
Report to Scrutiny Committee

Date: 13th January 2010

Subject: Report on the 2009-10 Audit

Report by: Accountancy Manager

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 2009/10. This is included as an Appendix to this report. The report gives an overview of the Council's financial position and financial statements for 2009/10, and also covers Governance and Performance issues examined over the year.
- 1.2. This is the fourth year of our external auditors, Grant Thornton's appointment with the Council.

2.0 Recommendations

- 2.1. That the Committee reviews this annual report to members from our external auditors and agrees the key findings highlighted therein.

3.0 Considerations

- 3.1. The audited accounts for the year ended 31st March 2010, together with the external auditors report on those accounts titled 'Key Issues Memorandum' were approved by Council at its meeting on 23rd September 2010.
- 3.2. Grant Thornton were appointed as our external auditors for a five year period with effect from 2006/07, and this is their fourth annual report. This report covers their key findings from the 2009/10 audit in the context of the Financial Statements, Governance, and Performance. The auditors key findings from the 2009-10 audit are summarised as follows:

Financial position

The Council reported a deficit for the year of £39 million. Following statutory adjustments, the general fund balance increased by £2.435 million.

The General Fund balance as at 31 March 2010 was £7.966 million, with the un-earmarked balance at £2.974 million. The Council's unearmarked reserves now exceed the target level set within the Financial Strategy of £2.4 million, representing a significant achievement in the current financial climate.

The Council's net worth decreased by £67 million to £39 million as at 31 March 2010. This reflects the significant increase in the Council's share of the deficit in the Falkirk Pension Fund arising from a change in the discount rate applied to the future liabilities of the scheme.

The Council faces a significant challenge to achieve at least £18 million in savings over the next 3 year period as cuts in public sector funding take effect. The Council has good plans in place to achieve these savings, but may require contingency plans to react effectively to changing financial circumstances

Financial statements

We issued an unqualified report on the Council's financial statements for the year to 31 March 2010.

The Council's trading organisations achieved their statutory target of breaking even over the three year period to 31 March 2010.

The main accounting issues in the financial statements related to the change in accounting treatment for PFI schemes which led to assets and liabilities of the Three Schools PPP Scheme coming on balance sheet.

The Group accounts record significant net liabilities of £56 million, reflecting the Council's share of the liabilities associated with the unfunded police and fire pension schemes

Governance

We have concluded that the Council's systems of internal financial control are operating adequately. The Council continues to develop its financial management and budgetary control arrangements to meet the challenges ahead.

The Council's arrangements for the provision of internal audit remain in transition. During the year, the Council contracted with Fife Council to assist in the delivery of the audit plan. A clear strategy for the future of internal audit is currently being developed.

Our audit of the Council's contract tendering and award arrangements concluded that it has adequate policies and procedures in place and generally follows those procedures in evaluating and awarding contracts. We identified one example where proper procedures had not been followed in the award of a small value service contract. The Council has taken full and robust action in relation to this matter.

The Council completed a significant restructure in the year which involved reducing the Head of Service posts from 11 to 6. Our review found that the restructure process appears to have been completed successfully. The Council is also examining options for future service and has recently announced plans for shared service arrangements with Stirling Council.

Performance

The Council continues to improve its Best Value arrangements

The key building blocks for future improvement are now being embedded, such as the performance management framework, the management restructure and the programme of service reviews.

There is evidence that the Council is responding to priorities at a local level, with local community planning and the 'Growing in Excellence' agenda representing a key strength.

Performance against Statutory Performance Indicators remains good, with improvements in homelessness, rent management and asset management services. Other indicators, such as those covering some leisure services record a decline in performance.

A key challenge facing the Council in 2010-11 will be development of unit cost and productivity performance measures that enable it to demonstrate the difference and impact it will make to its communities

- 3.3 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
- Our communities are more cohesive and inclusive
- People are better skilled, trained and ready for learning and employment
- Our communities are safer
- Vulnerable people and families are supported
- Substance misuse and its effects are reduced
- Health is improving and health inequalities are reducing
- The environment is protected and enhanced for all
- 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 2009-10 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 2009/10 and Audited Statement of Accounts 2009/10 – report by Finance Manager to Council meeting, 23rd September 2010.

Author(s)

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Approved by

NAME	DESIGNATION	SIGNATURE
Nikki Bridle	Director of Finance and Corporate Services	Signed: N Bridle
Angela Leitch	Chief Executive	Signed: A Leitch

Clackmannanshire Council

Report on the 2009-10 Audit
December 2010

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1 Introduction

Scope

- 1.1 The Accounts Commission appointed Grant Thornton UK LLP as auditors of Clackmannanshire Council (the Council) under the Local Government (Scotland) Act 1973 (the 1973 Act) for the period of 2006-07 to 2010-11. This document summarises our responsibilities as external auditors for the year ended 31 March 2010 and our approach to issues impacting the Council's activities in that year.
- 1.2 We carry out our audit in accordance with our statutory responsibilities under the 1973 Act and in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB) and the wider responsibilities embodied in Audit Scotland's Code of Audit Practice (the Code).
- 1.3 We planned and performed our 2009-10 audit in accordance with our Audit Approach Memorandum issued in March 2010. The Code objectives and key findings arising from the audit are summarised in Exhibit 1 below.

