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**Report to Scrutiny Committee**

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**Date: 21st January 2010**

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**Subject: Audit Report for year ended 2008/09**

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**Report by: Finance Manager**

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**1.0 Purpose**

- 1.1. This report brings to the Council the annual report by our external auditors Grant Thornton on the audit of the Council's accounts for 2008/09. This is included as an Appendix to this report. The report gives an overview of the financial statements for 2008/09, and also covers Governance and Performance issues examined over the year.
- 1.2. This is the third year of the appointment of our external auditors, Grant Thornton.

**2.0 Recommendations**

- 2.1. That the Council notes the content of the external audit report.

**3.0 Considerations**

- 3.1. The audited accounts for the year ended 31st March 2009, together with the external auditors report on those accounts titled 'Key Issues Memorandum' were approved by Council at its meeting on 24th September 2009.
- 3.2. Grant Thornton were appointed as our external auditors for a five year period with effect from 2006/07, and this is their third annual report. This report covers their key findings from the 2008/09 audit in the context of the Financial Statements, Governance, and Performance. The key action identified are:
- *review arrangements for ensuring complete and accurate budget monitoring and financial reporting to members and officers during the financial year*
  - *take urgent action to develop a sustainable medium term financial strategy, aligned to corporate priorities that delivers a balanced budget, incorporates anticipated efficiency savings, and maintains reserves at an acceptable level*

- *develop both the role of the scrutiny committee and the framework which supports it. In particular, the Council should move towards arrangements which would support an annual Statement on Internal Control or Governance Statement, including strengthening internal audit, improving risk management arrangements and developing more tailored training for scrutiny committee members*
- *ensure risk and performance management arrangements are output, outcome and impact focussed and enable monitoring of the contribution of all partners in the Clackmannanshire Alliance to the achievement of Single Outcome Agreement objectives.*

3.3. The Council has already taken steps to address these issues. Actions to address these issues have been agreed and actions have been formally allocated to relevant officers for completion. Progress against these actions is being monitored. Actions addressed include budget monitoring reports have been presented to the Council Management Team on a monthly basis throughout the year, with the medium term financial strategy being approved by Council in December 2009. In addition, the Council are working towards implementation of an annual Governance Statement, and the Corporate Risk Register is regularly reviewed.

3.4. It is the intention of Grant Thornton to attend this Committee meeting to give members the opportunity to ask questions on their report.

#### **4.0 Sustainability Implications**

4.1. N/A.

#### **5.0 Resource Implications**

5.1. *Financial Details*

5.2. The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate.

Yes ✓

5.3. *Staffing - none*

#### **6.0 Exempt Reports**

6.1. Is this report exempt? Yes ☐ (please detail the reasons for exemption below) No ✓

## 7.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

### (1) Our Priorities 2008 - 2011 (Please tick ☒)

The area has a positive image and attracts people and businesses	<input type="checkbox"/>
Our communities are more cohesive and inclusive	<input type="checkbox"/>
People are better skilled, trained and ready for learning and employment	<input type="checkbox"/>
Our communities are safer	<input type="checkbox"/>
Vulnerable people and families are supported	<input type="checkbox"/>
Substance misuse and its effects are reduced	<input type="checkbox"/>
Health is improving and health inequalities are reducing	<input type="checkbox"/>
The environment is protected and enhanced for all	<input type="checkbox"/>
The Council is effective, efficient and recognised for excellence	✓

### (2) Council Policies (Please detail)

## 8.0 Equalities Impact

8.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?

Yes ☐ No ✓

## 9.0 Legality

9.1 In adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes ✓

## 10.0 Appendices

10.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Report on the 2008-09 audit - Grant Thornton

## 11.0 Background Papers

11.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Yes ✓ (please list the documents below) No ☐

**External Audit Report on Statement of Accounts 2008/09 and Audited Statement of Accounts 2008/09 – report by Head of Finance to Council meeting, 24th September 2009.**

**Author(s)**

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Susan MacKay	Finance Manager	Signed: S MacKay
Angela Leitch	Chief Executive	Signed: A Leitch

## Clackmannanshire Council

Report on the 2008-09 Audit

30 October 2009

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# 1 Executive Summary

## 1.1 Introduction

This report summarises the outcome of our audit and key messages for members. We planned and performed our 2008-09 audit in accordance with our Audit Plan issued in February 2009. The Code of Audit Practice objectives and key findings for the audit are summarised in Exhibit 1 below.

### Exhibit 1 - Key findings from the 2008-09 audit

Code Area	Summary
<p><b>Financial statements</b></p> <ul style="list-style-type: none"> <li>To provide an opinion on the Council's financial statements for the year ending 31 March 2009.</li> </ul>	<ul style="list-style-type: none"> <li>We gave an unqualified opinion on the Council's 2008-09 financial statements on 30 September 2009.</li> <li>Overall, the Council's financial position remains weak with the level of the unearmarked reserves below the £1.8 million target level for the year. We noted potential for improvement in budgetary control and financial reporting arrangements.</li> <li>The Council continues to face significant financial pressures linked to funding for the Three Schools PPP Project, increasing wage and price inflation and increasing demand for services. In addition, the significant deterioration in the financial position of the UK government is likely to lead to budget cuts across the public sector. The Council is aware of this issue and is currently reviewing options to contain costs and safeguard core services.</li> <li>The Council will also make an offer to employees on the implementation of single status in the near future. Our experience at other Councils indicates that this process is complex and subject to a high risk of employee dissatisfaction and higher than expected costs if not implemented effectively.</li> </ul>
<p><b>Governance</b></p> <ul style="list-style-type: none"> <li>To review and report on the Council's corporate governance arrangements, including: systems of internal financial control, arrangements for the prevention and detection of fraud and corruption, standards of conduct and the Council's financial position.</li> </ul>	<ul style="list-style-type: none"> <li>We have concluded that the Council's systems of internal financial control are operating adequately.</li> <li>The Council's governance arrangements are generally sound. However, there continues to be a need to further develop the role of the scrutiny committee and to develop an assurance framework to support the inclusion of a Statement on Internal Control or Annual Governance Statement in the Council's annual accounts.</li> <li>The Council's internal audit section continue to face operational challenges to address the increasing expectations from internal auditors in local government. A longer term plan is needed for delivery of a stable and robust internal audit function.</li> <li>The Council should ensure it completes the processing of data matches from the National Fraud Initiative exercise.</li> </ul>
<p><b>Performance</b></p> <ul style="list-style-type: none"> <li>To review and report on the Council's arrangements to achieve Best Value, other aspects of arrangements to manage performance in the use of resources, and arrangements for preparing and publishing statutory performance indicators.</li> </ul>	<ul style="list-style-type: none"> <li>The Council has completed the majority of actions set out in the Implementation Plan prepared in response to Audit Scotland Best Value Report issued in September 2007 but now needs to re-visit its performance improvement strategy to ensure it has plans in place to address all key recommendations</li> <li>The Council has been able to demonstrate improvements in service performance during the year, both in Statutory Performance Indicators outcomes and in the Single Outcome Agreement progress report.</li> <li>The Council should take action to ensure the Council's service planning framework and risk management and performance management arrangements are applied consistently across all services.</li> <li>The Council should take action to ensure it plans effectively for the implementation of the Best Value 2 scrutiny framework.</li> </ul>

