



Fife Council

Annual Report on the Audit to Fife Council and the Controller of Audit 2009/10

September 2010



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Executive Summary

Financial statements

We are pleased to report that our independent auditors' report contains an unqualified audit opinion on the financial statements for the year ended 31 March 2010. We also certify that the accounts have been properly prepared in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

Use of resources

The council achieved a general fund surplus of £9.580m in 2009/2010. The general fund balance brought forward of £20.221m at 1 April 2009 increased to a cumulative net surplus balance of £29.801m at 31 March 2010. Of this balance, £17.400m has been earmarked for specific purposes, which leaves an unallocated general fund balance of £12.401m. The council is committed to restoring balances to a minimum level of £9m over a three year period commencing April 2007. The council has therefore achieved this target.

The council spent £132.849m on capital expenditure in 2009/10. This represents 83% of the council's revised 2009/10 capital plan. The council has re-phased £25.943m into 2010/11. The council approved its ten year capital investment plan in February 2009. Over 60% of the expenditure will be incurred in the first four years. It is essential that arrangements are put in place to reduce the level of re-phasing into future years to ensure minimal impact on the delivery of the capital plan. Work is ongoing to review the capital investment plan in light of the current economic climate and forecast capital funding streams.

The council continues to develop its asset management and procurement arrangements. There is however scope for further improvement. Actions to improve performance in these areas are incorporated into our report on the council's use of resources, presented to the Standards and Audit Committee in August.

Performance

The council revised its performance reporting arrangements in autumn 2009. The council has received mixed feedback on the revised reporting arrangements and is now reviewing these arrangements. The council is keen that performance reports demonstrate greater links between its key priorities, budget allocations and the delivery of these by directorates.

In order to meet the requirements of the 2008 SPI direction, the council has decided to report the full range of its 168 council plan indicators as non-specified indicators. The range of indicators identified by the council ensures coverage of SPI 1 and SPI 2. The council plans to report the performance of its 25 specified indicators by 30 September 2010.

Governance

We have reviewed the council's corporate governance arrangements in relation to its systems of internal financial control and standards of conduct including the prevention and detection of fraud and corruption. Our review confirmed that the council's governance arrangements are, in general, satisfactory.

During the year, an updated accountability framework for policing in Fife was approved by the Police, Fire and Safety Committee. The process involved participation, at various stages, from Audit Scotland, HMIC, the cross-party leaders group and chair of the Standards and Audit Committee. The governance structure will require trust, openness, responsibility and accountability in order to succeed. It is critical that the council and Fife Constabulary work together to ensure that these new arrangements operate effectively.

The scrutiny arrangements at Fife Council have recently been revised and have yet to be fully embedded. Strategic committees were asked in spring to consider issues which might merit detailed scrutiny. To date only one issue has been identified for consideration by a scrutiny panel.

Audit Scotland published its report 'The National Fraud Initiative, making an impact' in May 2010. At a local level, the council adopted a positive approach to NFI. Appropriate officers have been assigned responsibility to coordinate the exercise and the council made effective use of the web application and reported results to the Standards and Audit Committee. The council is currently preparing for NFI 2010/11.

Looking forward

Fife Council faces significant reductions in funding over the next 3 years. The position will become clearer when the outcome of the spending review is known in October 2010. In anticipation of the savings that will be required the council has started to set out options for savings.

Key reviews have been identified to deliver savings. These include for example, a strategic efficiencies programme, a property rationalisation and a review of alternative delivery models. It is estimated that the work force will be reduced in a planned way by 10-15% over the next four years.

Conclusion

This report concludes our audit of Fife Council for 2009/10. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

This report has been discussed and agreed with the chief executive and members of the council's management team. We would like to thank all members of Fife Council's management and staff who have been involved in our work for their co-operation and assistance during our audit visits.