Exhibit 1: Key findings from the 2009-10 Audit

	Summary
<ul style="list-style-type: none"> Financial position 	<ul style="list-style-type: none"> The Council reported a deficit for the year of £39 million. Following statutory adjustments, the general fund balance increased by £2.435 million. The General Fund balance as at 31 March 2010 was £7.966 million, with the un-earmarked balance at £2.974 million. The Council's unearmarked reserves now exceed the target level set within the Financial Strategy of £2.4 million, representing a significant achievement in the current financial climate. The Council's net worth decreased by £67 million to £39 million as at 31 March 2010. This reflects the significant increase in the Council's share of the deficit in the Falkirk Pension Fund arising from a change in the discount rate applied to the future liabilities of the scheme. The Council faces a significant challenge to achieve at least £18 million in savings over the next 3 year period as cuts in public sector funding take effect. The Council has good plans in place to achieve these savings, but may require contingency plans to react effectively to changing financial circumstances.
<ul style="list-style-type: none"> Financial statements 	<ul style="list-style-type: none"> We issued an unqualified report on the Council's financial statements for the year to 31 March 2010. The Council's trading organisations achieved their statutory target of breaking even over the three year period to 31 March 2010. The main accounting issues in the financial statements related to the change in accounting treatment for PFI schemes which led to assets and liabilities of the Three Schools PPP Scheme coming on balance sheet. The Group accounts record significant net liabilities of £56 million, reflecting the Council's share of the liabilities associated with the unfunded police and fire pension schemes.

Summary	
<ul style="list-style-type: none"> • Governance 	<ul style="list-style-type: none"> • We have concluded that the Council's systems of internal financial control are operating adequately. The Council continues to develop its financial management and budgetary control arrangements to meet the challenges ahead. • The Council's arrangements for the provision of internal audit remain in transition. During the year, the Council contracted with Fife Council to assist in the delivery of the audit plan. A clear strategy for the future of internal audit is currently being developed. • Our audit of the Council's contract tendering and award arrangements concluded that it has adequate policies and procedures in place and generally follows those procedures in evaluating and awarding contracts. We identified one example where proper procedures had not been followed in the award of a small value service contract. The Council has taken full and robust action in relation to this matter. • The Council completed a significant restructure in the year which involved reducing the Head of Service posts from 11 to 6. Our review found that the restructure process appears to have been completed successfully. The Council is also examining options for future service restructuring and has recently announced plans for shared service arrangements with Stirling Council.
<ul style="list-style-type: none"> • Performance 	<ul style="list-style-type: none"> • The Council continues to improve its Best Value arrangements. • The key building blocks for future improvement are now being embedded, such as the performance management framework, the management restructure and the programme of service reviews. • There is evidence that the Council is responding to priorities at a local level, with local community planning and the 'Growing in Excellence' agenda representing a key strength. • Performance against Statutory Performance Indicators remains good, with improvements in homelessness, rent management and asset management services. Other indicators, such as those covering some leisure services record a decline in performance. • A key challenge facing the Council in 2010-11 will be development of unit cost and productivity performance measures that enable it to demonstrate the difference and impact it will make to its communities.

Acknowledgements

- 1.4 We would like to take this opportunity to thank the staff who have been involved in the 2009-10 audit for their assistance and co-operation.
- 1.5 This report is part of a continuing dialogue between the Council and Grant Thornton and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Council's systems and work practices.
- 1.6 The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on it.

2 Financial Position

Introduction

2.1 In this section we summarise the Council's reported financial position and performance to 31 March 2010.

Financial Performance

2.2 In 2009-10, Clackmannanshire Council spent over £190 million on the provision of services to the public. Around £38 million of this was spent on capital. The Council's net operating expenditure in 2009-10 was £154 million. This was met by central government and local taxation of £115 million, resulting in a deficit for the year of £39 million.

2.3 Figure 1 explains that after taking account of statutory adjustments such as depreciation and impairments, the general fund balance increased by £2.4 million, which reflects the budgeted contribution of £1 million, and other savings against budget.

Figure 1: Financial results for 2010 and 2009

	2010 £'000	2009 £'000
Net Operating expenditure	154,530	125,592
Income from taxation and government grants	115,116	108,074
Deficit for the year	39,364	17,498
Net additional amount required by statute and non-statutory proper practices to be (debited) or credited to the General Fund Balance for the year	(41,799)	(18,258)
Increase in the general fund balance	2,435	760

Source: Clackmannanshire Council 2009-10 financial statements

- 2.4 The Council recorded an overspend of £1 million in the net cost of services but this was offset by savings in the budgeted support of the Three Schools PPP scheme of £1.1 million due to delays in the completion of the project. The Council's analysis of the performance against budget notes that three services (residential placements, education and community services and social services) went over their allocated budget in year.
- 2.5 Residential placements relate to the provision of expensive residential care facilities for looked after children. This is a demand-led service which has consistent overspend over a number of years. We note that the 2010-11 budget for residential care has increased by £600k, which should better align the budget with spending expectations.
- 2.6 The overspend in social services was also partly caused by higher than expected costs related to services for 'looked after children'. The costs associated with external foster care placements exceeded the budget provision by £315k. The service has taken steps in-year

to attempt to make savings in this area. A training service has commenced to develop internal foster carers. The savings could amount to £30k per child per year.

- 2.7 Education and community services exceeded budget by £280k as a result of higher than anticipated non-domestic rates valuations relating to the three new secondary schools.

Balance Sheet

- 2.8 The total net worth of the Council has decreased by £67 million. This is attributable to the increase in the value of the pension liability of £59 million (2008-09 £24m) and the increase in long term borrowing of £10 million.