### 1.2 Action needed by the Council

Our audit identified the following key actions for the Council in the coming year. The Council should:

- review arrangements for ensuring complete and accurate budget monitoring and financial reporting to members and officers during the financial year
- take urgent action to develop a sustainable medium term financial strategy, aligned to corporate priorities that delivers a balanced budget, incorporates anticipated efficiency savings, and maintains reserves at an acceptable level
- develop both the role of the scrutiny committee and the framework which supports it. In particular, the Council should move towards arrangements which would support an annual Statement on Internal Control or Governance Statement, including strengthening internal audit, improving risk management arrangements and developing more tailored training for scrutiny committee members
- ensure risk and performance management arrangements are output, outcome and impact focussed and enable monitoring of the contribution of all partners in the Clackmannanshire Alliance to the achievement of Single Outcome Agreement objectives.

Detailed action plans have been agreed with the Council and included in our audit reports issued during the year (Appendix A).

### 1.3 Acknowledgements

We would like to take this opportunity to thank the staff who have been involved in the 2008-09 audit for their assistance and co-operation.

This report is part of a continuing dialogue between the Council and Grant Thornton and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Council's systems and work practices.

The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on it.

**Grant Thornton UK LLP**  
**30 October 2009**



## 2 Financial Statements

### 2.1 Introduction

We have audited the Council's 2008-09 accounts in accordance with our Audit Plan issued in February 2009. During the year we reviewed key aspects of the Council's reported financial position and performance to 31 March 2009. The key messages arising from our financial statements audit are contained in our Key Issues Memorandum, issued in September 2009 and summarised below.

### 2.2 Financial Statements Audit opinion

We gave an unqualified opinion on the Council's 2008-09 financial statements on 30 September 2009. Our audit identified a small number of adjustments to the Council's draft financial statements.

### 2.3 Financial results

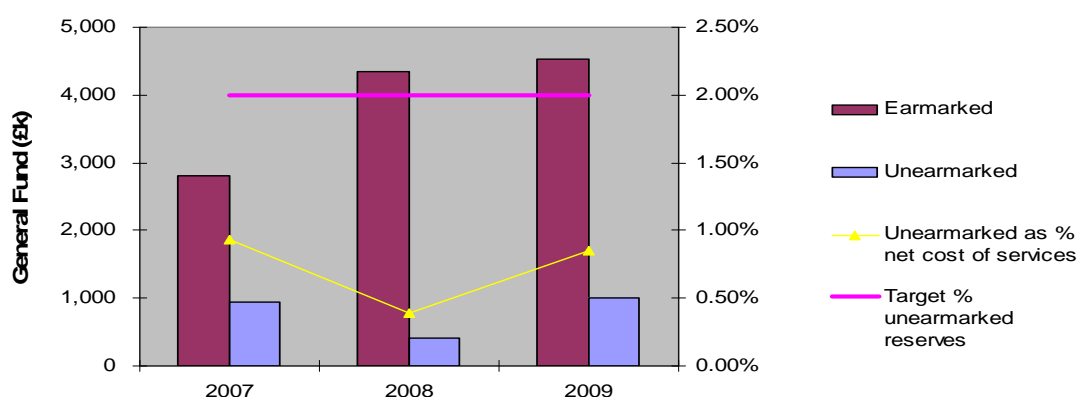
The Council reported a deficit on the Income and Expenditure account for 2008-09 of £14.3 million (2007-08: £14.2 million). The net increase on the general fund was £0.8 million (2007-08: £1 million).

The Council achieved a surplus of £0.8 million for the year compared a budgeted forecast deficit of £0.3 million, underspending by £1.1 million against forecast outturn. The Council recorded an overspend of £0.8 million in net cost of services, but this was offset by savings in the budgeted support for the Three Schools PPP Scheme (£1.1 million) due to delays in the completion of the project, together with an underspend of £0.6 million in the devolved education budget.

### 2.4 General Fund

For the year ending 31 March 2009, the Council had a total general fund reserve balance of £5.5 million, of which £4.5 million was earmarked for specific purposes, leaving £1 million available for new expenditure or to meet the costs of contingencies and unforeseen events. This is below the Council's target level during 2008-09 for un-earmarked reserves of 2% of net operating expenditure, around £1.8 million.

Exhibit 2: General Fund balances at 31 March



During the 2009-10 budget setting process, the Council approved a revised target for unearmarked reserves of 2.5% of net operating expenditure, with the aim of achieving this position by 2011-12. The Council has budgeted for the following transfers to reserves over the next three years to achieve this target:

- 2009-10: £1 million
- 2010-11: £1 million
- 2011-12: £0.5 million

The Head of Finance is currently reviewing the Council's financial strategy, including a review of the General Fund balance. The level of unearmarked reserves will be subject to a risk based review to determine a range of balances required to be held to meet contingencies and respond effectively to unforeseen events.

