing on the remaining recommendation and a detailed report on our review will be provided to the council in due course.

93. Our annual audit plan recognised that the council were planning to develop an ICT partnership with a commercial organisation to improve delivery and cost of ICT related change projects. This is an important change in the operation of the ICT service in the council and during the course of the year we have monitored progress in this area. Such a partnership, when implemented, will represent a significant change within the council's ICT services.

94. The process for identifying and selecting the Partner is being managed using the council's current procurement processes, and the Project Team reports to the council's Management Team and Corporate Improvement Board.

95. The ICT Strategy 2011-2014 Annual Report, recently presented to the Environment, Finance and Corporate Services Scrutiny Committee, reported that work towards establishing the required ICT Partnership was progressing, and noted that successful implementation would be a key step to ensure that the ICT service could maintain the current pace of delivery for the ICT Strategy.

96. We note four short-listed potential partners have now returned their responses to the Statement of Requirement issued by the council and council officers are now scoring these with a view to awarding a framework contract in November. To ensure that the council retains the ability to respond to future changes to ICT requirements and developments/innovations, we have been advised that the framework will be a non-exclusive single supplier contract, which allows the council the flexibility to engage other suppliers directly as required.

97. It will be necessary for the council to have oversight on progress and on-going performance to ensure the scope of the initiative is kept in view. While the scope will have been defined there remains potential for uncertainties about the way that the initiative could be introduced and implemented, for example, the use of different service providers based on demand. In addition as time progresses and mutual understanding of the initiative develops both by the council and the related external service provider(s) any changes in scope will need to be considered, risk assessed, recorded and controlled as necessary.

98. The failure to manage any change in scope could lead to the original scope becoming adrift due to changing demand and this could result in unexpected cost implications or the possibility of future business solutions not being delivered as expected.

Refer Action Plan No. 6

Prevention and detection of fraud and irregularities

99. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.

100. Fife Council has arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy and response plan; a whistle-blowing policy; and codes of conduct for elected members and staff. The fraud strategy and related policies are reviewed by the Standards and Audit Committee, with the anti-fraud policy and response plan having been last reviewed in January 2011.

101. During the year, we were made aware of a potential fraud which had been investigated internally by the service. This potential fraud was not reported to Internal Audit, despite the council's strategy on fraud requiring that all potential frauds be notified to internal audit who should then advise on actions to be taken. There is therefore a risk that although adequate policies and guidance are in place, council staff may not be fully aware of their duties under the guidance. We have raised this issue in our report to management on the system of internal controls.

NFI in Scotland

102. Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise started in October 2010 and was reported upon in May 2012. The next round of NFI commenced in June 2012, and looks to expand the range of data sets and bodies.

103. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate via a secure web application. Bodies investigate these and record appropriate outcomes based on their investigations.

104. From the 2010/11 exercise, a total of 21,532 matches were identified for Fife Council. The prioritised investigation of 1,965 of these matches (applying recommended filters) resulted in 12 frauds and 29 errors being identified with a total value of £58k. Progress with NFI is reported regularly to the Standards and Audit Committee.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

105. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. Within Fife Council, the Standards and Audit Committee's terms of reference include assisting councillors to observe the Councillors' Code of Conduct. We have concluded that the arrangements in Fife Council are broadly satisfactory.

Roles and relationships

106. During 2011/12, four cases were referred to the Public Standards Commissioner for Scotland regarding the conduct of councillors. None of the cases were upheld by the Commissioner.

Complaints Handling Procedures

107. In March 2012 the Scottish Public Services Ombudsman (SPSO) produced a model complaints handling procedure which aims to simplify and improve complaints handling through a standardised system for complaints across all local authorities. All local authorities are required to adopt the model procedure as soon as possible within the 2012/13 financial year and at the latest by 31 March 2013.

108. At the Executive Committee meeting, held on 23 October 2012, it was decided that it would implement a complaints handling process that was compliant with the SPSO's model.

