

# Stirling Council

Annual Audit Report to Members and the Accounts  
Commission for Scotland 2013-14

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October 2014



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# 1. Executive Summary

## Introduction

The Accounts Commission for Scotland appointed Grant Thornton UK LLP as auditors to Stirling Council (the Council) under the Local Government (Scotland) Act 1973 for a five year period from 2012. This is therefore the third year of our appointment.

This report summarises the findings from our audit work for the year ended 31 March 2014.

## Overall Conclusions

We consider the Council to be well run with strong leadership and a well-developed approach to monitoring performance and is responding effectively to financial challenges.

## Financial Position

The Council reported an overspend against its overall budget in year of £2.1 million and a minor overspend at a service budget level of £0.05 million. There were significant challenges in the current year in fully achieving the savings targets, particularly in relation to the proposed savings on the costs of employment arising from changes to contract terms and conditions.

The Council has identified a budget gap of £29.1 million over the coming five years to 2018-19. During the year the Council has been developing a priority based budgeting approach to identifying and evaluating options for managing and reducing costs to meet its identified budget gap. From 2014-15 the Council will implement the policy outcomes emerging from its priority based budgeting review. This is a new approach for the Council and as such there are risks associated with successful implementation and operation of the budgeting process.

The uncommitted General Fund position at the Council fell from £8.0 million to £5.9 million in year. The Council still exceeded the target proportion of 2.5% of reserves to annual net budget. However, this target level of reserves is low in comparison to other Councils within the local area. The uncommitted element of the General Fund Reserve will become increasingly important as the Council addresses its budget gap, as a strong reserves position will allow the Council to

respond quickly to increased cost pressures and changes in circumstance.

The Housing Revenue Account Reserve had a year-end balance of £0.23 million, one of the lowest in Scotland. There continues to be a substantial arrears balance which is an area of significant concern for the Council.

## Governance

The Council reported that there were adequate governance processes were in place during 2013-14. Our audit work supports this assessment with some areas for improvement.

Our audit confirms that revised scrutiny over arrangements are working well and the new Committees were performing their role well in relation to tackling policy and monitoring performance. There is scope to improve the arrangements for risk management to ensure that each service Committee is aware of the risks impacting their service line. Furthermore we found limited evidence of self-assessment at a Committee level and the Council are therefore unable to establish the effectiveness of the Committees performance.

The Council was involved in a number of key tourism events in the early stages of 2014-15, including National Armed Forces Day and Bannockburn Live. Delivery of these events was managed in conjunction with key partners. Both events were delivered successfully, which can be attributed to the co-operative working arrangements Stirling put in place to prepare for the events. The bid process for the National Armed Forces Day event did highlight some governance weaknesses regarding the appropriate procedures to follow when bidding for an event or project.

## Performance

The Council approved a Single Outcome Agreement in 2013 and is supporting the delivery of key outcomes. There are significant challenges in delivering the services required to achieve the Council's outcome aspirations against a back drop of funding cuts.

The Council continues to monitor performance at a service level using the online system Stirling Performs. The most recent data available from this system shows a

relatively good performance with only 10% of indicators being flagged as below target levels.

There has been a change in methodology for Statutory Performance Indicators with only a small number now required to be reported annually. The Council has reported declining performance in a high proportion of SPI's, however, it should be noted that in a number of these indicators, performance still exceeds the target level.

The Assurance and Improvement Plan confirms that the Council continues to perform well in a number of areas. It did, however, raise some concerns over the quality of services to protect children and further scrutiny is planned in this area for 2014-15.

## Meeting future challenges

### Financial position

The positive announcement in the 2014 Budget that the Office of Budget Responsibility (OBR) has revised its forecast for GDP growth from 2.4% to 2.7% in 2014 will not play out evenly across the UK. How growth manifests itself locally, demographically or otherwise, presents very different opportunities and implications for policy makers and local leaders in fostering growth.

As Councils begin to make decisions on service delivery, and possibly cuts, scrutiny becomes increasingly important. Financial scrutiny is ultimately about testing how councils make choices about resource allocation and how well resources are used to deliver policy objectives.

Through scrutiny, councillors have the opportunity to step back and consider the relationship between costs and performance. The rigours of the annual budgeting round can focus attention on dealing with reduced funding without fully appreciating the impact on delivery of service priorities and performance targets. Cutting costs may achieve short term financial gain and a balanced budget but impact citizen perception and the

achievement of improvement objectives, which end up storing up costs for the future.

The financial austerity seen and forecast in local government is happening against a background of rapid social and technological change. It is uncertain whether local government will be able to keep up with technological developments because of a lack of investment in new systems, sector skills and appreciation of strategic impact. Its institutional shape is looking increasingly out of step and the people-based nature of many services makes efficiency gains a challenge, particularly where there are skills gaps. The speed of change will test the sector's ability to adapt their culture and invest in the people skills required to use technology and work in different ways.

### Health and Social Care Integration

The Public Bodies (Joint Working) (Scotland) Bill received Royal Assent in April 2014 and is applicable from April 2015. The Council has approved the decision to pursue the body corporate model of governance with NHS Forth Valley and Clackmannanshire Council. This will require establishment of an Integration Joint Board.

There will be significant challenges in creating an integrated framework with partnership bodies and ensuring this delivers a coordinated and effective framework for delivery of services.

### Senior Management Restructure

The Council approved the early retirement of the Chief Executive in April 2014. The new Chief Executive, Stewart Carruth, was appointed in May. In addition to this a revised management structure is being implemented with the number of service lines being reduced from six to four.

This represents a significant change to the leadership team within the Council. This represents a risk to the success of the Council's achievement of objectives.

## 2. Introduction

### Introduction

This report summarises the findings from our audit of the Council. The scope of our work was set out in our Audit Plan which was presented to the Audit Committee on 20 March 2014.

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Council

This report is also addressed to the Accounts Commission for Scotland and will be published on the Audit Scotland website after consideration by the Council's Audit Committee.

### The Council's responsibilities

It is the responsibility of the Council to prepare financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting.

This means the Council must:

- prepare financial statements which show a true and fair view of the Council's affairs
- maintain proper accounting records which are up to date
- make available to us all information and explanations we consider necessary for the purposes of our audit.