## 2.5 Financial Controls

As part of our interim audit we reviewed the operation of the Council's internal controls for fixed assets, treasury management, cash and bank, expenditure and creditors, payroll and housing benefits. Our audit did not identify any high risk observations. Our key findings were that:

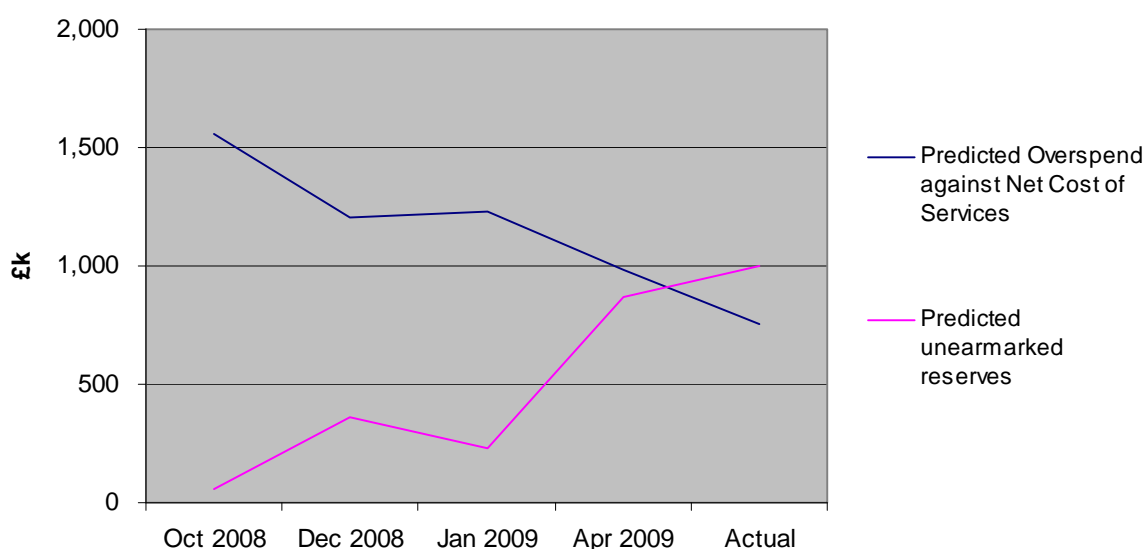
- the fixed asset register remains on an excel spreadsheet, increasing the risk of error and making reconciliation to departmental asset registers difficult and limiting the information available for effective asset management
- the Council should update its treasury management policies to take account of revised guidance issued by CIPFA
- some subsidiary systems, including the housing benefit system, are not reconciled to the ledger on a regular basis.

An action plan has been agreed with management to address all audit recommendations and we will follow up the Council's progress in implementing the agreed action plan as part of our 2009-10 audit.

## 2.6 Budget monitoring

Throughout the year, budget monitoring reports are provided to elected members on the Scrutiny Committee. These reports are also available to all members via the members' portal. We noted that the predicted overspend against budget within services varied considerably over the year (Exhibit 3). The first report to members predicted that services would overspend against budget by over £1.5 million, leaving only £60k unearmarked reserves for future years. By the year end, the audited accounts recorded unearmarked reserves of £1 million and an overspend against the net cost of services of £754k as outlined in Exhibit 3 below.

Exhibit 3 - Budget position reported to the Scrutiny Committee



The significant movement in the Council's reported financial position during the year indicates that there is scope to improve the quality and accuracy of the Council's budget setting, monitoring and reporting procedures.

## 2.7 Housing Revenue Account

The Housing Revenue Account (HRA) ended the year with a deficit of £5 million (2007-08: £4.5 million). The accumulated balance on the HRA was £6.1 million at the year end (2007-08: £7.4 million). The Council is now applying its HRA reserve balances in accordance with its business plan to meet its commitment to exceed the requirements of the Scottish Housing Quality Standard (SHQS) by 2015.

## 2.8 Capital Expenditure

The Council incurred gross capital expenditure of £17.3 million during the year (2007-08: £19.1 million), reflecting a continued high level of spending on council housing (£7.8 million) to meet the policy objectives set out in the Clackmannanshire Housing Standard, a significant investment in IT hardware in schools (£1.8m) and works on major roads (£1.1m), in addition to a wide range of other capital development and improvement projects.

The Three Schools PPP project is now complete, with one school becoming operational during 2008-09 and the remaining two opening during summer 2009. The Council made an upfront capital contribution of £5 million to the contractor during 2008-09. The payment was funded from capital resources and is treated as a long term debtor on the balance sheet. The Council has provided for additional funding for the scheme in the 3 year budgeting process following the Scottish Government's decision that School Fund monies cannot now be applied to PPP schemes.

Partly as a result of this, and borrowing in advance of the new financial year, the Council's combined short and long-term outstanding debt rose from £110.8 million last year to £155.3 million at 31 March 2009. The level of Council debt remains within prudential borrowing limits, but will result in a significant long term financial commitment to meet higher interest payments and to repay the debt over time. The Council should fully consider these additional costs when developing its medium term financial strategy.

## 2.9 Single Status and Equal Pay

The Council is only now in the process of implementing a new pay and grading model and expects to make an offer to employees on the implementation of single status in the near future. It remains important that the Council formalise agreements on single status and equal pay issues with employees as a matter of urgency, to establish financial certainty over the likely costs associated with implementing the new agreements, to resolve existing claims for compensation, and to limit the potential for future claims to emerge.

The Council has earmarked £1.255 million within general reserves to meet costs associated with the implementation of Single Status. In addition, early in 2009-10 a new claim was received in relation to equal pay from a group of staff. As a result, £400k has been added to the provision disclosed within the annual accounts to cover the potential estimated cost of these claims. This provision now totals £1.238 million.

## 2.10 Subsidiaries and Joint Ventures

The Council discloses its financial transactions with subsidiary and joint venture companies within its accounts. Both joint ventures with the Scarborough Development Group made losses for the financial year to 31 March 2009, partly reflecting the general decline in property values in the wider economy. Given the poor financial performance of the joint ventures in recent years, and the impact of the downturn in the economy, we have recommended that the Council review the business plans of joint venture companies to ensure they remain commercially viable and to consider any requirement for future financial support.