Outlook

109. The Welfare Reform Act 2012 received royal assent in March 2012. The Act provides for the introduction of a 'Universal Credit' to replace a range of existing means-tested benefits and tax credits for people of working age, starting from 2013. Councils will face challenges in understanding and acting upon welfare reform changes, and communicating these accurately and effectively to local residents. The introduction of Universal Credit will also have a significant impact on councils' strategies and plans in areas such as housing, asset management, finance, ICT and customer service. Councils will be challenged during this period of change to maintain service delivery and performance levels in the processing of housing benefit claims.

110. As part of our work on the 2012/13 audit, we will consider the council's preparedness for introduction of these changes, and how it is developing and taking forward its strategies and plans to address the risks arising from these changes.

Best Value, use of resources and performance

111. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.

112. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

113. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:

- a performance audit which may result in the publication of a national report
- an examination of the implications of a particular topic or performance audit for an audited body at local level
- a review of a body's response to national recommendations.

114. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.

115. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

116. This section includes a commentary on the Best Value and performance management arrangements within the council. We also note any headline performance outcomes and measures used by the council and comment on any relevant national reports and the council's response to these.

Management arrangements

Best Value

117. A report on the audit of best value and community planning in Fife Council was published by the Accounts Commission in 2009 and highlighted that the council had many of the building blocks in place for achieving best value, although there were some areas identified for improvement. Since this time the council has implemented a best value improvement plan which was compiled in response to this report. The timing of Fife Council's next Best Value

audit is determined by a risk assessment performed by the Local Area Network (LAN). A Best Value audit is currently planned for 2014/15, however this will be subject to review by the LAN as part of the 2012/13 risk assessment.

Self-evaluation arrangements

118. The council has developed a self-evaluation framework, entitled the Fife Excellence Model (FEM), which is based on the Improvement Service's Public Service Improvement Framework. However this framework has been on hold since 2010/11 as a result of the significant restructuring taking place within the council. The Council Management Team, at its August 2012 meeting, agreed to re-instate the use of the FEM, with a view to completing the next evaluation by April 2013.

119. Education Services and Social Work Services have also developed a self-evaluation mechanism outwith the FEM. These self-evaluations are supported by Education Scotland and the Care Inspectorate respectively and have identified areas for improvement which have been taken forward by the Services.

Partnership working

120. Community Planning within Fife is overseen by the Fife Partnership Board. The Partnership Board's membership includes Fife Council (including Fife Constabulary), NHS Fife, Skills Development Scotland, the South East Scotland Transport Partnership, Fife Colleges of Further Education, the Council for Voluntary Services and the University of St. Andrews.

121. The Partnership Board approved the Community Plan for 2011-2020 in May 2011. The Community Plan sets out medium and long-term outcomes for the partnership which can be directly linked to the local outcomes set out in the Partnership's Single Outcome Agreement (SOA). The latest SOA, covering the period from 2011 – 2015, was approved by the Partnership Board in May 2011.

122. The Fife Partnership Board is supported by a Fife Partnership Executive Group (FPEG), consisting of senior and lead officers from the organisations within the Fife Partnership Board. Reports on progress against the Fife SOA are presented to the FPEG on a six monthly basis.

123. In response to a request from the Cabinet Secretary for Finance, Employment and Sustainable Growth, the Accounts Commission has led development work, with scrutiny partners, on how audit and inspection can support the delivery of better outcomes by Community Planning Partnerships. This will continue to evolve in 2012/13.

124. In December 2011, the Deputy First Minister announced that, over the course of the current parliamentary session, the Scottish Government will bring forward legislation to further integrate health and social care services. Fife's approach to the integration of adult health and social care was the subject of a workshop in March 2012, attended by senior staff from NHS Fife and Fife Council. It was agreed at the workshop that the Integration Programme in Fife would be overseen by a small Programme Board to be jointly chaired by the Chief Executives of Fife Council and NHS Fife on an alternating basis. Update reports on the programme are

presented on a regular basis to the Health and Social Care Partnership which is a joint committee of the two organisations.