The Council is also responsible for putting proper arrangements in place to ensure that:

- public business is conducted in accordance with the law and proper standards
- public money is safeguarded and properly accounted for
- economy, efficiency, effectiveness and Best Value is achieved in the use of resources.

### Our responsibilities

It is a condition of our appointment that we meet the requirements of the Code of Audit Practice, which is

approved by the Accounts Commission and the Auditor General for Scotland. The most recent Code was published in May 2011 and applies to audits for financial years starting on or after 1 April 2011.

The Code of Audit Practice highlights the special accountabilities that are attached to the conduct of public business and the use of public money. This means that public sector audit must be planned and undertaken from a wider perspective than the private sector. We are therefore required to provide assurance, not only on the financial statements and annual governance statement, but also on Best Value, use of resources and performance.

### Our Annual Report

The purpose of the annual report is to summarise our opinions and conclusions, and to report any significant issues arising. As part of our audit we assessed the key financial and strategic risks being faced by the Council. The identified risks were summarised in our Audit Plan which was presented to the Audit Committee on 20 March 2014 and remained unchanged at the year end.

The main elements of our audit work in 2013-14 have been:

- the audit of the financial statements, including a review of the annual governance statement
- a review of corporate governance arrangements, internal financial controls and financial systems
- a review of the Council's arrangements for achieving Best Value
- a review of the council's response to Audit Scotland's national study reports.

The key issues arising from these outputs are summarised in this annual report.

### Acknowledgements

We would like to take this opportunity to record our appreciation for the kind assistance provided by elected members and officers of the Council during our audit.

## 3. Financial Statements

We have given an unqualified opinion on the financial statements of the Council for the financial year 2013-14.

### Financial Statements Audit

Financial statements are an essential part of accounting for the stewardship of the resources made available to the Council and its performance in the use of those resources.

We are required to audit financial statements in accordance with statutory requirements and give an opinion on:

- whether they give a true and fair view of the financial position
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

This section provides a summary of the results of our audit on the financial statements. Our Audit Findings report which will be presented to the Audit Committee on 6 November 2014, provides a more in depth analysis.

### Our Review of the Financial Statements

The draft financial statements were of good quality and we identified no significant errors or misstatements. This outcome reflects well on the hard work, commitment, and dedication of the Council's finance team in preparing and producing the annual financial statements.

As part of our work on the financial statements we are required to review the narrative elements of the financial statements (including the Foreword by the Chief Finance Officer, Statement of Responsibilities and Annual Governance Statement).

From 2012-13 the Financial Reporting Council and CIPFA have issued several guidance notes on 'de-cluttering' the financial statements. This focuses on reducing non-material disclosures which may obscure relevant information.

We have worked with the Council over the year to identify areas where disclosure in the accounts can be reduced or clarified. As part of this exercise we have taken care to ensure that the amended financial statements remain compliant with applicable accounting standards. We note that the Council has made several changes to the presentation of the accounts and the level of disclosure, which have improved the clarity of the financial statements.

### Audit Adjustments

Our audit did not identify any errors which require to be reported. We did, however, propose one disclosure adjustment relating to the exit package banding of one employee in the remuneration report. The accounts have been updated to reflect this change.

### Internal Controls

We update our understanding of the Council's operations and key financial controls systems each year and tailor our audit strategy to focus on key risk areas.

During our interim audit, we conducted testing on the following areas:

- payroll
- operating expenditure
- welfare benefits
- housing revenue account
- other revenues
- IT control environment.

As part of our testing we identified minor deficiencies over the processes around agreeing exit packages and the IT control environment. We have issued separate reports outlining our recommendations and the agreed management actions.

Overall, the results of our interim testing confirmed that there is a sound system of internal control covering key financial systems operated by the Council.

## 4. Financial Position

The Council has general fund reserves of £13.3 million with the uncommitted element being £5.9million. This represents 2.9% of the annual net expenditure, exceeding the Councils target of 2.5%, but remains at a low level relative to other authorities.

The Council continues to reduce service expenditure year on year, but delivered a small overspend of £0.05 million in year on the service level budget. The Council has identified a budget gap of £29.1 million over the next five years and has introduced a Priority Based Budgeting approach to identify savings to bridge this gap.

The Housing Revenue Account Reserve at £0.23 million is one of the lowest in Scotland and there continues to be issues in the level of rent arrears.

### Financial Performance

The Chief Finance Officer's Foreword to the 2013-14 Statement of Accounts provides a good summary of the Council's financial performance, including performance against budget and outcomes against the prudential indicators. The Council's accounts also disclose each of the financial ratios agreed by the CIPFA Directors of Finance working group, which enhances comparability across Scottish Councils.

**Table 1: Financial Performance Ratios**

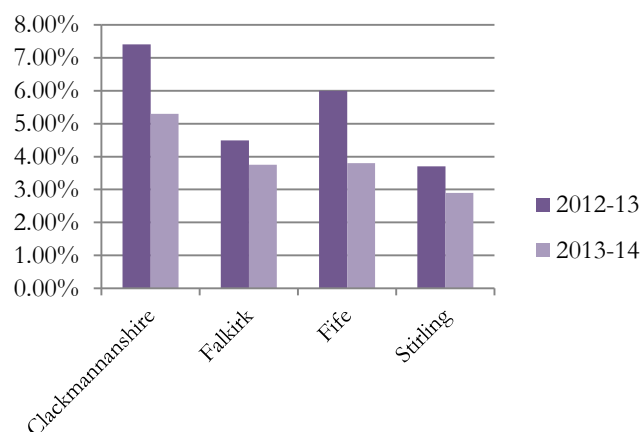
	2014	2013
Uncommitted general fund reserves as a proportion of annual budgeted net expenditure	2.9%	3.7%
Movement in uncommitted general fund balance	26.0%	51.55%
In year collection rate for council tax	97.30%	97.30%
Council tax funding to overall level of funding	19.60%	20.5%
Actual outturn compared to budgeted expenditure	99.81%	99.7%
Capital Financing Requirement (CFR) for the current year	£259m	£245m
External levels of debt for current year	£163m	£139m
Ratio of financing costs to net revenue stream	10.00%	9.30%
Impact of capital investment on council tax	£7.56	£7.61

Source: Stirling Council Statement of Accounts 2013-14

The financial ratios show a relatively stable position at Stirling. However, it is noted that there was a significant downward movement in the proportion of reserves to General Fund budget. Contributing factors to this downward movement included costs of severance of £4.02 million, which were incurred to generate savings going forward. The Council also made the decision to establish a Risk Fund and transferred £0.8 million to this Fund in year.