## 2.11 International Financial Reporting Standards

In 2008, CIPFA/LASAAC confirmed that from 2010-11 all local authority accounts will be prepared in accordance with International Financial Reporting Standards (IFRS). This change will bring local government bodies in line with other UK public sector bodies.

The Council will be required to produce shadow IFRS accounts as at 1 April 2009 by the end of February 2010. The transition to IFRS is complex, and will require detailed project planning to ensure the Council is able to fully implement the standard in line with the planned timetable. We note that the Council has appointed CIPFA/PwC as partners to assist in meeting IFRS reporting requirements.

As part of our 2009-10 audit, we will review the shadow balance sheet and preparations for adoption of IFRS accounts, and report by February 2010.

## 2.12 Key actions going forward

In summary, the key recommendations arising from our audit of the financial statements are that the Council should:

1. Address the underlying financial position of the Council. In particular, the Council needs to:
  - develop a sustainable medium term financial strategy, aligned to corporate priorities, that delivers a balanced budget and restores unearmarked reserves to their target level as soon as practicable
  - improve financial control arrangements for fixed assets and ensure reconciliations between subsidiary financial systems and the ledger are undertaken regularly
  - review and develop budgetary control and financial reporting arrangements to ensure greater accuracy in budget monitoring reports
  - review the business plans and commercial viability of the Council's joint venture companies
  - formalise agreements on single status and equal pay issues with employees as a matter of urgency.
2. Continue to prepare for the implementation of International Financial Reporting Standards.

A detailed action plan has been agreed with the Council to address these key issues and is contained in our Key Issues Memorandum and ISA260 Report on the 2008-09 Annual Accounts, issued in September 2009.

## 3 Governance

### 3.1 Introduction

The Chartered Institute for Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) provide a definition of governance in their publication *Delivering Good Governance in Local Government Framework*:

"Governance is about how local public bodies and partnerships ensure that they are doing the right things in the right way for the right people in a timely inclusive open honest and accountable manner. It comprises the systems and processes for the direction and control of local authorities through which they account to engage with and lead their communities."

This section sets out the main findings of our annual review of corporate governance arrangements. Our follow up review of the Council's arrangements to meet best value will consider a number of aspects, such as the performance management framework, in greater detail. This report will be available by the end of October 2009.

### 3.2 Overall arrangements in 2008-09

Good governance allows authorities to pursue their vision effectively by underpinning the vision with arrangements for control and management of risk. The CIPFA/SOLACE Framework identifies six core principles to be adopted by local authorities (Exhibit 4). Authorities are urged to test their structures against the principles by:

- reviewing their existing governance arrangements against the Framework
- developing and maintaining an up to date local code of governance
- preparing a governance statement in order to report publicly on the extent to which they comply with their own code on an annual basis.

The Accounts Commission supports a review of governance arrangements, noting in the *Overview of Local Authority Audits 2008*, that the development of partnership arrangements including the Community Planning Partnership and Single Outcome Agreement will require further and quicker development of accountability, governance and public performance reporting arrangements.

#### Exhibit 4 - Six Core Principles of Good Governance



Source: *Delivering Good Governance in Local Government Framework*, CIPFA/SOLACE 2007

The Council has made some progress across each of the principles, and it would be beneficial to carry out an assessment against the Framework to identify where development is still required. We understand that a self-assessment is underway, but our audit has identified the following potential areas for further improvement:

- improved scrutiny arrangements and further development and clarification of the role of the Scrutiny Committee within the Council's existing political management structures
- improvements in member working relationships around common objectives
- greater transparency in decision making arrangements with more focus on evidence based policy making within an overall risk management framework

#### 3.3 Effective Scrutiny

The Council introduced new arrangements for scrutiny following the local government elections in 2007. As part of our 2008-09 audit we followed up the Council's progress in implementing the recommendations from our review of the Council's scrutiny arrangements. Our review found that the Council had generally good arrangements for scrutiny in place, but that the Scrutiny Committee was still developing and was not yet fully effective.

The Scrutiny Committee made significant progress during the year through the development of a work plan, but its role in evaluating the effectiveness of policy implementation remains unclear, and there is no consensus within the Council, or the Committee, on how scrutiny in this area should be taken forward. This reduces the effectiveness of the Committee overall.

### 3.4 Training and Development of Elected Members

Key to effective governance and scrutiny is the quality and commitment of elected members. Their role involves providing leadership and direction, representing local communities and providing scrutiny and challenge to improve service quality. The Council has dedicated substantial resources to support and develop its elected members. All members now have a training needs assessment in place which is reviewed annually and a wide range of training is available for members. Attendance at each of the training sessions is monitored to ensure that members receive the training requested. In addition, elected members have access to the Members' Portal on the Council's intranet site. This contains the presentations and notes from all training offered as well as all reports to committees.

We also noted that whilst member attendance at meetings has improved over the year, attendance overall remains an area for further development. We noted that the June 2009 Scrutiny Committee meeting was not quorate.

### 3.5 Statement on Internal Control

The CIPFA/SOLACE Framework confirms that good governance relates to the whole organisation. We have previously recommended that the Council should include a Statement of Internal Control (SIC) or Annual Governance Statement within the annual accounts, rather than the more limited Statement of Internal Financial Control in order to meet current good practice in corporate governance.

We understand that the Council has plans to develop an appropriate assurance framework to support the inclusion of a Statement on Internal Control or Annual Governance Statement in the Council's annual accounts by 31 March 2010.