Community/user engagement

125. The council has introduced a three year Customer Management Programme aimed at improving customer engagement. The programme is intended to allow the council to co-ordinate and target the projects that will contribute most to customer improvements and identify areas of good practice that can be shared across services.

126. The council also has a Consultation Handbook, which is available online and provides a comprehensive reference document for anyone involved in community consultation. The handbook is structured around the National Standards for Community Engagement and these standards have been adopted by Fife Community Planning Partnership. The Handbook outlines 24 consultation methods.

127. The council currently uses a citizens' panel, consisting of around 1,500 members, as its main mechanism for engaging with its stakeholders. In addition the council makes some use of on-line surveys and face-to-face surveys to gather views. In particular, the council have conducted and continue to conduct engagement work on the budgeting process through the *'Balancing the Books'* survey. This is particularly important in a time of constrained financial resources.

128. However, most of the engagement work is conducted at a service-level and there is scope for the council to improve the coordination and reporting of their community engagement work e.g. corporate community engagement training and a monitoring and evaluation system for community engagement activity.

Asset Management

129. The council has an Asset Management Strategy in place which identifies a strategic framework to define the direction and shape of asset management activities over the medium to long term and aims to ensure that asset management activity is aligned with the council's vision and strategic objectives and provides added value to the council.

130. Underpinning the strategy is a corporate asset management plan. The current 2009-12 plan has reached the end of its life and the plan is currently being updated. A revised three year plan for 2012-15 is scheduled to be presented to the Executive Committee in December 2012. The plan incorporates all of the council's estate assets, including schools and leisure properties as well as council office buildings.

131. The council has approved a Capital Investment Plan 2011-21 which sets out the planned investment on council assets.

132. The council has reported progress in achieving efficiencies which has led to recurring cost savings. Efficiencies include a real terms reduction in building running costs, a net increase in rental income from a reduced number of assets, cumulative savings of £7.1 million from office

and depot rationalisation have been identified in the period to 2014/15 and annual recurring savings of £3.5 million are expected from 2015/16 onwards.

133. The council recognises the challenges it faces in order to manage its asset portfolio effectively. These challenges include increasing rental expenditure due to an increase in the number of leased properties, the possible requirement for the number of operational assets to be reduced to ensure maintenance expenditure is sustainable and the need to advance its work to ensure the council meets its carbon reduction targets.

134. The council also recognises the need to embed effective asset management within services. This will require the council to align its strategic asset management to service operational plans and work is on-going in this area. In the longer term, the council plans to continue with the rationalisation of its office estate to ensure costs are sustainable in the context of a constrained financial environment. The council has established an Asset Rationalisation Board to oversee this process.

Performance management

135. The council currently reports performance using a corporate balanced scorecard. The Council scorecard measures performance against 169 Council Plan Indicators (CPIs). These CPIs provide a link to the Service Scorecards, the Fife Community Plan and the Single Outcome Agreement (SOA). They are also linked to the Council Plan which is currently being reviewed for 2012-17. This will be the first Council Plan under the new Administration and as such could see a change in the priorities of the Council and the Fife Community Partnership which may require a review of the existing CPIs.

136. Service performance reports have been reported to strategic committees during 2011/12, however the reporting mechanism is being reviewed following the change of Administration and the revised committee structure. An annual performance overview report is also presented to members, with the latest report for 2012 being presented to the Environment, Finance and Corporate Services Scrutiny Committee in September 2012. The overview report shows performance against CPI targets and prior year values, allowing members to obtain an understanding of progress in performance.

137. Performance against Statutory Performance Indicators is separately reported in a Statutory Performance Indicators Overview Report. The 2011/12 overview report was presented to the Standards and Audit Committee on 16 August 2012.

138. During 2011/12, the council implemented a new electronic performance management system (Covalent) which will be used as an integrated performance monitoring tool. Covalent is a system used by a number of Scottish local authorities and allows improved performance measurement, benchmarking and reporting.

139. In October 2012, Audit Scotland published *"Managing Performance: are you getting it right?"* which provides practical advice and support to help councillors and officers manage performance effectively. The report highlights concerns, issues and good practice and is a useful tool for improving performance management in councils.