As part of our review of the ratios we also evaluated the Council's performance in key areas against other councils in the local area.

**Figure 1: Uncommitted General Fund Reserve as a proportion of annual budgeted net expenditure**



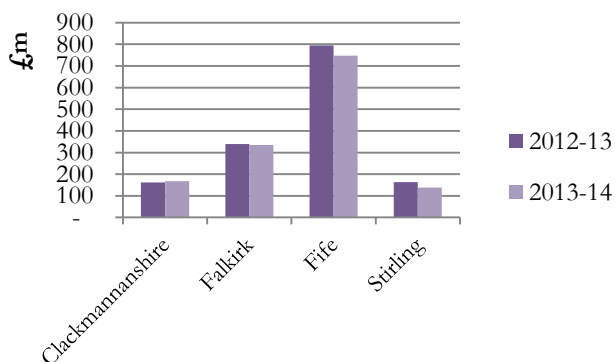
Source: Unaudited Statements of Accounts

Stirling has the lowest proportion of uncommitted reserves to annual budgeted net expenditure in the local area. The current proportion is 2.9% which is above the Council target of 2.5%. The Council has consistently over achieved on its target range of uncommitted reserves (2-2.5%). It may be worth considering in light of the results above and the over achievement against target whether the target figure should be increased.

### Recommendation 1

It should be noted that the Council also have the lowest level of debt among other councils in the local area

Figure 2: Levels of external debt



Source: Unaudited Statements of Accounts

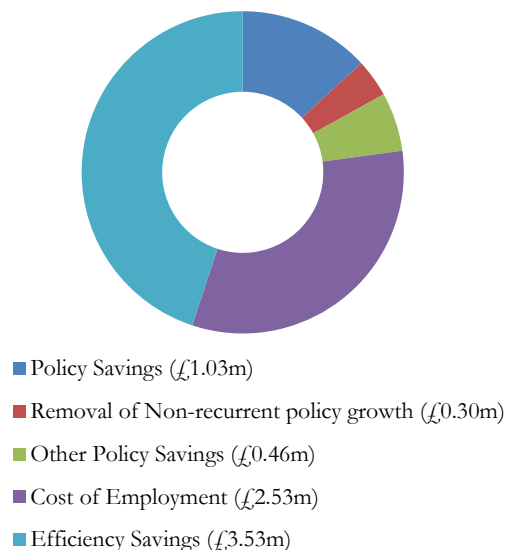
This reflects well on the treasury management strategy in place at Stirling and provides assurance that there is less strain on the reserves in relation to borrowing costs at Stirling.

### Budget Strategy 2013-14

The Council prepares its budgets on a medium term basis. The 2013-14 budget estimated a cumulative budget gap of £23.5 million by the year 2016-17. This recognises an expected reduction of income from government grants of 5% by 2016-17.

The Council has profiled its savings targets to 2016-17 to bring forward savings where possible. The budget gap for 2013-14 was £7.3 million but the target savings totalled £9.6 million.

Figure 3: The Council delivered efficiency savings of £7.9 million during 2013-14



Source: Stirling Council Outturn

The Council achieved 82% of its savings target, with the only area not meeting the target being the cost of employment. This was £1.7 million below the savings target identified. A key contributing factor to this was a shortfall of £965k for reducing the Council's employment costs. This shortfall related to the review of employee terms and conditions.

Key elements of the savings package included the increase in the working week by an hour and a pay cut of 1.5% which went ahead in 2013-14. Some scaling back of proposals in respect of overtime and holiday pay and a delay in implementation of the new reward package resulted in the shortfall against the planned savings target.

### Current Projections for 2014-15 onwards

We have reviewed the Council's projections for 2014-15 onwards. The Council continues to seek efficiencies in 2014-15 and has revised the way in which it conducts the budgeting process. The five year budget from 2014-15 onwards has been set using Priority Based Budgeting (PBB). This approach takes a long term view of future service requirements taking into account demographics, service cost and location. Services are prioritised based



on consultation on service need and flexibility of delivery options.

The Council presented its 2014-15 budget in February 2014 which identified a cumulative budget gap of £29.06 million to 2018-19 and an in year budget gap of £2.2 million.

A PBB report was presented alongside the budget which included a number of options to address the forecast gaps over the forthcoming five year period. This plan had been subject to a high degree of community engagement through:

- Area Forum meetings
- General public meetings
- Business breakfast meetings
- Direct consultation with stakeholder groups.

The PBB report identified cumulative savings of £13.2 million over the five year period with £4.4 million proposed savings actions for 2014-15. At its meeting in February 2014 the Council accepted PBB actions which resulted in net savings of £2.4 million.

The Council also identified a number of assumptions which would place cost growth pressures on the budget over the next five years and applied a risk based approach to managing this. In response to the assumptions the Council has created a Risk Fund to capture the potential cost pressures. A transfer to this was made in 2013-14 totalling £0.8 million and there are plans to increase this balance to £4.3 million by 2018-19.

The Council has identified a need to ensure that this it has the strongest possible capability, capacity and governance in place to ensure the successful delivery of the overall five year plan. It has outlined the following principles which it deems to be key to delivery:

- Development of an appropriate culture within the Council to drive, embrace and embed change

- Clear leadership and strategic direction that will steer, guide and continuously support the change
- Customer and community engagement
- Ability to report progress and impact both to Council, its partners and the local community.

This method of budgeting is in the early stages of implementation. The financial environment in which the Council is operating continues to be challenging and this is likely to continue in the medium term. There is a clear risk that the required savings may not be generated through the new programme. We will continue to monitor progress against savings targets and the effectiveness of the PBB approach to budgeting in 2014-15.

## Comprehensive Income and Expenditure Statement

The cost of running the Council's services decreased during the year by around £1.6million (or just under 1%). This outcome represents a more significant reduction in the context of general inflationary pressures within the economy.