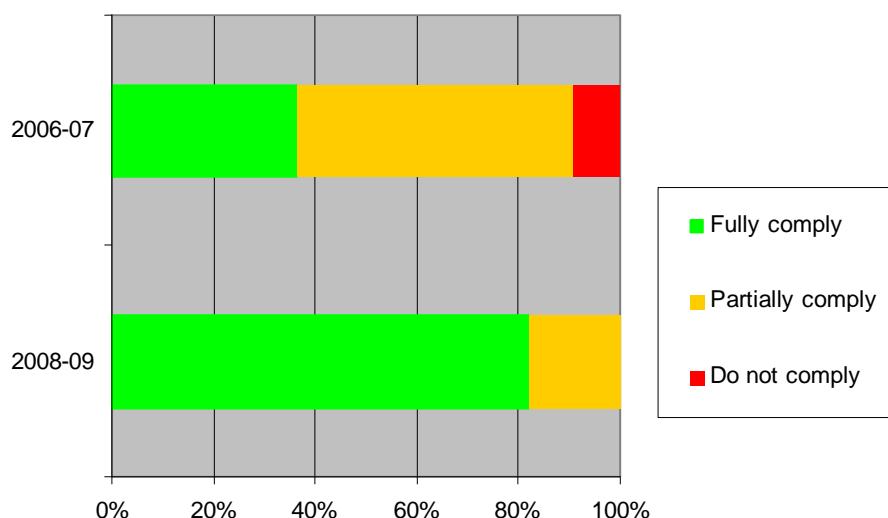
This framework should include effective risk management arrangements, an extension of the role of internal audit to provide assurances on the operation of non-financial systems, and arrangements to enable Directors to provide signed 'statements of assurance' each year confirming the effective operation of systems of internal control. The role of the Scrutiny Committee and the internal auditor section should be updated to include specific reference to these new arrangements.

### 3.6 Internal Audit

As part of our 2006-07 audit, we reviewed the Council's internal audit department against the eleven standards set out in the Code of Practice for Internal Audit. We found that the internal audit section did well in undertaking and reporting its work but had not made sufficient progress in meeting the Code of Practice on Internal Audit requirements since Audit Scotland's national review in 2001. During 2008-09 we conducted a follow up review and reassessed the department against the Code of Practice. We found that substantial improvements had been made to the department. As Exhibit 5 highlights, the department now fully complies with nine of the eleven objectives within the Code. A small number of actions were required to allow full compliance with the remaining two objectives.



Exhibit 5 - Internal Audit Compliance with Code of Practice Objectives



The number of internal audit staff available has fallen from 5.8 full time equivalent staff to 4.8, and only one member of the department has a relevant professional qualification. As noted above, changing expectations on the role of internal audit in reporting on governance and performance will require a review to ensure the department has sufficient skills and capacity to meet good practice expectations and provide the appropriate level of assurance.

### 3.7 Devon Equestrian Centre

In response to a request from Audit Scotland, we audited the Council's arrangements for the contract award and management of the lease to operate the Devon Equestrian Centre. Our audit found that the Council has complied with its own tendering procedures in awarding the lease to the current tenant. We were satisfied that the Council awarded the lease based on value for money and the experience and expertise of the tenderers in running an equestrian facility.

Our audit identified areas for improvement in the Council's procurement procedures and we found that the Centre was facing financial difficulties and the operator was not complying with some key contractual conditions.

Our report issued in March 2009 contained five recommendations for improvement all of which were agreed by management and are in the process of being implemented. We understand that Council has recently taken action to terminate the lease with the Centre operator and is currently considering options for the future of the Centre.

### 3.8 National Fraud Initiative 2008/09

The Council is required to participate in the National Fraud Initiative (NFI), which helps to identify and reduce fraud, for example, the level of housing benefit fraud, occupational pension fraud and tenancy fraud by using data matching techniques.

The Council's internal audit department acts as the key contact for the Initiative and forwards all data received to relevant services for investigation. An Investigation Plan has been adopted, detailing the investigation process, together with a timetable for reporting findings to internal audit. The Council continues to operate a prioritised approach to reviewing matches by applying filters to identify high risk matches. Approximately 3,200 data matches were selected for investigation in 2008-09.

Internal audit provides quarterly updates to the Scrutiny Committee on progress against NFI data matches. The scheduled date of completion for investigation of all non fraudulent data matches is 30 November 2009 and a full summary of the outcomes from this Initiative are expected to be reported at that time.

We also noted that the Council has taken a decision not to include electoral roll information for the purposes of data matching due to concerns over data protection. This means that a number of matches cannot be performed and potential frauds are less likely to be detected, although a pilot exercise has been developed to allow the Council to conduct its own data matching on council tax discounts. We note that Audit Scotland has taken its own advice with regard to this matter and considers the use of electoral roll information within NFI to be compliant with data protection legislation.

### 3.9 Key actions going forward

In summary, the key recommendations arising from our governance audit are that the Council should:

- review the effectiveness of overall governance arrangements against the core principles of good governance identified by CIPFA/SOLACE *Delivering Good Governance in Local Government Framework*
- review the role of the Scrutiny Committee and develop a consensus on how best the Committee should discharge its functions across all elements of scrutiny, including effectiveness of policy implementation
- develop an appropriate assurance framework to support the inclusion of a Statement on Internal Control in the Council's annual accounts
- undertake a corporate review of the role of internal audit within the Council and consider how best to continue to deliver high quality internal audit services
- the Council should consider its approach to participating in the National Fraud Initiative, in particular it should review its decision not to include electoral role and council tax information in the data matching exercise.

## 4 Performance

### 4.1 Introduction

In accordance with the Audit Plan we have reviewed key aspects of the Council's performance arrangements during 2008-09. The detailed findings from our performance review will be contained in our Best Value follow-up Report to be issued in October 2009. Our key findings during the year are summarised below.

### 4.2 Best Value follow up review

Audit Scotland issued its report on Best Value to the Council in September 2007. The report found that the Council faced a number of significant challenges arising from the relatively small scale of its operations, the social, economic and geographical circumstances of the Clackmannanshire area, and the lack of good transport links. Audit Scotland recommended improvement in the following key areas if the Council is to achieve best value:

- more effective leadership by elected members
- sharper articulation of priorities and policies with a clearer linkage to resource decisions
- greater consistency between community, corporate and service plans;
- improved political structures which give clarity on roles and responsibilities
- a clearer approach to competition in relation to service delivery mechanisms
- development of a human resources strategy.