Overview of performance in 2011/12

Fife Council's performance measurement outcomes

140. The council's annual performance overview report was presented to the Environment, Finance and Corporate Services Scrutiny Committee on 25 September 2012. The report shows that 149 of the 169 indicators were reportable for 2011/12 and for 63% of these the council had met its target. The performance overview report provides explanations for the 20 indicators which were not reported during the year. These include:

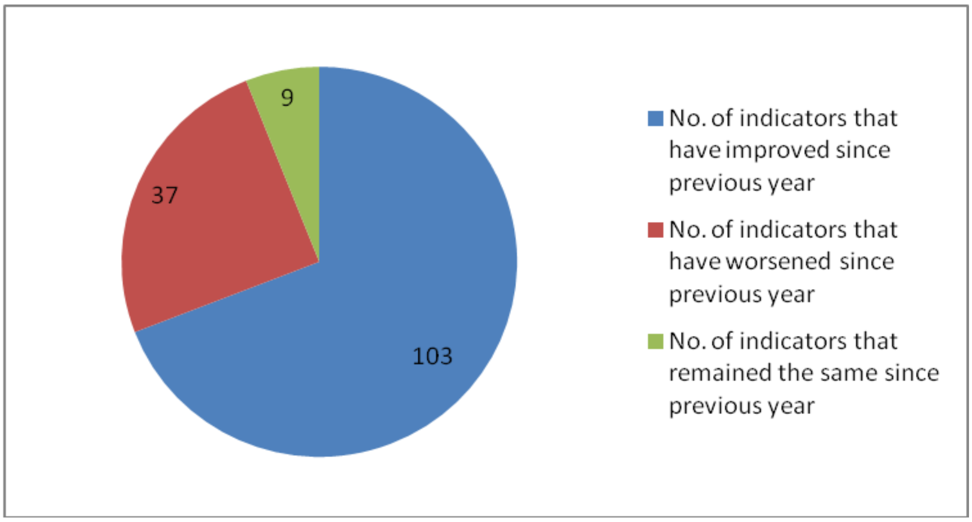
- Several of the educational attainment indicators were 'not-reportable' due to the introduction of Curriculum for Excellence
- Fear of crime survey information was not collated in either 2010/11 or 2011/12
- Employee survey information has not been collated since 2008/09 and no target is shown on the report

.

141. Exhibit 6 compares the 2011/12 results against 2010/11 results and shows that overall, the council has made good progress, with 103 indicators (69%) having improved on the previous year. Despite this overall progress, however, a number of indicators (37 - 25%) have deteriorated.

Refer Action Plan No. 7

Exhibit 6: Performance demonstrated by council performance indicators



Source: Fife council performance overview report 2011/12

142. Examples of the improved indicators include improvements in educational attainment, making the council more green (including increased recycling and composting rates and reduced business mileage claimed by employees), the percentage of crime cleared up and the number of council-owned housing which meets the Scottish Housing Quality Standard.

143. Some of the measures of performance where improvements were not achieved were council fleet fuel consumption, retail vacancy rates, and the number of affordable housing units delivered via the Scottish Government investment programme. It was noted that some of these indicators were adversely affected by the current harsh macro-economic environment.