**Table 2: Financial Results for 2013 and 2014**

	2014 £'000	2013 £'000
Net Cost of Services	202,548	204,172
Other operating expenditure	(133)	1,044
Financing and investment income and expenditure	21,177	21,327
Taxation and non-specific grant income	(215,551)	(233,822)
<b>(Surplus)/deficit on the provision of services</b>	<b>8,041</b>	<b>(7,279)</b>
(Surplus)/deficit from revaluation of non-current assets	96,359	(1,675)
Actuarial (Gains) / Losses on Pension Assets and Liabilities	12,890	2,733
<b>Total Comprehensive (Income) and Expenditure</b>	<b>117,290</b>	<b>(6,221)</b>

Source: Stirling Council Statement of Accounts 2013-14

The Council also reported significant movement in balances between years in its Comprehensive Income and Expenditure Statement, principally as a result of a

deficit arising on the revaluation of non-current assets. The majority of this related to the downward revaluation of council houses. This relates to the accounting treatment for housing, which requires Council Houses to be held at a discounted existing use value for social housing.

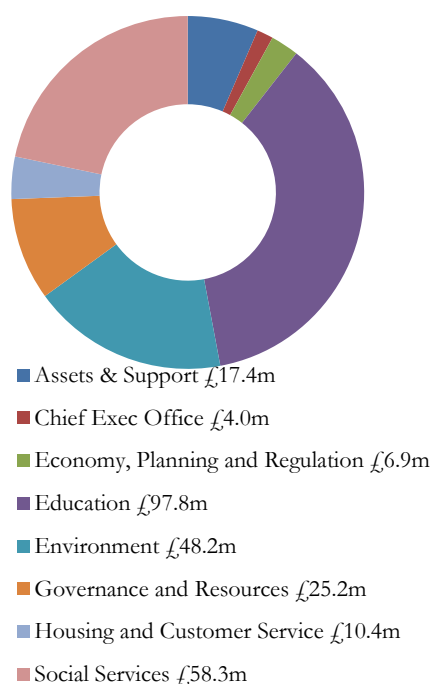
As Table 2, above, highlights, the Council reported total net comprehensive expenditure in year of £117.3 million (2012-13: income of £6.2 million).

### Service Expenditure

During 2013-14, the Council spent over £268 million delivering services to communities. Figure 3 below highlights that the Council spends the majority of its budget on Education (£97.8 million) and Social Services (£58.3 million).

The Council reported a strong performance against budget, with all services apart from Environment and Social Services reporting an outturn below or close to the budget figures.

**Figure 4: The majority of Council expenditure is directed towards Education and Social Care**



Source: Stirling Council Statement of Accounts 2013-14

The most significant area of overspend on Environment was on the Roads Maintenance Service (£253k) which

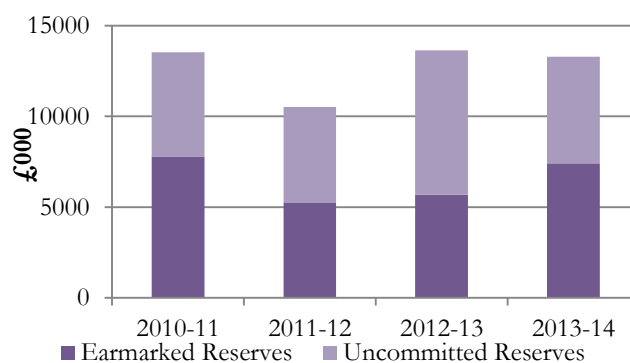
incurred additional costs to buy out the roads manual employees extra working hour. There were also savings of £221k on Waste Disposal Service as the expansion of recycling initiatives have helped reduce landfill costs.

The Social Services budget is largely demand led and it can therefore be difficult to predict annual expenditure requirements in the absence of certainty over the demand for services. Financial pressures were faced in Children's Services and Adult Services both of which reported an overspend in year (£180k and 260k respectively). The Council continues to review the budget management and control arrangements in these areas and has taken action to control costs better through the introduction of a new staffing structure and increased control over authorisation of spend.

### Financial Position

As part of our audit work we consider the Council's financial sustainability. One of the key measures we use to assess the financial health at a local authority is the level of uncommitted reserves balances. The Council has set a target to maintain reserves at 2- 2.5% of budget to allow flexibility and the ability to respond to unexpected events.

**Figure 5: The uncommitted element of the General Fund has reduced but overall reserves remain stable**



Source: Stirling Council Statement of Accounts

At 31 March 2014, the Council reported a General Fund balance of £13.3 million (2012-13: £13.6 m), of which £5.9 million is uncommitted. This exceeds the Council's target level of reserves, at around 2.9% of budget.

Prior to the implementation of Priority Based Budgeting the council took the decision to front load savings to

ease pressure in later years. This approach resulted in investment in the current financial year in order to generate future savings and maintain the reserves position.

The most significant element of expenditure from the General Fund used to generate savings was the costs of the severance schemes which in 2013-14 totalled £4.0 million and is expected to lead to annual savings of £2.0 million in costs of employment.

## Housing Revenue Account

The Housing Revenue Account (HRA) Income and Expenditure account reported a surplus for the year of £5.6 million (2012-13 - £2.0 million).

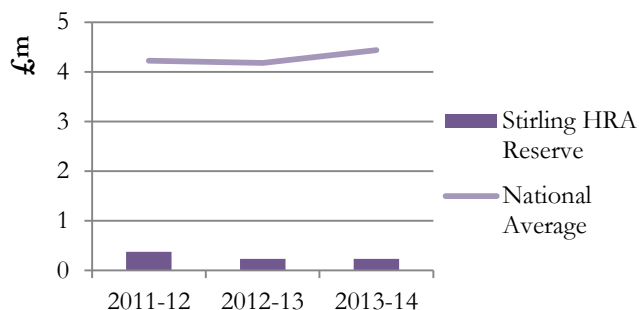
The Council's HRA reserves are amongst the lowest in Scotland at only £0.23m and 1.25% of gross spend. This is significantly below the national average. The Council have been borrowing funds to acquire new housing stock. The reserves position is a result of a decision to reduce the level of borrowing by utilising internal funding to support the development.

The Council has not set a specific target for the level of reserves but the General Fund is set with a target of 2.5% of gross expenditure. The revised 30 year HRA Business Plan, which will be presented to the November Environment and Housing Committee, contains a commitment to rebuild reserves to between 5-8% of gross expenditure. This would create a reserve of £1.0 million to £1.5 million and will begin to address the risk presented by the current low level of reserves.