We found that the Council continues to make good progress in implementing the Action Plan developed to address Audit Scotland's recommendations and the appointment of a new Chief Executive and Director of Services to People earlier in the year has increased the pace of change in improving performance and strategic management arrangement. Many of the Council's services record good levels of performance as measured by statutory performance indicators.

Our audit does indicate that some key areas for improvement identified by Audit Scotland have not yet been fully addressed. In particular:

- there has been little progress in developing shared services to address some of the challenges faced by the small scale of the Council's operations
- the Council's approach to competition in relation to service delivery mechanisms has not yet been fully developed
- more needs to be done to monitor partners' contributions to achieving Single Outcome Agreement targets

- political structures do not yet provide clarity on roles and responsibilities. In particular, the role of the Scrutiny Committee in scrutinising policy has not yet been clarified and overlaps with the activities of some Working Groups
- Overview Panel and Working Group meetings continue to be held in private and there remains a risk that current decision making arrangements may not be sufficiently transparent to support effective stewardship and accountability
- the Council's financial management arrangements remain under-developed and do not comply with many aspects of good practice outlined in the CIPFA Financial Management Model

We issued our draft report on our follow-up review to the Council in October 2009 and we are in the process of agreeing this report to management. Our findings will be reported to the Scrutiny Committee when this process is complete.

#### 4.3 Single Outcome Agreement

The publication of the Single Outcome Agreement (SOA) and Corporate Plan has provided a clear vision for Clackmannanshire based around the nine area priorities (Exhibit 6). The SOA was developed and agreed with the Council's community planning partners, Clackmannanshire Alliance. This provides a shared framework to monitor and assess performance across Clackmannanshire. The Alliance recently published the first annual progress report on the SOA. Exhibit 6 highlights that significant progress has been made across each of the agreed priorities.

#### Exhibit 6 - Performance against SOA objectives



Source: Clackmannanshire Single Outcome Agreement Annual Report 2009

The economic recession had a detrimental impact on some of the Alliance's targets. For example, there were fewer new home completions in the area than hoped and tourist revenue fell by 2%, although nationally the drop was 4%. The employment rate and percentage of people of working age who are economically active also fell despite the development of the

Alliance's Employability Service. This is in line with national expectations following the impact of the recession.

Some of the Alliance's other targets have become even more important as the Partnership looks to future economic recovery. For example, the number of adults successfully completing classes for improved literacy and numeracy have substantially increased. The Alliance's targets for educational attainment were also exceeded. The Council is now the only local authority in Scotland to have all secondary school pupils educated in new buildings.

During the year, the Alliance completed two surveys using the Clacks 1,000 citizens panel. Many of the findings were very encouraging. For example, 91% of adults rate their neighbourhood as a good place to stay. Over two-thirds of Panel members stated that their experience of public services was either 'very good' or 'quite good'. However, a number of areas still require improvement. For example, 46% of respondents felt they should be consulted more on how local services are delivered, pointing to the need for greater levels of community engagement.

We also noted that 80% of Panel members did not think that Alloa is an attractive town centre. The Council's successful application for Business Improvement District funding will be critical for the development and regeneration of the town centre. It is hoped that this will attract both businesses and customers to Alloa, boosting economic development in Clackmannanshire, and ultimately benefiting local people by creating more jobs and better prospects.

#### 4.4 Performance Management Arrangements

The Council has approved a Performance Reporting and Monitoring process which is aligned and integrated with the priority outcomes set out in the Community Plan/SOA through the Corporate Plan into Business Plans and to individual's Performance Review and Development plans. Performance against the SOA and Corporate Plan will be reported to Clackmannanshire Alliance and the Council's Scrutiny Committee on an annual basis.

The Council has also developed its public performance reporting framework. *The View* will report high level outcomes against the nine priorities to local communities four times a year.

The Council continues to implement the Public Service Improvement Framework, but has increased the pace of change following the appointment of a new Chief Executive earlier in the year. All services will now be reviewed within one year. Results from the first reviews are very honest and evidence based. They highlight common weaknesses including:

- insufficient data on staff perceptions of quality, customer perceptions and perceptions of the wider community
- staff are often unclear about how the work they do fits into wider service or Council objectives, and the deployment of the Performance Review and Development process is variable from service to service
- workforce planning and the approach to sustainability and equalities are not embedded in many service planning arrangements
- the use of option appraisal is not systematically embedded in service planning and performance management arrangements

- approaches to continuous improvement, innovation and improvement are not clearly defined or systematically deployed.

We also noted that service planning, risk management and performance management arrangements are not applied consistently across all services. The Council has not yet developed clear plans for addressing all of the issues emerging from the current performance review process.

The focus on outcomes across the public sector does not remove the need for good management processes and robust management information about the quality, cost and value for money of services. We will review performance management arrangements within a service as part of our Best Value work in October 2009.

#### 4.5 Equalities

Audit Scotland published a report on *The Impact of the Race Equality Duty on Council Services* in November 2008. Councils have had a duty to eliminate racial discrimination and to promote equal opportunities and good race relations under the race equality legislation since 2002. The report found that while Councils had taken steps to publish strategies and policies on race equality, they had not yet had an impact on the delivery of services.

Clackmannanshire Council has developed an Equality Scheme to address its approach to all equalities including race, gender, age and disability. The Equality Scheme is underpinned by the Council's Core Values:

- Commitment, trust and partnership
- Openness and accountability
- Respect and dignity
- Equity, fairness and inclusion

The Equality Scheme links in to the key themes within the Corporate Plan and Single Outcome Agreement. We will review the impact of the equality scheme at service level as part of our Best Value work in October/November 2009.

#### 4.6 Statutory Performance Indicators

The Council is required to prepare statutory performance indicators (SPIs) in accordance with a direction issued annually by the Accounts Commission. We have a statutory duty to ensure that the Council has made arrangements for collecting, recording and publishing SPIs in accordance with the guidance.

The Council has generally satisfactory arrangements for producing SPI information, but has been unable to produce reliable performance information relating to the number of low demand houses remaining un-let at year end and the number of days and average time that these houses had been un-let at year end.