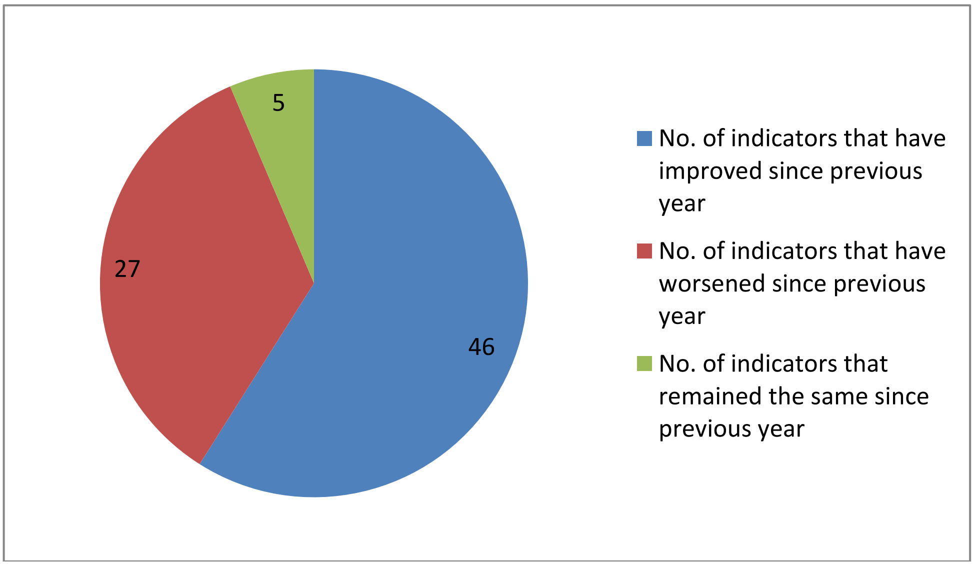
Statutory performance indicators

144. The council is required to report on 25 specified statutory performance indicators (SPIs) covering corporate management and service performance. In addition the council is required to report a number of self determined performance indicators which provide a measure of the council's performance against the characteristics of best value. The council has adopted its CPIs through the Council Scorecard to meet this requirement. The range of indicators reported by the council ensures adequate coverage of performance information required by the Accounts Commission's direction.

145. The council published the SPIs by the deadline of 30 September 2012 through the council's website. They also reported their specified performance indicators to the Standards and Audit Committee on 16 August 2012.

146. In its report to the Standards and Audit Committee, the council has broken down the 25 specified indicators into multiple component parts to arrive at a total of 110 indicators. Of these the council has determined 32 to be not directly comparable or to reflect information on volume of cases rather than performance. Exhibit 7 compares the 2011/12 results against 2010/11 for the remaining 78 specified indicators.

Exhibit 7: Performance demonstrated by SPIs



Source: Fife Council SPI overview report 2011/12

147. Although Exhibit 7 shows that the council's performance in relation to SPIs is generally improving, we are concerned to note that there are still a significant number of deteriorating indicators.

Refer Action Plan No. 7

148. The improved indicators include: the number of working days lost through sickness absence per employee; the percentage of council buildings that are accessible to disabled people; the percentage of planning applications dealt with within 2 months; the percentage of road network that should be considered for maintenance; and the percentage of municipal waste composted/recycled.

149. Examples of the measures of performance where improvements were not achieved include: the proportion of operational accommodation that is suitable for its current use; percentage of current tenants owing more than 13 weeks rent; domestic noise complaints requiring attendance on site; net cost of refuse disposal per premise. The reasons for these are varied and not all within the control of the council.

150. As a unitary authority, the council also reports on the indicators contained in the Scottish Policing Performance Framework as well as specified fire service indicators. Performance in respect of both the Police and Fire and Rescue Services indicators was found to be mixed.

Local performance reporting

151. In June 2012 we issued *Maintaining Scotland's roads: a follow up report* which reported on the progress made by the council in improving the management of road maintenance, focusing on road asset management planning, performance management and maximising value for money.

152. In our report we concluded that the council is continuing to make progress in its approach to managing the road network with the continuing development of a Roads Asset Management Plan and the adoption of a suite of performance indicators developed by the Society of Chief Officers of Transportation in Scotland (SCOTS) as well as the development of a suite of internal corporate and local performance indicators to monitor performance. We also note the additional infrastructure investment of £45 million over a 10 year period from 2008/09 and a further £9 million over a 5 year period from 2012/13, to help address backlog maintenance.