The Council should consider whether the Housing Revenue Account Reserve is being maintained at an appropriate level and agree a target level of reserves.

### Recommendation 2

**Figure 6: HRA Reserves position compared to national average**



Source: Audit Scotland Analytical Review of Unaudited Accounts

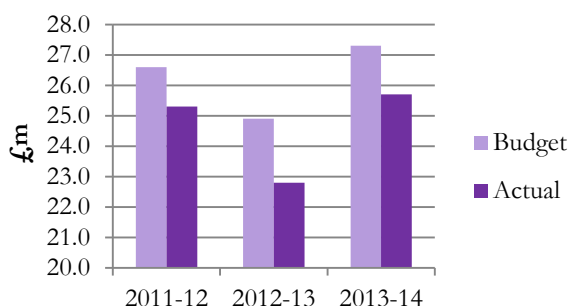
The Council's level of rent arrears has been an area of concern for a number of years following a political decision in 2009 not to evict tenants. Arrears have continued to increase in the current year, with a balance of £1.4 million at the year-end (2012-13: £1.3 million). However, the housing team have taken action which has resulted in a reduction in the proportion of current arrears to net rent due. This has moved from 10.8% to 10.1% in year. Non-payment of rent increases the financial burden for all Council tenants. The Council have recently appointed two arrears assistants and revised procedures with a view to reducing the level of outstanding arrears. The Council will need to continue action in this area to reduce the level of rent arrears.

### Recommendation 3

During 2013-14, £4.8 million was spent on the housing capital programme, including adding new housing stock and improvements as part of the Council's capital investment programme to deliver the Scottish Housing Quality Standard. Of this, £3.583 million was met from capital grants and contributions applied to capital financing.

## Capital Expenditure

General Services capital expenditure was £25.7 million in 2013-14. The budget was increased during the year by £3.2 million to £27.3 million. This increase to the original budget related to a number of small projects included within the core capital programme.

**Figure 7: Capital Expenditure rose during the year**

Source: Stirling Council Capital Outturn Report

The Council has a history of underspend against budget due to slippage in the delivery of capital projects. The Council should ensure they take action to minimise the impact of slippage on achievement of the budget.

#### Recommendation 4

Key projects in the year were for the headquarters rationalisation, acquisition of properties formerly belonging to Stirling Development Agency Ltd (a joint venture of the Council with Valad Property Group) and the acquisition of the Wolfcraig building. These three projects accounted for 44% of capital expenditure and were funded through Prudential Borrowing.

The Prudential Code requires councils to ensure capital plans are affordable, borrowing is prudent and sustainable, and treasury management arrangements reflect good practice. The Council approved a set of prudential indicators for 2013-14 and managed capital expenditure within those limits.

## Looking Forward

### The Local Authority Accounts (Scotland) Regulations 2014.

The Local Authority Accounts (Scotland) Regulations 2014 were laid before Scottish Parliament on 7 July 2014 and are due to come in to force for the statutory Annual Accounts for 2014-15. These replace the Local Authority Accounts (Scotland) Regulations 1985.

There are a number of implications arising from the new regulations, the most significant of which are:

- There is a requirement for the Council's accounting records to disclose with reasonable accuracy, at any time, a summary of the financial position of the Council. The Council should be able to disclose summary information on their treasury position and actual expenditures and incomes and a projected year end position for capital and revenue budgets
- There is a requirement for the Council to operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing
- The regulations require the Council to assess the efficiency and effectiveness of the internal auditing activity from time to time in accordance with recognised standards and practices
- The regulations require the Annual Accounts of the Council to include a Management Commentary in line with the Central Government Financial Reporting Manual (the FReM)
- The regulations now set out the latest dates for the period of public advertisement of the Annual Accounts as follows:
  - Public notices must be advertised not later than 17 June (or next working day); on Council's website and in accordance with section 195 of the Local Government (Scotland) Act 1973. Notices are to remain in place until the end of the inspection period. There is now no requirement to seek prior consent of Audit Scotland to advertise
  - Unaudited Annual Accounts produced and submitted to the appointed auditor by 30 June; copy of unaudited accounts published on Council's website at same time
  - Public inspection period will vary based on date the inspection period commences, but the latest period possible will be 1 July to 21 July (adjusted for non-working days)
  - Last date for objections is 21 days after the date the documents are first available for inspection. The latest date will be 22 July (or next working day), by which any objections are to be sent to the auditor.

## Group Accounts

A significant change in 2014-15 arises from the adoption by the Code of the new group accounts standards. For example, as a result of the adoption of IFRS 10, the definition of control has been revised and now focuses on three key tests:

- power over the investee
- exposure, or rights, to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect the amount of the investor's returns.

This means that decisions made under previous standards regarding the classification of entities, particularly leisure trusts, will need to be reviewed to confirm they remain appropriate.

## Infrastructure Assets

It is expected that the 2016-17 accounting Code will adopt the measurement requirements of the Code of Practice on Transport Infrastructure Assets (the transport code) for transport infrastructure assets, i.e. measurement on a depreciated replacement cost basis. This will have a significant impact on the value of local authority balance sheets.

This will represent a change in accounting policy from 1 April 2016 and will require full retrospective restatement including a restated Balance Sheet at 1 April 2015. It is essential that finance staff, asset management practitioners and engineering professionals work together to develop and action a project plan as soon as possible in order to achieve successful implementation. A robust project plan should be built on authority-specific information provided through an impact assessment which is designed to identify gaps in current data, systems and processes. Failure by the Council to begin preparations in 2014-15 increases the risk that the necessary information may not be available in the required timescale.

## 5. Governance

The Council has included an Annual Governance Statement within the Financial Statements which is supported by a well-developed assurance framework.

The Council implemented a revised committee structure in 2012-13. We found that overall scrutiny arrangements are providing adequate levels of challenge with some areas for improvement identified, in particular in relation to risk management and evaluation of effectiveness.

A number of key tourism events took place in Stirling in 2014 including National Armed Forces Day and Bannockburn Live. There were some weaknesses in the governance processes followed when making the decision to bid for the National Armed Forces Day event. Delivery of the events was managed in conjunction with other key partners and led to the successful delivery of both events.

### Annual Governance Statement

The Annual Governance Statement (AGS) is the key document that records the governance ethos of the Council, and assurances around the achievement of the vision and strategic objectives of the Council. The AGS summarises the Local Code of Governance, including the internal control framework, arrangements for risk management, financial governance and accountability.