The SPIs are one of the key sources of performance information for the Council as they provide a consistent form of measurement over time and can be used for benchmarking purposes against other local authorities in Scotland. A report is prepared to the Scrutiny Committee on an annual basis to provide an overview of performance against SPIs for the year.

#### 4.7 Efficiency

In 2007, the Scottish Government launched the Efficiency Programme, with a target of achieving efficiency savings of 2% a year for the three years to 2010-11. The Council has set up a Business Change Team with a specific remit to identify and attain efficiency savings targets. In addition, budget holders and service management are responsible for identifying savings prior to the start of the financial year as part of the budget process.

The Team works with services to identify business process improvements, implement new ICT solutions and deliver better services through the Customer First programme. The Customer First Programme Steering Group is responsible for identifying and monitoring potential efficiency savings. The Council's Annual Efficiency Statement notes that cashable savings of £2.3 million have been realised through the programme particularly through improvements in asset management and procurement practices.

#### 4.8 Asset Management

The largest cost to public sector bodies, after employee costs, is expenditure on assets, particularly buildings. In Clackmannanshire, property costs account for around 11% of the gross revenue budget. Good asset management helps to ensure that the asset portfolio is making the maximum possible contribution to meeting the Council's objectives. It also benefits service delivery by making Council buildings work better for staff and service users.

In May 2009, Audit Scotland published their national report, *Asset Management in Local Government*. The overall aim of the study was to evaluate the extent to which councils manage assets to ensure effective service provision and value for money. The report found that councils could make significant improvements in asset management arrangements and pointed to the need for standardisation of data and a consistent methodology for measuring building suitability. Audit Scotland also recommended that councils should:

- have effective asset management plans and strategies in place, linked to a long term capital strategy
- ensure that asset information is up to date, complete and held in a form which allows production of management reports
- ensure that elected members regularly consider reports on the condition, suitability and use of assets, property costs and estimates of the maintenance backlog
- agree with community planning partners arrangements for joint planning, management and property sharing.

The Council has established a number of working groups to take forward asset management. Plans are in place to develop a corporate approach and strategy following the publication of the Single Outcome Agreement. The national report found that the Council has a relatively high spend on reactive maintenance costs. As a result of this finding, the Council has reviewed these costs and has put plans in place to reduce levels of reactive work.

The Council could make further progress in a number of areas identified by the report. We have previously reported that the Council holds a number of separate asset registers which are not reconciled on a regular basis. There is also scope to improve the information available to support asset management more generally, in areas such as utilisation and energy efficiency.



#### 4.9 Improving Energy Efficiency

Audit Scotland published a report on *Improving Energy Efficiency* across the public sector in December 2008. Notably, they found that while energy consumption has fallen, expenditure has risen, highlighting the continuing pressure on budgets associated with rising energy prices.

All councils signed Scotland's Climate Change Declaration in 2007, which included a commitment to prepare and publish local plans to achieve a significant reduction in greenhouse gas emissions. However, Audit Scotland found that few public bodies have action plans in place to deliver their energy efficiency strategies.

The Council has recognised the need to reduce energy costs and has responded to the Declaration in a number of ways, including completion of energy efficiency surveys of all large public buildings and implementation of a Carbon Management Plan. The Council's goal is to reduce its carbon output by 15% over 5 years. The Council was allocated £136k from the government fund to improve energy efficiency in its public buildings and its energy efficiency programme has already delivered a number of savings, including:

- converting off peak electric heating systems to gas fired wet systems
- adoption of renewable energy technologies including a solar water heating scheme at Deerpark Primary School and installation of a wind turbine and photovoltaic panels at Menstrie Primary School
- other projects in public buildings have included improved heating controls, zoning of heating systems, swimming pool covers, lighting controls, draught proofing, replacement window programme, water conservation measures and insulation programmes.

We also noted that the fuel supply contracts were re-tendered in October 2008 in partnership with Falkirk and Stirling Councils. This allowed the Council to benefit from combined purchasing power and reduced administration costs, although energy costs have continued to rise due to the increased price in the market.

#### 4.10 Procurement

Procurement is one of the key areas identified within the Efficiency Programme for councils to achieve year on year savings. Purchasing the right goods and services, at the right time and for the right price can mean better services can be delivered for greater value for money. If purchasing is not done well it can lead to public bodies spending more, diverting resources away from other service priorities.

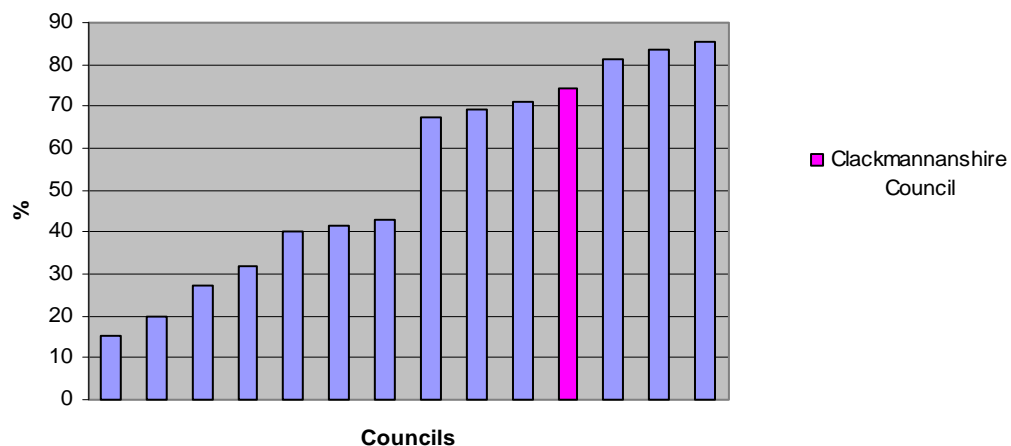
The Council's Procurement Strategy was produced in consultation with a variety of stakeholders and covers the period 2009-2012. The Strategy is supported by a detailed Procurement Improvement Plan and Best Value indicators. These outline how the Strategy will be taken forward and timescales for action.