National performance reports

153. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports during 2011 and 2012 of direct interest are detailed in Exhibit 8:

Exhibit 8: A selection of National performance reports

2011/12

- Commissioning social care
- The National Fraud Initiative in Scotland
- An overview of local government in Scotland - challenges and change in 2012
- Fife Fire and Rescue

2012/13

- Fife Constabulary and Fife Police Authority

- Reducing greenhouse gas emissions
- The role of community planning partnerships in economic development
- Modernising the planning system
- Overview of Scotland's justice system

Source: www.audit-scotland.gov.uk

An Overview of Local Government in Scotland - Challenges and Change in 2012

154. This report focuses on the challenges, risks and opportunities within local government in 2012 and provides a short summary of resource management in 2011. Key messages in the report include:

- Councils have coped well with the financial pressures. Most operated within budget in financial year 2010/11 and accounts show a relatively stable financial position with the overall level of reserves higher than the previous year
- Local authorities will have to deal with further budget reductions while at the same time meeting their statutory duty to secure best value
- More work is also needed to address the substantial backlog in maintaining buildings and roads and to secure further improvements to procurement practices
- Local authorities which place best value at the centre of all they do are well placed to deal with the challenges and change they face in 2012 and beyond
- Partnership working is vital in tackling the significant, long-standing and complex health, social care and equality-related matters in Scotland.

155. The Standards and Audit Committee meeting of 26 June 2012 noted the key messages within the report and the actions already taken by the council.

Fife Fire and Rescue (Audit of Best Value)

156. A Best Value audit of Fife Fire and Rescue Services found that it provides an effective service which has a clear vision based on preventative work. Successful outcomes are being achieved by the service and its partners, shown in reduced numbers of fires and casualties. There is scope, however, for better use of integrated risk management at a strategic level to help the service face challenges in finding savings and better employing its resources.

157. The report was considered by the Police, Fire and Safety Committee at its meeting on 15 March 2012. In response to the report, the service planned to:

- Work with elected members to consider how to improve scrutiny arrangements
- Consider how to evaluate the effectiveness and value for money of preventative work
- Within the context of the development of a national service, utilise integrated risk management planning at a strategic level to help drive improvements in the matching of resources to community risks
- In advance of the creation of a national fire and rescue service, work with Fife Council and the Scottish Fire and Rescue Service to agree ownership of assets.

Fife Constabulary and Fife Police Authority (Best Value Audit and Inspection)

158. A joint report from the Accounts Commission and Her Majesty's Inspectorate of Constabulary for Scotland (HMICS) found that Fife Constabulary and Fife Police Authority both demonstrate most aspects of Best Value. They share a strong vision of taking policing closer to the community and need to maintain the progress they have achieved in the run-up to a single force.

159. The report identified some areas where the Constabulary can do better, including internal communication of local priorities, more informative performance reports, and further steps to reduce domestic abuse and hate crime. It also identified that Fife Council in its role of a police authority, through its Police, Fire and Safety Committee, is effective and demonstrates most of the characteristics of best value with particular strength in the vision for community policing it shares with the force.

160. The report was considered by the Police Transition Committee meeting on 11 October 2012 where it was noted that the recommendations relating directly to Fife Constabulary had already been incorporated into an action plan. The establishment of the Police Transition Committee itself seeks to address the recommendations relating to the need for greater transparency and the changes required in connection with the move to a single national police service.

Commissioning Social Care

161. The aim of the audit was to review how effectively the public sector commissions social care services. The review examined how well councils and their partners plan, and how councils either procure or deliver, effective social care services.

162. Key findings from the report include:

- Councils and NHS boards need to do much more to improve how social care services are planned, procured and delivered through better engagement with users and providers
- There is a risk that people who need a small amount of support are not being offered the preventative services that might help delay or avoid their needing more costly intensive support

- More needs to be done across Scotland to manage the risks to users when a provider goes out of business or closes for other reasons
- Councils may need a significant amount of support to implement self-directed support effectively.

163. The report included Fife Council as a case study, detailing how the council and NHS Fife began developing a joint commissioning strategy for older people in 2006. The strategy took several years to develop and was published in June 2011 as the *'joint health and social care strategy for older people's services in Fife, 2011–2026'*.