Figure 2: Balance sheet as at 31 March 2010 and 2009

	31 March 2010 £'000	31 March 2009 (restated) £'000
Fixed assets	332,233	308,712
Long term debtors	981	980
Current assets	21,753	64,169
Current liabilities	-16,709	-55,433
Long term liabilities	-194,306	-166,383
Pension liability	-105,036	-46,280
Net assets	38,916	105,765
Revaluation reserve	27,413	0
Capital adjustment account	107,347	141,264
Capital receipts reserve	735	3,215
Pension reserve	-105,036	-46,280
Financial instruments adjustment account	-4,481	-4,761
Housing Revenue Account balance	4,262	6,052
Insurance fund	710	744
General fund	7,966	5,531
Total reserves	38,916	105,765

Source: Clackmannanshire Council 2009-10 financial statements

Pension Liability

- 2.9 The Council recognises its share of the assets and liabilities in the Falkirk Council Pension Fund, which at 31 March 2010, was a deficit of £105m (2008-09: £46m).
- 2.10 Several adverse changes in assumptions have resulted in the increased liability. The increase can principally be attributed to a change in the discount rate used to adjust the pension fund's liabilities for the time value of money which is based on the rates paid on corporate bonds. The discount rate for 31 March 2010 is 5.5% compared to 6.9% used in the prior year. A strengthening of post retirement mortality assumptions has served to increase liabilities further.
- 2.11 Of the six main pension schemes in the public sector in Scotland, only the Local Government Pension Scheme is a funded scheme. This means that the scheme aims to use pension contributions to invest in assets and to earn a return sufficient to meet the

future pension liability. Falkirk Council has developed a Funding Strategy for the pension, informed by the actuarial valuations and estimates. Increased contributions will be required in future years to meet the liability. However, a recent interim report commissioned by the UK Government¹ suggests that public service workers should pay higher contributions towards their pensions during their working life. The report also suggests there is scope to change from final salary pension schemes to one based on average pay over a workers career.

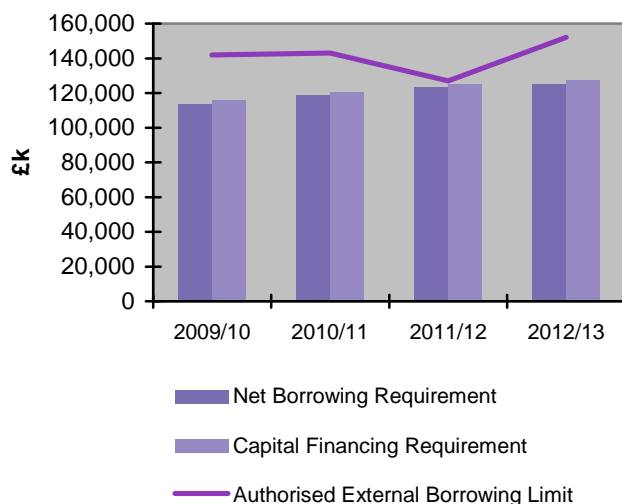
- 2.12 The cost of public sector pensions has already fallen as a result of payments in pensions being linked to the Consumer Prices Index (CPI) measure of inflation rather than the Retail Prices Index (RPI), which is traditionally higher. The pension age has also been raised to 65 for new recruits to the scheme. The Council's actuaries will determine the level of future contributions required to be made at the next triennial review on 31st March 2011.

Long Term Borrowing

- 2.13 The profile of net debt has changed substantially from the previous year with a decrease in short and long term borrowing of £25m, offset by a £41m reduction in cash and short term investments. This is partly due to the timing of loan drawdowns and the impact of bringing PPP assets on balance sheet.
- 2.14 The Prudential Code allows the Council to borrow if it can be demonstrated that borrowing is affordable. The Council's Financial Strategy for 2010-13 restricts borrowing to expand the capital programme only to schemes which can demonstrate clear financial or economic benefits. The Council's net borrowing for 2009-10 remained within the Capital Financing Requirement. The Council's Prudential Indicators for 2010-11 to 2012-13 confirm that net borrowing will be within agreed limits, although as Figure 3 demonstrates, the financing limit will increase over the period because much of the approved capital expenditure programme is financed by debt.

¹ *Independent Public Service Pensions Commission*. Interim Report, 7th October 2010

Figure 3: The Council's Borrowing is projected to increase over the next three years



Source: Clackmannanshire Council Prudential Indicators report to Special Council Meeting, February 2010

Capital Expenditure

- 2.15 The Council reported a capital underspend on both the Housing and General Services capital budgets in the year. Excluding PPP transactions, the Council spent £10.6m on capital expenditure in 2009-10, representing 57.6% of the revised capital plan. The Housing budget recorded an underspend of over £3m, which relates primarily to delays in contract procurement. We did, however, note that the reduction in council house sales as a result of the economic position has impacted on net borrowing requirements. Arrangements are in place to reduce the level of re-phasing into future years to minimise the impact on the delivery of the Scottish Housing Quality Standard, and Clackmannanshire Standard, by 2015.
- 2.16 During the year, the Council elected to fund spend on the PPP project using a transfer from the Capital Receipts Reserve, rather than through borrowing. The remainder of the General Services capital programme was under budget by around £4.2m due to a number of projects remaining at the consultation stage at the year end. This includes the £2.9 million redevelopment of the Speirs Centre, although we note that this project was recently approved by Council.

Investments

- 2.17 In prior years we have noted that the Council's subsidiary and joint ventures have recorded poor financial performance, principally as a result of the downturn in the economy. During 2009-10, Apex Leisure Management Ltd ceased to trade, and the Council reduced its investment in CSBP Clackmannanshire Investments Ltd.
- 2.18 However, CSBP Clackmannanshire Developments Limited's accounts record net losses of £100k, and cumulative net liabilities of £200k as at 31 March 2010. There is a risk that the Council may be required to inject more capital into this company in order to ensure it remains a going concern in future years. An exit strategy is in place for the joint ventures, which recognises that financial performance must be balanced with the Council's economic development objectives.

General Fund

2.19 For the year ending 31 March 2010, the Council had a total general fund reserve balance of £7.966 million (2008-09: £5.531m), of which £4.992 million (2008-09: £4.529m) was earmarked for specific purposes, leaving £2.974 million (2008-09: £1 million) available for new expenditure or to meet the costs of contingencies and unforeseen events.