Scott-Moncrieff
September 2010

Introduction

1. This report summarises the findings from our 2009/10 audit of Fife Council. The scope of the audit was set out in our External Audit Annual Plan, which was presented to the Standards and Audit Committee at the outset of our audit.
2. The main elements of our audit work in 2009/10 have been:
 - Audit of the financial statements, including a review of the Corporate Governance Statement
 - Review of the council's corporate governance arrangements
 - Review of internal financial controls and financial systems
 - Review of council's asset management and procurement arrangements
 - Review of the council's public performance reporting arrangements
 - Review of options appraisal process for replacement of legacy systems
 - Audit of the council's statutory performance indicators
3. The key issues arising from our work during the year are summarised in this annual report.
4. Our findings are drawn together within four sections:
 - **Financial Statements:** summarises the key outcomes from our 2009/10 audit of Fife Council's financial statements
 - **Use of Resources:** covers how Fife Council is managing its finances, workforce and assets
 - **Performance:** covers the council's performance management arrangements and statutory performance indicators
 - **Governance:** covers a summary of Fife Council's corporate governance arrangements
5. In their response to the Crerar report in June 2008, Scottish Ministers asked the Accounts Commission to put in place arrangements to reduce the burden of scrutiny for local authorities by establishing a single audit framework. A key aspect of this agenda is to better co-ordinate and streamline scrutiny and achieve greater effectiveness, while at the same time protecting the independence of scrutiny bodies.
6. During 2009/10 all scrutiny bodies that engage with the council have worked together to establish a shared assessment of the risks facing Fife Council and develop a range of proportionate approaches in response to the risk assessment. The overall scrutiny risk assessment is set out in an assurance and improvement plan (AIP). The council's AIP identifies a range of risks and improvement areas for the council, both at corporate and service levels. Overall, however, the AIP notes that the strengths identified outweigh the risks. Reflecting this conclusion, there are no plans for any major scrutiny activity to be carried out over the next two years (commencing 2010/11).

7. This report uses, where appropriate, the headings of the corporate assessment framework, which we and other scrutiny bodies have used as the structure for the shared risk assessment and assurance and improvement plan (AIP).
8. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council include:
 - Improving public sector efficiency
 - Overview of local government in Scotland 2009
 - Protecting and improving Scotland's environment
 - Scotland's public finances – preparing for the future
 - Making an impact – overview of best value audits 2004-09
 - The National Fraud Initiative in Scotland 2008/09
9. All of these reports have been sent to the council for consideration and we do not consider these in detail in this report. They are available on Audit Scotland's website www.audit-scotland.gov.uk.
10. The report is addressed to Fife Council and the Controller of Audit and will be published on Audit Scotland's website.

Financial Statements

Introduction

11. Financial statements are an essential means by which an organisation accounts for its stewardship of the resources available to it. In this section we summarise the key outcomes from our 2009/10 audit of Fife Council's financial statements.

Our Responsibilities

12. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 – A Statement of Recommended Practice (the SORP), of the financial position of the council and its income and expenditure for the year then ended; and
 - whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
13. We also review the Corporate Governance Statement by considering the adequacy of the process put in place by the executive director of finance and resources to obtain assurances on systems of internal control. We assess whether disclosures in the statement are consistent with our knowledge of Fife Council.

Independence

14. International Standard on Auditing 260 – Communication of Audit Matters with those Charged with Governance – requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
15. We provided no additional services to Fife Council during the year and can confirm that we have complied with the Auditing Practices Board Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

Legality

16. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially effect the financial statements. Our audit procedures included the following:
 - Reviewing minutes of relevant meetings
 - Enquiring of senior management and the organisation's solicitors the position in relation to litigation, claims and assessments
 - Performing detailed testing of transactions and balances

17. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Responsibility for the Statement of Accounts

18. It is the responsibility of the council and the executive director of finance and resources to prepare the financial statements in accordance with the proper practices set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the SORP). This means:

- Acting within the law and ensuring the regularity of transactions
- Maintaining proper accounting records
- Preparing financial statements which give a true and fair view of the financial position of the council and its expenditure and income for the period ended 31 March 2010

Overall conclusion

19. Our audit report is included on pages 101 and 102 of the annual accounts and is addressed to members of Fife Council and the Accounts Commission for Scotland. The report was issued on 29 September 2010 and is unqualified. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
20. Fife Council is required under Regulation 4 of the Local Authority Accounts (Scotland) Regulation 1985 to submit a copy of an abstract of their accounts to the Controller of Audit by 30 June. We can confirm that Fife Council's unaudited financial statements were submitted to the Controller of Audit by this deadline.
21. The quality of the financial statements prepared by the council is of a high standard. This is a demonstration of the council's finance officials' commitment to consistently improve the disclosure of Fife Council's financial and accounting information to stakeholders. Our thanks go to staff at Fife Council for their assistance with our work.