We reviewed the Council's AGS as part of our audit procedures and concluded that the disclosures were in line with our knowledge of the Council

### Review of Internal Audit

Since April 2013 the work of Internal Audit has been governed by a common set of Public Sector Internal Audit Standards (PSIAS). These standards require that when planning the audits the Head of Internal Audit should establish risk based plans to determine priorities which are consistent with the Council's goals. Internal Audit confirmed compliance with the PSIAS as part of their 2013/14 plan.

The 2013-14 planned resources were 1,020 days including 40 days for Active Stirling Ltd. We have reviewed the work of Internal Audit to ensure that our

work was appropriately focused, and to highlight where there were control weaknesses.

We found that the Internal Audit Function is performing well. The Audit Plans are based on a risk assessment, and the scope and objectives of each planned review are presented to the Audit Committee to ensure that the work will reflect the needs of the Committee. The reports are clear, concise and constructive, and target timescales are set for their release and agreement.

Internal Audit concluded in their Annual Report to the Audit Committee that 'reasonable assurance may be given that the control, governance and risk management arrangements within the Council are adequate and operated effectively during 2013/14'.

### Scrutiny Arrangements

Council scrutiny should be robust, transparent and must explore all options thoroughly. Council's scrutiny functions are becoming increasingly important due to the difficult decisions councils have to make in the current political and socio-economic climate. It is therefore critical that members focus on decision making aligned to the Council's strategic goals.

The Council implemented a new Committee structure following the elections in May 2012, including the establishment of five committees:

- Social Care and Health Committee
- Education Committee
- Finance and Economy Committee
- Environment and Housing Committee
- Community Planning and Regeneration Committee.

As part of the changes a revised Scheme of Delegation was established which charged each Committee with tackling policy, performance, projects and strategic objective delivery. Under the Scheme of Delegation, each Committee is also responsible for scrutinising service plans for implementation of the Council's policies and priorities for service delivery.

We noted from our review of committee papers that performance against strategic objectives is a standing item at all Committees. It was less clear that all Committees were taking responsibility for the scrutiny of risk management. However, the Council operates its risk management arrangements at a corporate level. Risks are reviewed regularly by the Council Management Team, and the Corporate Risk Register is presented to the Audit Committee on a quarterly basis. It should be considered whether it would be advantageous for all Committees to scrutinise the risk management arrangements for their service line.

#### Recommendation 5

The Council regularly receives minutes from each of the Committees but does not review how each Committee operates or scrutinise its work over the financial year. The Council should encourage each Committee to undertake a self-assessment exercise on a cyclical basis so there is evidence it is operating effectively and in line with the Scheme of Delegation.

#### Recommendation 6

During 2013-14, we attended and observed the Audit Committee. We found that the Committee has effective arrangements in place, to manage the agenda and ensure that key areas of focus are controls, the assurance framework and risk management.

### Prevention and Detection of Fraud and Irregularity

The integrity of public funds is a key concern for the organisation and for auditors. As external auditors, we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities. Our enquiries of management and the Council's internal auditors found that there was one fraud, over our testing threshold of £5k during 2013-14. This related to the theft of copper, with a value of £40k, from the New Viewforth site prior to demolition. This matter has been reported to the Police and is currently under investigation.

There were no issues highlighted to us relating to internal fraud. We conducted testing on journal entries and related party transactions to highlight any unusual transactions. There were no issues arising from this testing.

### Maintaining Standards of Conduct and Prevention and Detection of Corruption

The Council is responsible for ensuring its affairs are managed in accordance with proper standards of conduct. We have reviewed the governance framework in place at the Council and confirmed there is appropriate guidance in place including a Code of Conduct, Management Statement and Financial Memorandum.

### Stirling 2014

Stirling Council identified an opportunity in 2014 to capitalise on national events occurring within and near the local area. The Council agreed a vision for Stirling 2014 in March 2012. A programme was developed around three streams of events:

- Homecoming signature events

- Key events
- Community/ Local events.

The Council set up a short life working group to take the events programme forward. Regular updates are provided to the Council through the Community Planning and Regeneration Committee.

The original budget for Stirling 2014 in 2013-14 was £100k, however, due to some unexpected costs relating to Hogmanay 2013 this was increased to £175k. The Council approved the additional expenditure as part of the events planning process.

## National Armed Forces Day 2014

The National Armed Forces Day 2014 took place on 28<sup>th</sup> June. It was a signature event arising from the Stirling 2014 agenda. The one day event celebrated the work of the armed forces.

In August 2013 the Defence Secretary announced Stirling had been selected to host the National Armed Forces Day 2014. The Council had the responsibility for planning and managing the event and engaging with sponsors. Due to the timing of the event, coinciding with Bannockburn Live, it was crucial that the Council worked with partners to ensure co-ordination of the events. A Stirling Key Events Joint Liaison Group was established to ensure a co-ordinated approach in all aspects of logistics, marketing and where appropriate, events programming.

We are aware there were some governance issues regarding the initial decision to bid to host the National Armed Forces Day. The decision to apply to host the National Armed Forces Day was taken without full Council approval. Commitment was made to host the event in August 2013, when the Provost confirmed, directly with the Ministry of Defence that there was approval to stay on the short list. The Council approved the budget of £250k retrospectively, which is not in line with proper procedures.

Key issues identified related to the policies and procedures in place at the Council for applying for bids.

We have reported on this separately and the detailed findings are outlined in this report.

Following the decision to host National Armed Forces Day getting approval from the Council, there were concerns by the National Trust for Scotland over the timing of the event coinciding with Bannockburn Live. This led to VisitScotland taking over the event. The Council set up a 2014 Stirling Key Events Joint Liaison Group to ensure the National Armed Forces Day and Bannockburn Live events would be co-ordinated.

Both events were deemed to be a success with good attendance and co-ordinated delivery. This can be attributed to the work of the Council and the partner organisations.

## Health and Social Care Integration

The Public Bodies (Joint Working) (Scotland) Bill received Royal Assent in April 2014. This Bill puts in place the framework for integrating health and social care and allows this to be achieved in two ways:

- the health board and local authority delegate responsibility to an Integration Joint Board
- the health board or the local authority takes lead responsibility to deliver integrated health and social care services.