Figure 4: General Fund balances as at 31 March 2010 and 2009

	31 March 2010 £'000	31 March 2009 £'000
Devolved Management within schools	235	488
Secondary Schools PPP	1,656	1,524
Service Improvement Contracts	815	625
Implementation of Single Status	1,769	1,255
Modernising Government	164	560
Zero Waste Fund	134	154
Adult Care carry forward scheme	59	(77)
Homeless Assessment Centre	160	-
Total Earmarked	4,992	4,529
Unearmarked	2,974	1,002
Total General Fund	7,966	5,531

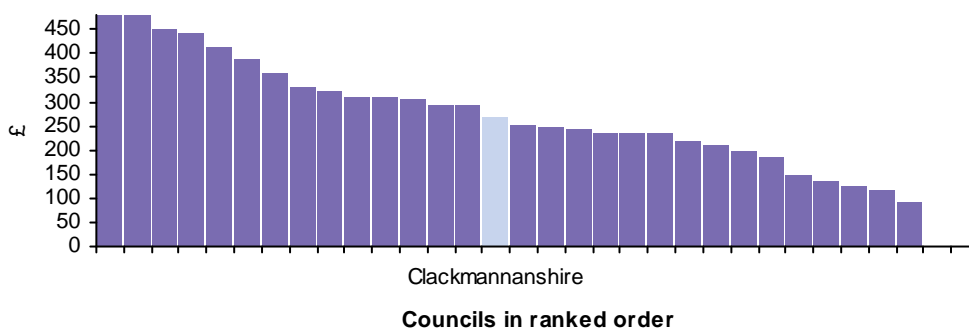
Source: Clackmannanshire Council 2009-10 financial statements

2.20 The Council's unearmarked reserves now exceed the target level set within the Financial Strategy of £2.4 million. The Council has budgeted for further transfers to reserves to meet future financial pressures:

- 2010-11: nil
- 2011-12: £0.5 million
- 2012-13: £1 million

2.21 Figure 5 considers the financial position of Clackmannanshire Council relative to other councils in Scotland using the current level of cash backed reserves. Clackmannanshire Council has around £274 per head of population, which is 16th of 32 councils. This implies that the Council's level of cash backed reserves are broadly in line other councils in Scotland. This position will be strengthened by plans to increase unearmarked reserves.

Figure 5: Levels of cash backed reserves



Source: Scottish Councils Unaudited Accounts 2009-10

Trading Accounts

2.22 The Council currently operates two Significant Trading Organisations. As Figure 6 demonstrates, both have achieved the statutory duty to break even over a three year period, and have made substantial surpluses.

2.23 However, these arrangements have not been subject to review for some time. There may therefore be scope to review STO arrangements, to ensure that performance is measured on outcomes, in line with other council services.

Figure 6: The Councils STOs have achieved their targets



Looking ahead

2.24 The Scottish public sector is facing a period of sustained financial austerity, with the financial year 2009-10 likely to represent the peak year for public spending for some time to come. COSLA recommends that local authorities should assume that the starting point for financial planning for 2011-12 to 2013-14 is a 12% real terms reduction in Scottish government grant funding over this period. The recent Comprehensive Spending Review set out Scotland's public finance settlement for the period to 2013-14, indicating a real terms reduction of 6.8% in available funding, with a 38% reduction in capital funding. The Scottish Government will allocate funding settlements for public sector bodies following its own review, due to be announced in November 2010.

2.25 The Council must also meet the challenge of a changing population. Until recently, Clackmannanshire's 0-15 year old population was expected to decline at a sharper rate than the national average. However, successful strategies to attract new families into the area mean that the number of children below the age of 16 is now expected to increase by 16.7% by 2033 (nationally this is expected to decline by 1.5 per cent). In Clackmannanshire, the population over the age of 65 is also expected to increase by 85.8%. The Council is therefore facing significant pressure on funding at a time when demand for services may be increasing.

2.26 The Council has taken significant steps to prepare for the scale of this challenge. This includes the implementation of the "Growing in Excellence" agenda, to ensure that services focus on outcomes for communities. All services have delivered initial savings plans and the Council reports that it achieved efficiency savings of over £2.7 million in 2009-10. A review of the management structure led to the reduction of Chief Officer posts from 11 to 6. The implementation of the Clackmannanshire Improvement Model (CIM) means that progress has also been made in developing workforce strategies to support a reduction in staff numbers, currently being managed by carrying vacancies.

2.27 The Council has also recently approved a framework for the Budget Strategy. This estimates that the Council require a corporate savings target of £18 million by 2013/14. The proposed budget strategy is based on:

- reducing expenditure
- increasing income
- redesigning service provision

- other initiatives such as procurement and integrated partnerships.
- 2.28 The local community planning partnership, Clackmannanshire Alliance, has worked to agree short and long term priorities to help inform resource decisions during this period. The Council has also launched a community engagement exercise to help inform these priorities.
- 2.29 The Council's Budget Strategy Project Board is also developing contingency plans to mitigate against the risk that savings identified in the Budget Strategy and option appraisals are not fully realised.

3 Financial statements audit

Introduction

- 3.1 We have audited the Council's 2009-10 accounts in accordance with our Audit Plan issued on 18th March 2010. The key messages arising from our financial statements audit are contained in our Report on the 2009-10 Accounts Audit, issued on 30th August 2010 and summarised below.

Audit opinion

- 3.2 We gave an unqualified opinion on the Council's 2009-10 financial statements on 28th September 2010.
- 3.3 Our Report on the 2009-10 Accounts Audit highlighted a number of audit adjustments to the draft accounts. The impact of the audit adjustments was to increase the general fund balance by £202k.
- 3.4 There were three unadjusted misstatements, which if they were processed, would have resulted in an increase in the reported deficit of £129k. There would be no impact on the general fund balance as the transaction would be reversed out through the Statement on the Movement of the General Fund Balance.