Format of the Accounts

22. The financial statements should be prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009 (the SORP). The SORP specifies the principles and practices of accounting required to prepare a Statement of Accounts which give a true and fair view of the financial position and transactions of a local authority and to prepare group financial statements where there are material interests in subsidiaries, associates or joint ventures.
23. In Scotland, the SORP constitutes proper accounting practice under section 12 of the Local Government in Scotland Act 2003, under the statutory framework established by the Local Authority Accounts (Scotland) Regulations 1985; and, for the audit of those accounts, by section

99 of the Local Government (Scotland) Act 1973 and section 12 of the Local Government in Scotland Act 2003.

24. As part of our 2009/10 audit we considered the arrangements Fife Council had in place to ensure compliance with the requirements of the SORP. Overall we concluded that the council has complied with the requirements of the SORP.

Audit Adjustments

25. We identified no major errors or weaknesses during our audit. Audit adjustments to the draft financial statements related to changes in disclosure and presentation. All adjustments were agreed with the executive director of finance and resources.
26. We have also identified a number of potential adjustments which are not considered material to the financial statements, either individually or in aggregate. These potential adjustments have been reported to the executive director of finance and resources and are included as an appendix to the letter of representation.

Issues arising from our audit

27. We are required by international auditing standards to report to the council the main issues arising from our audit of the financial statements. The most significant issues are noted below.

Accounting for PFI Transactions and Similar Contracts

28. The accounting requirements for the Private Finance Initiative (PFI) and similar contracts are no longer based on UK accounting standards but on International Financial Reporting Standards (IFRS). It is expected that PFI assets used to deliver PFI services which have until now been 'off balance sheet' will generally be required to be recognised on local authorities' balance sheets along with a liability for the financing provided by the PFI operator.
29. Fife Council has two public private partnerships (PPP) within its School Estates Strategy which are now recognised on the council's balance sheet. During our audit we concluded that the council had accounted for its public private partnerships in accordance with the SORP.

Leases

30. Many property leases include tenant repairing clauses for dilapidations. They typically require the tenant to return the property to the landlord at the end of the tenancy in a specified condition. Provision should tend to be made for estimated costs of dilapidation repairs spread over the period of tenancy.
31. Within the 2009/10 accounts the council recognises a dilapidation provision in relation to one lease. This relates to a property that the council has vacated and is in dispute with landlord over the level of dilapidations to be repaid.

32. It is acknowledged that further leases with dilapidation clauses exist. The council however has concluded that a provision for these leases is not required due to the ongoing repairs and maintenance programme in place which would satisfy the need for meeting future obligations of this nature.
33. We recommended in our 2008/09 annual report that the council should consider instances where the lease agreement requires the asset to be put back to its original condition. This review has yet to be completed.

Action plan point 1

Liability for pension costs and retirement benefits

34. The council has reflected the requirement of Financial Reporting Standard 17 on retirement benefits within its accounts. The net retirement benefits liability as at the 31 March 2010 was £1,529.004m (table 2):

Table 2: Fife Council net retirement benefits liability			
	2009/10	2008/09	2007/08
	£m	£m	£m
Local Government Pension Scheme	688.789	288.358	102.012
Teachers Additional Benefits	58.615	43.019	43.085
Police	575.100	364.400	352.900
Fire	206.500	139.400	138.500
TOTAL	1,529.004	835.177	636.497
<i>Source: Fife Council's Annual Accounts 2009-10</i>			

35. The council is reporting a 'net liability' position on its balance sheet as a result of these pension liabilities (£917.808m). Where the pensions liability is a major factor in presenting a net liability position the statutory funding arrangements for the pensions liability, which typically allows the liability to be met from future revenue sources, will normally ensure that the authority is able to continue public service provision and to meet its liabilities as they become payable. The retirement benefit liabilities in respect of police and fire pensions are effectively underwritten by the Scottish Government and funded through general revenue grant.
36. The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index rather than the retail prices index will be the basis for future public sector pension increases. In accordance with paragraph 21 of Financial Reporting Standard 21 (Events after the balance sheet date), this change is deemed to be a non-adjusting post balance sheet event and the council has disclosed this in its financial statements.
37. It is estimated that this change will reduce the value of the employer's FRS17 liabilities relating to the Local Government Pension Scheme and Teachers unfunded liabilities by around 6%. It is estimated that this change will also reduce the value of the Police, Fire and Rescue Services

FRS17 liabilities by around 7%. This equates to a total reduction in the balance sheet deficit of £161 million.