A fundamental element of the Efficiency Programme was development of centres of expertise to co-ordinate and lead improvements and to help to make savings. The centre of expertise for local government is Scotland Excel. In April 2008, Clackmannanshire was one of only four councils that opted not to join Scotland Excel. The Council found that annual subscription costs were higher than envisaged savings. This is subject to review on an annual basis. The Council has, instead, formed a Joint Buying Arrangement with Falkirk and Stirling Councils. This has led to a number of cost savings on significant items of expenditure such as energy bills and stationery.



In July 2009, Audit Scotland published a report on procurement across the public sector called *Improving Public Sector Purchasing*. Local authorities were asked to complete an information return to benchmark good practice across the sector and highlight changes in procurement practice following the McClelland review. The report points to the savings that can be achieved through collaborative contracts, such as those negotiated by Scotland Excel. The Council spends over £82 million per annum on supplies, services and works. As Exhibit 7 demonstrates, the Council still has a relatively high percentage of total spend where no contract is in place.

Exhibit 7 - Percentage of total spend where no contract is in place



Source: Audit Scotland

We reviewed the areas of spend in Clackmannanshire to assess potential for further savings. We found that the significant majority of expenditure with suppliers is below the de minimus amount of £1k. For these transactions there is likely to be no benefit associated with creating collaborative contracts, although this finding may also indicate that the Council currently contracts with too many suppliers.

Procurement is a key area for the Council to glean efficiency savings. The Council's efficiency statement for 2008-09 records cash releasing savings of £443k specifically related to improved procurement practices. We would therefore urge elected members to request regular progress reports relating to the implementation of the Procurement Strategy.

#### 4.11 Future Developments

##### Statutory Performance Indicators

The Accounts Commission has made a significant change in its approach to SPIs. From 2009-10, the SPI direction incorporates two main requirements:

- that councils report a range of sufficient information to demonstrate best value in relation to corporate management (SPI 1); and
- that councils report a range of information sufficient to demonstrate best value in relation to service performance (SPI 2).

In reporting against SPIs 1 and 2, all councils will be required to report performance against 25 indicators specifically defined by the Accounts Commission. However, this provides a key opportunity to develop and report on locally determined indicators that reflect how the Council is performing as a whole. It is essential that these indicators are developed from existing performance management measures and that arrangements are in place to ensure the reliability and accuracy of the information to be reported. We note, for example, that some of the indicators gathered under the SOA are reported by other partners from Clackmannanshire Alliance. The Council should consider how it will gain assurance on the accuracy of these indicators.

#### Streamlining External Scrutiny

The Crerar report on the independent review of regulation, audit, inspection and complaints handling of public services contained a series of recommendations designed to streamline the scrutiny landscape in Scotland. In their response to the report, Scottish Ministers asked the Accounts Commission to establish a single audit framework to reduce the burden of scrutiny for local authorities.

Work has now begun on creating a more co-ordinated approach to audit and inspection. Scrutiny bodies including Audit Scotland, HM Inspectorate of Education, the Scottish Housing Regulator and the Social Work Inspection Agency have selected seven councils to pilot a shared risk assessment (five Best Value 2 pathfinders and two development sites). The intention is to develop a single corporate assessment and shared risk assessment for each local authority. From this, an assurance and improvement plan would be prepared which would cover all scrutiny activity over a three year period for each council. It is hoped that the results from these pilots will be available during 2009-10.

#### Best Value 2

In light of national developments, it is clear that external scrutiny and the performance and accountability framework for public bodies will progressively be focused on national outcomes and Single Outcome Agreements. Audit Scotland is currently developing its approach to Best Value 2 (BV2) by working with five pathfinder councils. The framework is based on:

- strong baselines
- robust measures of performance
- challenging targets
- comparability with others

The new framework will also assess mechanisms and levels of public engagement achieved to date. From April 2010, the new approach will be rolled out across all 32 councils in Scotland. The timing of Clackmannanshire Council's inspection will be determined by the shared risk assessment agreed by external audit and inspection bodies. The Council should, however, begin to consider whether mechanisms for self assessment and review are sufficient to meet the needs of BV2.

#### 4.12 Key actions going forward

In summary, the key recommendations arising from our performance audit are that the Council should:

- take action to ensure all recommendations made by Audit Scotland following the Best Value audit in 2007 are being fully addressed

- review SOA performance monitoring and reporting arrangements with Clackmannanshire Alliance partners to gain assurance on the achievement of SOA targets that are not controlled by the Council
- take action to ensure service planning, risk management and performance management arrangements are applied consistently across all services and develop clear plans for addressing all of the issues emerging from the current performance review process.
- take action to systematically address all of the issues raised by Audit Scotland in their national report on asset management in local government.
- improve performance reporting across all aspects of procurement.
- prepare effectively for the implementation of new Best Value 2 scrutiny arrangements. In particular, ensure risk and performance management arrangements are output, outcome and impact focussed.

**Grant Thornton UK LLP**  
**30 October 2009**

## Appendix A

### Audit Reports Issued During the Year

A summary of the audit reports issued during 2008-09 is provided below:

Report Title	Key Topic	Month Issued
Annual Audit Plan	Summary of the 2008-09 planned audit work, demonstrating how we will discharge our responsibilities under Audit Scotland's Code of Audit Practice.	February 2009
Devon Equestrian Centre	We audited the Council's arrangements for the contract award and management of the lease to operate the Devon Equestrian Centre.	March 2009
Core Financial Systems Review	Audit of the operation of the Council's key financial systems.	August 2009
Internal Audit - Follow Up	Follow up audit of Internal Audit's progress in meeting CIPFA good practice guidance.	August 2009
Key Issues Memorandum and ISA 260 Report	Summary of key issues emerging from the audit of the Council's financial statements.	September 2009
Annual Report to Members	Summary of the key issues emerging from the 2008-09 audit.	October 2009
Follow-Up Review of Best Value	Summary of the Council's progress in addressing the recommendations made in Audit Scotland's Best Value Report issued in September 2007.	October 2009