Significant accounting issues

Changes in the accounting arrangements for PFI schemes

- 3.5 The most significant change to the SORP for 2009-10 is in respect of the accounting requirements for private finance initiative and similar contracts which are no longer based on Financial Reporting Standard 5 but on an interpretation of IFRIC 12 *Service concession arrangements* contained in the Government Financial Reporting Manual.
- 3.6 Under IFRIC 12, it is control of the asset that determines the accounting treatment. In this case, because the Council retains control of what services will be provided and at what price, and retains residual interest in the schools at the end of the service arrangement, we agreed that the three PPP schools should be held on balance sheet. A prior year adjustment has been processed in respect of Alloa and Alva Academies which were operational before 1 April 2009. Lornshill Academy was not occupied until April 2009 and is therefore treated as an addition in the current year.

Group accounts

- 3.7 The Council's group accounts consolidate the following bodies:

- Central Scotland Joint Police Board
- Central Scotland Fire and Rescue Joint Board
- Central Scotland Valuation Joint Board
- Apex Leisure (Management) Ltd
- CSBP Clackmannanshire Developments Ltd
- CSBP Clackmannanshire Investments Ltd
- Clackmannanshire Common Good Funds

- 3.8 The net worth of the Group is a deficit of £52.7 million compared to the Council's individual net worth of £39 million. The difference reflects the Council's share of deficits in the pension schemes of Central Scotland Police Joint Board and Central Scotland Fire and Rescue Joint Board, both of which are unfunded schemes.

Looking forward

International Financial Reporting Standards (IFRS)

- 3.9 Local government bodies will be required to prepare their accounts on the basis of IFRS from 2010-11. A transition period is currently underway whereby the Council is preparing a shadow balance sheet under IFRS as at 31 March 2009. In addition, the 2009-10 accounts will be restated under IFRS. The Council has engaged the services of PwC-CIPFA to assist in the IFRS restatement exercise. An initial assessment of the key areas for the Council to consider has already been prepared and an action plan for future actions has been developed.
- 3.10 The transition to IFRS is complex process, and requires detailed project planning to ensure the Council is able to fully implement the standard in line with the planned timetable. It should also be noted that the process requires Council wide co-operation, which will be critical for the success of the project.
- 3.11 We have held an initial planning meeting with the Council to discuss the progress in implementing IFRS and the results from the initial assessment. In addition, we ran a workshop for finance staff on the implementation of IFRS. One of the main areas of implementation under IFRS was introduced in the 2009 SORP is in respect of the accounting requirements for private finance initiative and similar contracts. Key areas for the Council in converting to IFRS are: leases which may be classified as finance leases; and holiday pay and flexi-time accruals.
- 3.12 We conducted a review of the Council's preparations for IFRS as part of our 2009-10 annual audit work. We found that the Council has adopted detailed planning arrangements and has created an IFRS Working Group to take forward preparations for full adoption. However, initial timescales have not been achieved and there is a risk that the Council will be unable to meet reporting deadlines. We have continued to liaise with the finance team on issues relating to the implementation of IFRS as they arise. A key task for the Council in the next few months will be to finalise an opening balance sheet as at 1 April 2009, and prepare shadow accounts based on the 2009-10 accounts.
- 3.13 The Council should also be aware that the Scottish Government is currently considering what statutory adjustments are required to mitigate any impact arising from IFRS on the general fund.

Charity Accounts

- 3.14 Local authorities with registered charitable bodies are required to follow the Charities Accounts (Scotland) Regulations 2006. The Regulations require the Council to submit a full set of accounts for each trust fund to the Office of the Scottish Charity Regulator (OSCR). OSCR has, however, deferred this requirement until 2010/11.
- 3.15 OSCR reviewed the compliance of local authority charities in meeting the information requirements in 2008-09. Each local authority was classified under four categories ranging from "below average" to "fully compliant". They concluded that all authorities have some work to do in order to achieve full compliance with the new legal requirements. Clackmannanshire Council's current arrangements are considered "above average" by OSCR.

- 3.16 OSCR note that the key difference that would make an "above average" submission move to a "fully compliant" submission is likely to be the external scrutiny of the accounts. As internal audit staff work within Clackmannanshire Council, OSCR question the independence of the individual scrutinising the accounting records of the charity.

4 Governance

Introduction

- 4.1 In accordance with the 2009-10 Audit Plan we have reviewed key aspects of the Council's governance arrangements.

Governance Framework

- 4.2 During 2009-10, the Council completed a self-assessment review against the CIPFA/SOLACE Good Governance Framework. An action plan has been developed to allow the Council to move towards compliance against the six core principles within the Framework. One of the key areas highlighted for development is the adoption of a local code of governance to set out how the council meets the principles of good governance. Twenty-eight councils in Scotland now have a Code in place².
- 4.3 We understand that the Council is reviewing the scheme of delegation, in tandem with the Scrutiny Committee's review of its own effectiveness. The review will inform a local code of governance, and should allow the Council to develop an appropriate assurance framework to support the inclusion of a Statement on Internal Control in the Council's annual accounts by 31 March 2011, and an Annual Governance Statement thereafter. 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. A recent restructure has also brought together the Legal, Administration and HR functions within a Governance Team to further enhance the profile of corporate governance within the Council

Internal Audit

- 4.4 Since December 2009, the only qualified member of the Internal Audit team has been temporarily fulfilling the role of Finance Manager. In line with our audit plan, we reviewed the Council's arrangements for protecting the independence of internal audit and ensuring that sufficient resource and experience is available to fulfil the audit plan.
- 4.5 The Council has contracted with Fife Council to provide assistance with the 2009-10 audit plan and any outstanding reports from earlier years. This has helped to ensure that the internal audit team continues to deliver against the 2009-10 audit plan, but without excessive involvement from the Finance Manager which may compromise the independence of the internal audit function. We understand that this arrangement has been extended to help deliver the 2010-11 audit plan. The Council is working to ensure that there is a clear long term strategy in place for addressing internal audit needs, including the additional requirements that will be necessary to deliver a future assurance framework.