Amendment to pension reserve regulations

38. During the audit of the 2008/09 accounts, it was identified that *The Local Government Pension Reserve Fund (Scotland) Regulations 2003* (2003 Regulations) had not been updated to include the schemes established by *The Firefighters' Pension Scheme (Scotland) Order 2007* and *The Police Pensions (Scotland) Regulations 2007*, and therefore they were not covered by the regulations. The council adjusted its financial statements to ensure compliance with statutory guidance. As a consequence, the level of uncommitted general fund balances reduced to £4.257 million.
39. *The Local Government Pension Reserve Fund (Scotland) Amendment Regulations 2010* have been issued to add the new police and fire pension schemes to the 2003 Regulations. The council has taken account of this change in its 2009/10 financial statements and as a consequence the uncommitted general fund balances have increased by £3.2m, reinstating last years corresponding reduction.

Equal Pay Provision

40. In its 2005/06 financial statements, Fife Council recognised a provision relating to equal pay compensation following acceptance of liability for claims. The value of the provision was just under £30m and represented claims from approximately 4,000 employees. During 2006, £27.5m of the provision was utilised by payments being made to those affected.

	31 March 2006 £m	31 March 2007 £m	31 March 2008 £m	31 March 2009 £m	31 March 2010 £m
Equal Pay Provision	29.566	2.052	2.533	8.300	14.200

Source: *Fife Council Annual Accounts 2006/07, 2007/08, 2008/09 and 2009/10*

41. Some members of staff did not accept the payments that were offered by the council and instead, chose to take their case to an employment tribunal in the hope of obtaining a higher compensatory payment.
42. During 2009/10, the council has reviewed the basis of the provision in the financial statements and increased this to £14.200m. We have reviewed the workings and assumptions used by the council and have found them to be in accordance with the SORP and FRS 12 – *Provisions and Contingent Liabilities*. It should be noted that the provision is only an estimate of what the actual settlement level may be when the cases are heard at tribunal.

Surplus Assets held for disposal

43. In preparation for reporting under International Financial Reporting Standards (paragraph 65), the council has carried out a review of assets currently classified as non-operational in its balance sheet. Following this exercise, the council reclassified some of its investment properties as surplus assets held for disposal (£11.760m). As at 31 March 2010, the council has reported £38.642m as surplus assets held for disposal. An exercise is underway to develop strategies for each asset within this category. The findings of this work were due to be reported to the Policy, Finance and Asset Management Committee in September 2010 however this reporting timescale has not been met.

Action plan point 2

Group Accounts

44. The SORP requires authorities to consider all their interests in external organisations, including limited companies and other statutory organisations, to determine if the organisations should be consolidated into the authority's financial statements.
45. Fife Council has reported its interest in two associates into group accounts. All bodies within the group received unqualified audit opinions from their external auditors.
46. We have audited the group accounts prepared by the council and the judgements made by the council regarding those entities included or excluded from the group accounts. The audit report covers our audit opinion on the group accounts and is unqualified.
47. The overall effect of inclusion of all the council's associates on the group balance sheet is to increase net liabilities by £1.875m mainly due to the inclusion of further pension liabilities. All associates' accounts however have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions.

Common Good

48. Local authorities are required to administer common good funds under Section 15 of the Local Government (Scotland) Act 1994. The purpose of common good funds is to provide a benefit to the population of the area either through the financial disbursement of funds, securing assets for the ongoing use of the population or contributing to specific local projects/initiatives.
49. In 2007 the Local Authority Scotland Accounts Advisory Committee (LASAAC) issued a report on accounting for the common good fund. The guidance recommended that by 31 March 2009 all Scottish local authorities who administer common good funds should have an asset register of common good assets in place.
50. In 2009 we undertook a comprehensive assessment of the council's arrangements of the management of its common good funds. Our findings were reported to the Standards and Audit

Committee in August 2009. This year we have undertaken a follow up review to assess the council's progress in implementing the recommendations made in our report. Overall, progress has been made in implementing the recommendations. There are however some actions yet to be fully implemented.