Progress against audit risks identified in the Assurance and Improvement Plan (AIP)

164. In May 2012 we issued our Assurance and Improvement Plan (AIP) Update 2012-15 to the council. The AIP set out the planned scrutiny activity for the council for the period April 2012 to March 2015 based on a shared risk assessment carried out by a local area network (LAN). The LAN is made up of representatives of all of the main local government audit and inspection agencies and together we assess and agree the level of risk attached to the council's corporate, service and outcome areas. An assessment is also made against the three core national risk priorities which apply to all thirty two councils in Scotland. The AIP Update 2012-15 was reported to the Standards and Audit Committee on 16 August 2012.

165. Based on the results of the LAN's shared risk assessment, only one area of significant risk was identified in relation to roads asset management. Our work on *Maintaining Scotland's roads: a follow up report,* which is referred to at paragraphs 152 to 153 of this report, recognises the progress made by the council in improving its roads asset management.

166. The AIP also identified that further engagement work is required on the arrears, letting and homelessness functions of Housing and Community Services. A self evaluation by the council and validation exercise by the Scottish Housing Regulator was scheduled for the summer of this year however this was delayed to allow for consideration of the Scottish Government's homelessness statistics which had not been released at that time and then again at the request of the council. The self evaluation was received in late September and is currently being validated.

167. The AIP included the joint best value and inspection audit of Fife's Police Service. This has been reported to the council and the findings are summarised at paragraphs 159 to 161 of this report.

168. The LAN also identified a number of other areas of uncertainty but these were not included in the Scrutiny Plan for Fife Council. These will be kept under review by the LAN and re-assessed as part of the 2012/13 shared risk assessment.

Progress on delivery of the council's best value improvement plan

169. As noted at paragraph 118, a report on the audit of best value and community planning in Fife Council was published by the Accounts Commission in 2009 and highlighted that the council had many of the building blocks in place for achieving best value. Some areas were also identified where improvements could be made by the council and these were translated into a best value improvement plan. The council has now reported that the best value improvement plan is considered to be complete.

Outlook

170. A best value review of Fife Council is currently planned for 2014/15. This will be a proportionate and focussed audit and will take account of the improvement in some of the areas of uncertainty over the years. No additional scrutiny activity has been identified for Fife Council in the period to 2014/15 but this will be re-assessed, along with the requirements of the best value audit, in the 2012/13 shared risk assessment. Any changes to the scrutiny programme will be reported in the Assurance and Improvement Plan 2014-16.

171. The Accounts Commission has developed an audit approach for the audit of Community Planning Partnerships. This approach is being piloted in the autumn of 2012 and is to be rolled out across the sector thereafter.

172. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the Scottish Government consulted on a set of 'Specific Duties' which came into force in May 2012. There are nine specific duties listed which aim to support public bodies to better perform against the 'General Duty,' including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013. We will consider progress made by the council in implementing these requirements as part our 2012/13 audit.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	24 February 2012	21 February 2012 (Draft)
Shared Risk Assessment/Assurance and Improvement Plan	18 June 2012	16 August 2012
Internal controls management letter	31 October 2012	8 November 2012
Maintaining Scotland's roads - follow-up review	28 July 2012	8 November 2012
Report on financial statements to those charged with governance	20 September 2012	27 September 2012
Audit opinion on the 2011/12 financial statements	28 September 2012	27 September 2012 (Draft)
Audit opinion on the 2011/12 Whole of Government accounts consolidation pack	5 October 2012	N/A
Report to Members on the 2011/12 audit	31 October 2012	8 November 2012