Financial Monitoring Arrangements

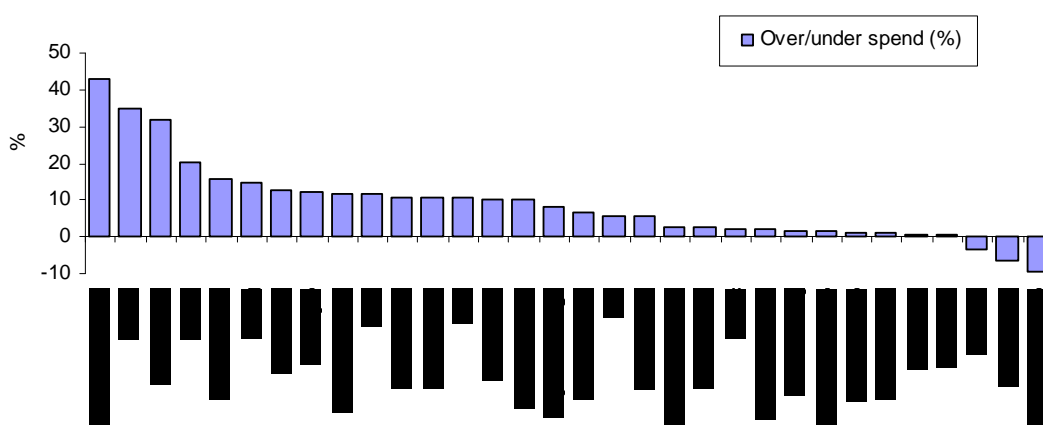
- 4.6 The Finance Service has undergone a significant period of change in the last year. During the year we reviewed the effectiveness of the Council's core financial systems and financial

² *Roles and working relationships: are you getting it right?* Audit Scotland, August 2010

management and budgetary control arrangements. Our overall conclusion is that the core financial systems continue to operate effectively, with only low risk recommendations identified. However, we, and the council's internal auditors, continued to find weaknesses in budgetary control arrangements.

- 4.7 In prior years we have identified key issues about whether budgets are set realistically, the adequacy of monitoring arrangements and concerns that budget scrutiny arrangements were undermined by perceptions about the robustness of underlying financial data.
- 4.8 An example we have pointed to on a number of occasions is the residential child care budget, where the Council has exceeded budget over a number of years. An Audit Scotland report has recently found that many councils in Scotland have unrealistic residential child care budgets. In 2008/09, 29 councils had overspent their budget but, as Figure 7 highlights, Clackmannanshire Council had the highest rate of overspend in Scotland. We note in section 2.5 that the 2010-11 budget for residential care has increased by £600k, which should better align the budget with spending expectations.

Figure 7: Residential child care - budget overspend/underspend by Council in 2008/09



Source: *Getting it right for every child in residential care, Audit Scotland, September 2010*

- 4.9 The Director of Finance and Corporate Services has identified the Council's financial monitoring arrangements as an urgent priority for improvement. The Finance Strategy recognises that the service has a key role to support the delivery of the council's priorities and objectives. The Finance team has played an increasing role in supporting the council's efficiency and Customer First programmes, and providing management and financial information for service self-assessments under the Clackmannanshire Improvement Model. The Finance Strategy outlines a number of planned improvements, including:
- better phasing of budgets
 - training for budget holders and elected members
 - increasing the level of uncommitted reserves
- 4.10 A workshop has been held with accounting and budgeting staff to identify improvements in budget setting and profiling. This has led to notable improvements in the quality of

finance reporting to committee, particularly in highlighting key issues arising within individual services.

Contract Management

- 4.11 The Council spends significant sums annually on its capital programme and needs effective tendering and contract award arrangements in place to ensure contracts are awarded in line with legislative requirements, and good budget and project management arrangements are in place to deliver value for money. A lack of effective contract award arrangements may lead to both financial and reputation risks for the Council, and poor value for money.
- 4.12 Our review of the Contract Standing Orders found that they generally comply with good practice although they did not outline procedures for cases where it is necessary to re-tender. In our review of contract awards, we found only one case that did not follow the Council's policies and procedures in full. The Council has taken effective action to prevent a recurrence.

Procurement

- 4.13 In August 2010, the Council joined the national Local Government Centre of Expertise, Scotland Excel. Scotland Excel plays a central role in taking forward the Public Procurement Reform Programme. The Programme aims to drive continuous improvement in public sector procurement and to deliver value for money and increased efficiency through improved structures, capability and processes. In 2009, the Scottish Government promoted the use of an annual procurement capability assessment (PCA) to assess procurement performance in all public sector bodies and as a basis for the sharing of best practice and continuous improvement. Results are summarised as non-conformance, conformance, improved performance and superior performance.
- 4.14 The Local Government sector as a whole has been assessed by Scotland Excel and scored as non-conformant at 22.6% overall. This means that councils are not achieving best value across their procurement activities. In response, in December 2009, councils agreed to participate in a national procurement improvement programme. The programme addresses the following areas:
- The role of procurement in the organisation: the key issue facing most procurement functions is lack of influence across the organisation.
 - Getting the right people doing the right things: there is a need to be clear on the structure of procurement across the organisation and its accountability to the procurement leader.
 - Adoption of a strategic approach to sourcing: this means making money out of all aspects of the contract life cycle, not just by getting the best price.
 - Embedding new systems and processes.
 - Conformance: councils with the lowest scores can access an experienced procurement professional to help work with their procurement leader on the improvement plan for their council.
- 4.15 Clackmannanshire Council's assessment score has improved from 18.6% in January 2010, to 25.1% in October 2010. In the most recent assessment, Scotland Excel recognised the significant improvements that the Council has made in improving governance arrangements, collaboration and performance reporting.