The integrated framework for delivering Health and Social Care Adult Services is required to be in place by April 2015.

The Council approved the decision to pursue the body corporate model of governance jointly with Clackmannanshire Council and NHS Forth Valley. This will require a newly established Integration Joint Board which will include representation from the Council, NHS Forth Valley and Clackmannanshire Council.

A number of activities need to be completed prior to the establishment of the Integration Joint Board, including the recruitment of a Chief Accountable Officer. This person will be accountable to the Chief Executives of both Councils and the Health Board.

Integration Schemes which set out the governance, finance and planning arrangements for integration are required to be submitted for Ministerial Approval by 1



April 2015. In response to this a core group of chief officers from the local authorities and NHS Forth Valley is overseeing the following six work streams:

- Governance
- Finance
- Human Resources and Organisational Development
- Consultation and Engagement
- Clinical and Care Governance
- Planning and Operational.

We will review the work of the work streams as part of our 2014-15 audit.

## Looking forward

Effective leadership is key to the success of the Council's governance arrangements and achievement of objectives. In 2014 there has been significant changes to the leadership team at the Council.

In April 2014 the Council approved the voluntary early retirement of the Chief Executive. The recruitment of the new Chief Executive was completed in May with the appointment of Stewart Carruth, the former Depute Chief Executive.

In addition to this a revised management structure was approved at the Council meeting in June 2014. The revised structure reduces the number of service lines from six to four. Four Services have been established:

- Housing and Environment
- Communities and Partnerships
- Children, Young People and Education
- Corporate Operations.

Each Service will provide senior leadership for key priorities and outcomes. It is planned that each Service will be led by a Director responsible for developing the culture, systems and processes and relationships with partners. The establishment of four Director posts will mean the removal of the Depute Chief Executive and six Head of Service posts.

In addition there will be a Chief Executive's Office which will include services such as communications, marketing, events and economic development.

This is clearly a significant change to the operational management structure and with any change of this nature there a risk to the successful achievement of objectives.

The Council has put in place procedures to support the new senior management structure. We will therefore review these arrangements in 2014- 15.

## 6. Performance

The Assurance and Improvement Plan confirms that the Council continues to perform well in a number of areas. It did, however, raise some concerns over the quality of services to protect children.

There has been a change in methodology in the reporting of Statutory Performance Indicators with only a small number now required to be reported annually. The Council has reported declining performance in a high proportion of the SPI's, however, it should be noted that in a number of these indicators performance still exceeds target levels.

The Council approved a Single Outcome Agreement in 2013 and has taken steps in supporting the delivery of the key outcomes. There are significant challenges in delivering the services required to achieve the Council's outcome aspirations against a back drop of funding cuts.

### Assurance and Improvement Plan

The Council's Assurance and Improvement Plan (AIP), was updated and developed by the Local Area Network of external scrutiny bodies, and published in May 2014. This is the fifth AIP for Stirling Council and reflects the work carried out by local scrutiny partners including the Best Value Audit, and sets out the planned scrutiny activity between April 2014 and March 2017.

This year's Shared Risk Assessment focused on identifying the Council's current position in implementing the Scottish Government's reform agenda and placed more emphasis on scrutiny risk in relation to the Council's improvement and transformation agenda.

The Local Area Network judged that overall the Council continues to perform well in many areas, including education, health and cultural services. There were, however, concerns raised over the quality of services to protect children. As a result of the findings The Care Inspectorate will return to Stirling Council and report on the progress made in meeting the required improvements.

### Single Outcome Agreement

The Council approved the submission of the Single Outcome Agreement to the Scottish Government in

May 2013. The Single Outcome Agreement (SOA) brings together the Community Planning Partners to agree a vision for the Stirling area.

The SOA sets out the strategic priorities which will enable the Council to achieve its vision. The priorities are designed to support the Scottish Government national outcomes and are expressed as seven local outcomes to be delivered by partners:

- improved outcomes in children's' early years
- improved support for disadvantaged and vulnerable families and individuals
- communities are well served, better connected and safe
- improved supply of social and affordable housing
- reduced risk factors that lead to health and other inequalities
- improved opportunities for learning, training and work
- a diverse economy that delivers good quality local jobs.

The Council intend to implement the SOA through a series of action plans designed to progress the partnership outcomes. The Community Planning and

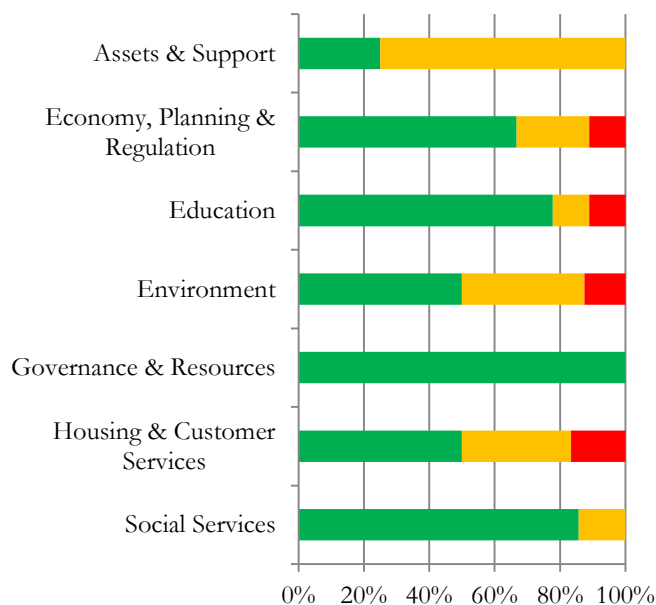
Regeneration Committee has been given responsibility for approving and monitoring action plans.

As at August 2014 the Community Planning Partnership has established 5 Task Groups to develop action plans for key areas which relate to the delivery of outcomes from the SOA. Two action plans have been completed outlining the key priorities for the Task Group and the planned activities. The remaining three action plans are in draft but key information has been reported to the Community Planning and Regulation Committee for approval.

### Stirling Performs

The Council has a performance management framework in place which is based on the Single Outcome Agreement, Business Plans and Service Plans. Stirling Performs is a set of performance indicators which covers key customer facing services from across the Council.