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	14	The Corporate Governance Statement contained within the council's Annual Accounts is restricted to a review of the effectiveness of the council's governance arrangements. There is no reference to the arrangements of other group bodies. **Risk:** Wider governance arrangements of the group are not reported.	The pro-forma which is issued to Executive Directors, the Assessor, the Chief Constable and the Chief Fire Officer to enable all services to provide their annual assurance statement is also issued to the various Trusts (i.e. Fife Coast & Countryside Trust, Fife Golf Trust, Fife Sports & Leisure Trust and ON at Fife). The responses from the Trusts and Fife Constabulary are analysed along with those from services within the Council. This is to be reflected in future Corporate Governance Statements.	Senior Manager (Democratic Services)	March 2013
2	27	Actuarial reports are only advisory and the council should confirm it is satisfied with the assumptions/rates used in these reports. No confirmation of the assumptions was provided in 2011/12. **Risk:** There is a risk	There was no written confirmation that Fife Council Management Team was satisfied with the assumption rates used. However, we are satisfied that the combined effect of the assumptions as a whole are reasonable	Accounting and Ledger Control Team Leader	March 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		of invalid assumptions being used for local circumstances resulting in incorrect valuations of the fund.	and that specific Fife Council past experience has been incorporated into the valuation (as we incorporate information on those individuals that have left in the last financial year). It is noted, however, that there is no formal written response. The process will be changed for next financial year		
3	66	The council does not have a corporate workforce plan, with much of the workforce planning being managed at a service level. A corporate workforce plan provides a mechanism for the strategic direction for the management of a council's workforce to ensure that there is sufficient staff with the necessary skills and motivation to allow the council to meet its strategic aims and objectives. **Risk:** The council may not be able to meet its aims and objectives without an overarching	Continue to implement and formalise a corporate approach/ model to workforce planning, structured around the development of workforce plans for individual occupational groups which are common to all Directorates or represent a significant proportion of the Council's workforce. We will work collaboratively with Directorates to embed flexible approach which works at both Corporate and Directorate level.	Sharon McKenzie, Head of HR	Model for new approach signed off by CMT in December 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		plan setting out the workforce requirements required to support their achievement.			
4	67	The full 'capitalised' costs of exit packages are not always included when calculating the future 'payback periods' for individual exit packages. The cumulative affect of this may impact upon the savings to be achieved from the workforce reduction programme. **Risk:** The council may not be achieving value for money in their consideration of individual exit packages.	The methodology for calculating payback periods is currently under review, with a planned implementation date of January 2013. Fife Council's funding strategy gives full consideration as to how costs will be recovered and has a policy which requires full redundancy/early retirement costs to be paid back within 3 years. The actual recovery period typically averages around 19 months and although there will be adjustments to the methodology it is unlikely that there will be a significant impact on the savings calculations.	Service Manager Support to Services	January 2013
5	71	Future finance settlements are forecast to remain at reduced levels. Continuing to deliver public services with a reducing budget will be	This requires effective forward planning and a strategy that covers not only the short to medium term but also the medium to longer term:-	Team Leader Accounting and Ledger Control	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		a significant challenge for the council. **Risk:** The council may fail to identify and respond to opportunities for savings or threats from increasing costs.	The Finance & Resources Directorate service continually look to update the assumptions contained within the Long Term Financial Plan (LTFP), using various sources of information e.g. the government's draft budget signalled the return to modest pay awards in the public sector and the Centre for Public Policy for Regions (CPPR) indicates the potential funding position over the medium to longer term horizon.		
6	98	The council is developing an ICT partnership with a commercial organisation to improve delivery and cost of ICT related change projects. While the scope has been defined there remains potential for uncertainties about the way the initiative could be introduced and implemented. **Risk:** The failure to manage any change in scope could lead to the original scope	Further information will be provided on the way this partnership will integrate into existing Council planning and project/programme governance following discussions with the successful partner. Integration into existing governance processes is seen as key to managing the risk outlined. These "mobilisation" discussions are outlined in the Tender for the Partnership and are scheduled to be	Head of ICT Services	December 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		becoming adrift due to changing demand and this could result in unexpected cost implications and the possibility of future business solutions not being delivered as expected.	complete by the end of December.		
7	141/147	Although the council's performance information reflects an improving overall performance, there remains a significant number of deteriorating performance indicators. **Risk:** Unless improvement is achieved in the deteriorating performance indicators, the council may not fully achieve its objectives.	Work is underway to put in place a new Council Plan and scorecard to reflect the objectives of the new Administration. Performance indicators will be reviewed as part of this.	Heads of Service	April 2013