5 Performance

Introduction

- 5.1 In accordance with the Audit Plan we have reviewed key aspects of the Council's performance arrangements during 2009-10. During 2009-10, the Accounts Commission developed a new *Best Value 2* (BV2) approach, to introduce a risk-based and proportionate approach to the audit. The framework has been developed around strong baselines, robust measures of performance, challenging targets and comparability with others.
- 5.2 The timing of Clackmannanshire Council's inspection will be determined by the shared risk assessment agreed by external audit and inspection bodies in the Assurance and Improvement Plan (AIP).

Assurance and Improvement Plan

- 5.3 Under the National Scrutiny Plan for Local Government 2010-11, Scotland's scrutiny agencies work together to develop a shared risk assessment and AIP for each council area. As part of our 2009-10 audit, we have followed up the progress made by the Council, both in addressing the improvement agenda and against specific areas of risk or uncertainty identified by scrutiny partners.
- 5.4 The detailed findings from our performance review are contained in our Best Value Follow-up Report, issued in December 2010. Our key findings during the year are summarised below:

Best Value

- 5.5 The Council has been on a significant and rapid improvement journey since the appointment of the Chief Executive in February 2009. Overall, we are satisfied with the approach the Council has taken to address Best Value, and the "Growing in Excellence" agenda has delivered real improvement.
- 5.6 Clackmannanshire is now the first Council in Scotland to review all of its service areas under the PSIF model. Under the Clackmannanshire Improvement Model (CIM), the Council is also committed to achieving Customer Service Excellence accreditation. This robust approach to self-evaluation allows the Council to demonstrate that it is delivering quality services, and means that it should be well-placed to meet future scrutiny requirements.
- 5.7 A number of strategies have been developed to meet the Council's programme to achieve efficiency savings, including a programme of voluntary redundancies and a review of current service design and delivery. A series of option appraisals are being developed to ensure that services continue to be as competitive and are delivered in the more effective approach. Other options, such as joint working and shared services, will also be key to delivering the Council's objectives within the current financial climate.
- 5.8 Elected members continue to play a key role in determining how resources are aligned to meet local needs. Revised working arrangements including Alternative Service Delivery Groups, and a series of member briefings relating to the budget strategy, help to support the change agenda. We did note, however, that there is scope to improve elected member

engagement with the Clackmannanshire Alliance, particularly around agreeing key priorities for the area.

- 5.9 The Council is also examining options for future service restructuring and has recently announced plans for shared service arrangements with Stirling Council.

Statutory Performance Indicators

- 5.10 The Council measures its performance against other Scottish authorities by using Statutory Performance Indicators (SPIs). In 2009-10, the Accounts Commission made a significant change to the SPI Direction, replacing the 78 indicators reported in 2008-09 with two key requirements:

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

- 5.11 In reporting against these requirements, all councils are required to report performance against 25 specified indicators. The Council must also supplement this information by reporting on a range of non-specified indicators to allow users to make a judgement on whether the Council can demonstrate that it is achieving Best Value.

- 5.12 Clackmannanshire Council has a range performance reporting mechanisms in place to allow them to meet the requirements of the SPI Direction, without requiring additional resources. The Council has recently procured the Covellant performance information system to assist with performance management and reporting. This will also provide a direct link to risk identification and management. The Council's Scrutiny Committee receive annual performance reports both against SPIs, but also against the Corporate Plan. These reports are also available on the Council's internet site. The Council has also reported on progress against the targets within the Single Outcome Agreement, achieving the Scottish Government deadline for publication.

- 5.13 Consultation with the Clacks 1000 panel confirmed that the public like to receive performance information in a narrative, newspaper style. The Council therefore try to channel as much performance information as possible via this route, using The View. The View is sent to every household in Clackmannanshire on a quarterly basis. The information is published in themes reflecting Council priorities:

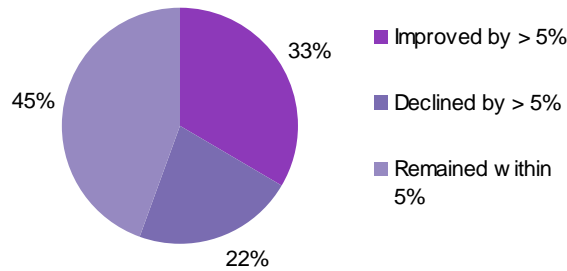
- Young people and families
- People of working age
- Older people
- Quality of Life.

- 5.14 The Council's own reports on performance highlight some key areas of progress. The Scottish Index of Economic Resilience showed Clackmannanshire as the second top improver in having a resilient economy. Overall educational attainment levels are improving. Clacks 1000 surveys also report improvements in the public satisfaction with the area as a place to stay.

- 5.15 An analysis of the 2009-10 nationally specified statutory performance indicators confirm that the Council has largely maintained or improved performance levels during the year (Figure 8). The Council has made significant improvement in areas such as the cost of

collecting council tax, the levels of rent arrears and the performance of the homelessness service, despite the impact of the recession.

Figure 8: Overall performance against specified performance indicators

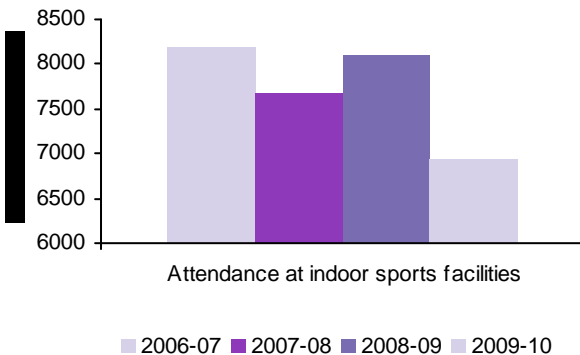


Source: Clackmannanshire Council Statutory Performance Indicators

Note: The 25 specified indicators comprise of a number of components. The results above therefore report on a total of 54 individual indicators.

Use of Leisure Facilities

5.16 SPI data highlights that the public generally used the Council's indoor leisure facilities less in 2009-10, although the use of pools remained the same. The number of visits to museums fell again during 2009-10, continuing a trend over a number of years.