**Figure 8: The Council improved or maintained**



Source: Stirling Council Local Government Benchmark Framework report

It can be seen, from figure 8, that the Council is performing well with 65% of indicators meeting the target and a further 25% in the acceptable range but below the target level. This left only 10% where the client performing significantly below target. Those below this level are highlighted as red above and are outlined in Table 3.

**Table 3: Areas where the Council is reporting performance**

	Target	Actual
Building warrant applications first response within 20 working days	80%	71%
Percentage of all planning applications determined within 2 months	66%	60%
Household recycling tonnage	1050	918.64
Contact centre calls answered within 20 seconds	80%	66%
Void housing properties re-let within 28 days	66%	60%
Stirling Health reporting status	4.75%	0%
Stirling secondary schools providing 2 hours PE	57.14%	85%

Source: Stirling Performs interactive system

The Council has outlined the actions in place to move the performance towards the target score.

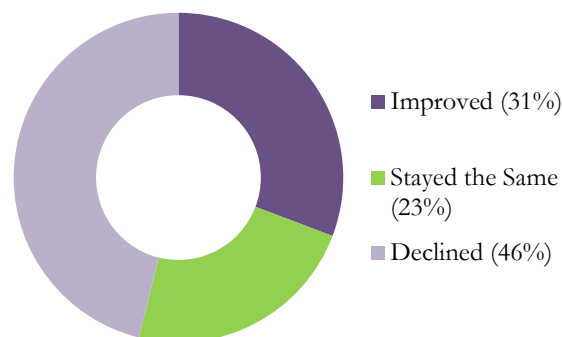
The performance information is reported to the appropriate service Committee as a standing item and performance monitored and action discussed.

### Statutory Performance Indicators

There has been a change in the requirements of the Local Government Benchmarking Framework. The Council is now required to provide only a small number of performance indicators.

Our review of the SPI data for 2013-14 found that performance was maintained or improved for 54% of the specified indicators (Figure 9)

**Figure 9: The Council improved or maintained performance in 53% of specified indicators**



Source: Stirling Council Local Government Benchmark Framework report

The areas where performance declined mainly related to sport and culture indicators including the number of attendances at pools, other indoor sport and leisure

facilities and libraries per 1000 of the population. It should be noted that although performance has declined in these areas the Council remains above target for all sport and culture indicators with the exception of libraries which is just below the target of 7,500 at 7,231 visits per 1,000 of the population in 2013-14.

Areas of improved performance included the cost of collecting council tax per dwelling which had decreased from £8.17 to £8.12. There was also improvements in the number of days per full time equivalent lost through sickness absence for teachers.

## Major Capital Investment in Councils

In March 2013, Audit Scotland published its report on Major Capital Investments in Councils. The report reviewed a number of major capital projects over £5 million each, and assessed how well councils direct, manage and deliver capital investments.

Audit Scotland found that many councils do not have established processes for developing and using business cases, which means key performance information on aims, cost, time, scope and risk may not be clearly defined.

While councils are clear about the broad goals for their investment projects, they rarely specify benefits expected or how these will be measured. Audit Scotland also noted that councils do not often proactively seek opportunities to work with other councils or other public bodies in planning and delivering their capital programmes.

We conducted a follow-up review of the Audit Scotland report in 2013-14. This work included a review on the following key areas:

- Does the Council have an appropriate investment strategy?
- Does the Council provide adequate financial information to support effective decision making and scrutiny?

The Council has adopted a City Centre Investment Strategy and Economic Strategy in line with the work supported by the Scottish Cities Alliance. Both of the plans are supported by an Investment Strategy which covers the period 2013 -2018 and is linked to the capital programme.

The capital programme covers 2014-15 to 2018-19 and includes over £68 million of investment over the five year period. The plan is linked to funding sources and meets the features of the good practice guide published by Audit Scotland, with the exception of information on risk management. Key risks are, however, highlighted to the Finance and Economy Committee as part of the quarterly programme updates.

The Council receive an annual summary of budget outturn which feeds into the wider capital strategy. The Finance and Economy Committee are presented with regular and detailed updates on the financial performance of the capital projects. As part of this role the Finance and Economy Committee monitor any movements in planned spending and ensure the reasons behind any such movements are justified.

The Council considered this report at their Audit Committee and recognised there were key learning points, specifically around the involvement and knowledge of elected members and how the Council works in partnership with other public sector bodies and the private sector to develop a successful investment and infrastructure plan.

# Appendix A: Action Plan

	Issue and Risk	Priority	Recommendation
1.	<p>The Council has a low proportion of uncommitted reserves to annual budgeted net expenditure when compared to other Council's in the local area. The current proportion is 2.9% compared to a target of 2.5%.</p> <p>The Council have consistently over achieved against their target level of uncommitted general fund reserves.</p>	Medium	The Council should consider whether there is scope to revise the target level of reserves to ensure the target is challenging and the general fund is maintained at an appropriate level.
2.	<p>The Housing Revenue Account Reserve is one of the lowest in Scotland at only £0.23 million.</p> <p>The low level of reserves leaves the Council limited in its ability to respond quickly and effectively to unforeseen events.</p>	High	The Council should consider whether the Housing Revenue Account Reserve is being maintained at an appropriate level and agree a target level of reserves to be maintained.
3	<p>The arrears arising from housing rents are significant when expressed as a proportion of net rent. The proportion of current arrears to net rent due has reduced by 0.7% in year to 10.1%, but this remains high when compared to other councils. Non-payment of rent increases the financial burden for all council tenants.</p>	High	The Council should continue to focus on action to reduce the level of rent arrears.
4	<p>The council has a history of under spending against the capital budget. In the current year there was an underspend of £1.6 million arising from slippage of projects.</p>	Medium	The Council should take action to minimise the impact of slippage on the achievement of the budget.
5	<p>Service Committees are required to perform a scrutiny role for the relevant service line. We found that there were adequate procedures for performance over strategic objectives and policy decisions. However, it was not clear that all service committees are applying adequate attention to the risk management arrangements for each service line.</p>	Low	It should be considered whether it would be advantageous for all committees to scrutinise the risk management arrangements for their service line.

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6	The Council regularly receives minutes from each of the Service Committees but does not review how each Committee operates or review the work of the Committee. The Council therefore has no assurance over the effectiveness of each Committee.	Low	The Council should encourage each Committee to undertake a self-assessment exercise on a cyclical basis so there is evidence it is operating effectively and in line with the scheme of delegation.
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