Managing People

5.17 In its shared risk assessment, the LAN note concerns around the development of arrangements for managing people. The Council implemented Single Status on 29th March 2010. Payments have now been made to employees in relation to Single Status, and the Council is progressing with settlements for Equal Pay claims. During the year, the Council has also initiated a review and reconfiguration of structures and has recently invited staff to apply for voluntary severance or reduced working hours.

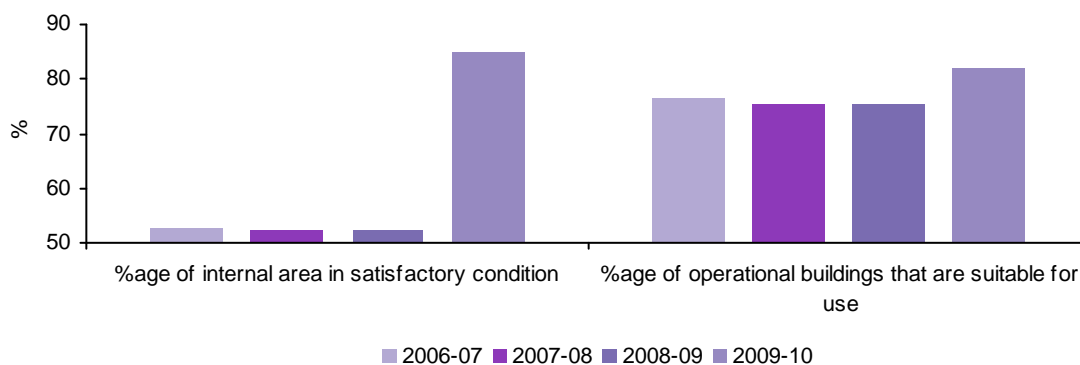
5.18 The Council Management Team has taken a number of steps to ensure that staff are kept informed of developments. This has included *Talk About Ye* sessions, where the Director Group visit council office locations to provide an update and answer any questions from staff. The Council has also developed a formal cascade programme where managers throughout the council are asked to discuss key issues with their team and feedback comments and issues arising centrally.

5.19 The Council has acknowledged that more needs to be done on workforce planning and development, but this is one of the areas covered by the CIM's standard intervention packages.

Asset Management

- 5.20 Asset management can be defined as ensuring that the asset portfolio is making the maximum possible contribution to achieving the council's objectives. This involves strategic considerations including the number, type and location of assets that are required to meet council objectives. It also involves the day to day maintenance and running of the assets. Good asset management helps to ensure that services are delivered in the most efficient and effective way. It can also reduce the cost associated with surplus property and reduce the council's carbon footprint.
- 5.21 During the year we reviewed the progress that the Council has made to implement recommendations on Audit Scotland's May 2009 report Asset Management in Local Government. The Council's Property Asset Management Plan 2010-15 was approved in September 2010. This has sought to strengthen the link between the service planning process and the aims and objectives within the Corporate Plan and Single Outcome Agreement.
- 5.22 In 2009-10, the SPIs reported significant improvements both in the condition and suitability of the Council's assets (Figure 9), mainly as a result of the replacement of the secondary school estate. The Council has also reduced the number of buildings from which the Council delivers services to the public from 37 in 2006-07 to 30 in 2009-10. This has seen a corresponding rise in the accessibility of public buildings to disabled people.

Figure 9: Suitability and Condition of Council Properties



Source: Clackmannanshire Council Statutory Performance Indicators

Climate Change and Environmental Targets

- 5.23 Ensuring that Scotland's environment is protected and improved is central to the Scottish Government's aim of achieving sustainable economic growth. This is directly linked to the council's duty to deliver sustainable development under Best Value. In addition to the long term risk of failing to protect and improve the environment, there are more immediate financial risks associated both with waste management costs, and the potential impact of fines in relation to European environmental laws and targets.
- 5.24 Audit Scotland's January 2010 report *Protecting and improving Scotland's environment* notes that councils plans collectively are not sufficient to meet landfill and recycling targets beyond 2010. By 2025, councils will have to collect, recycle and compost 70% of municipal waste. This will require additional waste management facilities such as recycling and composting

centres. However, Clackmannanshire Council reported the highest recycling rates in Scotland in 2008-09, and SPI data confirms that this performance has been maintained in 2009-10. The Council has also recently adopted the Clackmannanshire Sustainability and Climate Change Strategy to continue to improve on this work, based on four strategic priorities:

- reducing our contribution to climate change and preparing to adapt to its consequences
- creating sustainable communities
- living within environmental limits; and
- protecting our natural resources and enhancing our environment.

Future developments

- 5.25 Audit Scotland has highlighted³ that going forward, financial outturn information linked to activity levels and performance information should be a major source of information to scrutinise future budget proposals. Following the CIM self-assessments, all services are developing efficiency indicators to help the Council understand its costs relative to other providers and authorities.
- 5.26 Services are required to report on a range of prescribed performance indicators for key areas of corporate development, such customer satisfaction levels, performance against service standards and employee satisfaction. A key aim is to begin to produce unit cost information for services. This will be an area for development in 2010-11.

Grant Thornton UK LLP
December 2010

³ *Scotland's Public Finances: Preparing for the Future*, Audit Scotland, November 2009

A Audit Reports Issued During the Year

A summary of the audit reports issued during 2009-10 is provided below:

Report Title	Key Topic	Month Issued
Audit Approach Memorandum	Summary of the 2009-10 planned audit work, demonstrating how we will discharge our responsibilities under Audit Scotland's Code of Audit Practice.	February 2010
Core Financial Systems and Governance Review	Audit of the operation of the Council's key financial systems.	May 2010
Key Issues Memorandum and ISA 260 Report	Summary of key issues emerging from the audit of the Council's financial statements.	September 2010
Annual Report to Members	Summary of the key issues emerging from the 2009-10 audit.	December 2010
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.	December 2010