Action plan point 3

51. The council's common good and trust fund working group has completed its review of title deeds and is currently consulting with community councils. The consultation period is due to end in October 2010. The council intend to have a comprehensive asset register for common good by the end of the financial year.
52. The council has established a working group of officers from Performance and Organisational Support, Finance and Resources and Assets and Facilities Management which is responsible for reviewing the arrangements in place over the administration surrounding common good assets. The working group has identified a number of issues with the existing administrative arrangements and has reported these to the relevant area committees. In particular the group has identified anomalies in the way in which the assets are serviced and maintained. The group's findings are consistent with our previous audit report where we found that there appeared to be significant variances in the level of rental income received from both council services and external organisations for the use of common good assets.
53. The council has established key management principles for common good assets to ensure that there is a consistent approach to administration of these assets. The council has however yet to undertake a comprehensive review of lease arrangements. It was envisaged that this would form part of a wider review of common good assets, including the preparation of an asset register for moveable assets such as works of art. A review of titles has been undertaken to identify common good assets, the findings of which are being considered by the relevant area committees.

Charitable Trusts

54. Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. For each trust fund, the Regulations require a full set of financial statements to be prepared and submitted to the Office of the Scottish Charity Regulator (OSCR). OSCR has however deferred this requirement until 2010/11. In 2009/10, reliance can be placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers. As at 31 March 2010, the council administered 187 trust funds or bequests, of which 78 are registered charities.
55. OSCR reviewed the quality of information provided by each local authority in 2008/09. They classified each local authority under five headings, ranging from 'poor' to 'fully compliant'. Fife Council was classified as 'below average'. We understand the council is putting in place arrangements in place to ensure it complies, in 2009/10, with the filing requirements as outlined by OSCR.

Action plan point 4

56. In March 2010 the Policy and Resources Committee approved the establishment of new settlement trusts to replace existing trusts in each town and village. The council has however been unable to reach an agreement with OSCR on the exact form and content of these trusts. The council has decided to move forward with the reorganisation, applying firstly to establish the new settlement trusts and secondly to reorganise the existing trusts.

Significant Trading Operations

57. Section 10 of the Local Government in Scotland Act 2003 requires local authorities to maintain and disclose trading accounts for significant trading operations (STOs). Each STO is required to breakeven over a rolling three year period. Fife Council's financial statements include a STO covering its Building Services operations. The Building Services STO delivered a surplus (for statutory purposes) of £6.338m in 2009/10 which has resulted in the STO achieving a three year cumulative surplus of £17.130m as at 31 March 2010.
58. The table below summarised the results of the Building Services STO over the last three years. The levels of profit made by this STO are significant with net profits running at 7.4% and 9.8% of turnover (2009/10 and 2008/09 respectively). This profit level is considerably more than other building and construction companies operate at and may suggest that individual service accounts including the housing revenue account are being over-charged. A benchmarking analysis of over 430, other private sector building services and construction companies operating over the last three years shows that they are generating net profit returns of between 3.2% and 4.4%. We recommend that the level of charging by the Building Services STO is reviewed to ensure that service accounts are receiving best value.

Action plan point 5

Table 4: Building Services STO results			
	31 March 2008	31 March 2009	31 March 2010
	£m	£m	£m
Turnover	(65.846)	(76.680)	(85.081)
Expenditure	62.590	69.144	78.743
(Surplus)/deficit for statutory purposes	(3.256)	(7.536)	(6.338)
Source: Fife Council Annual Accounts			

59. Under the terms of the Act the identification of significant trading operations is the responsibility of individual authorities. When considering the status of potential trading operations the council applied a number of tests to determine the trading status of each activity and its level of significance. Following the last assessment in 2010, the council concluded that Building Services was the only significant trading operation. We consider Fife Council's assessment of which activities should be classified as STO's to be reasonable.

Audit and Risk Management Services

60. At Fife Council, the internal audit service is provided by an in-house team; Audit and Risk Management Services (ARMS). Effective co-ordination between internal audit and external audit is essential in order to minimise duplication of effort and maximise the benefits of audit. As required by the Code of Audit Practice, we have established appropriate working arrangements with Audit and Risk Management Services. In January 2009 we presented an Audit Joint Working Protocol to the Standards and Audit Committee. This document sets out the basis for effective co-ordinated working arrangements between Audit and Risk Management Services and Scott-Moncrieff.
61. We have reviewed the council's internal audit arrangements to ensure that the work of Audit and Risk Management Services is of sufficient quality and volume and complies with best practice. Our review concluded that the council maintains an effective internal audit function. We have therefore placed reliance on their work, where appropriate.

Corporate Governance Statement

62. Fife Council has published a wider-ranging corporate governance statement within the 2009/10 statement of accounts. The statement provides an overview of the key elements of the council's governance arrangements and systems of internal financial control.
63. The council's review of the effectiveness of the governance and internal financial control procedures is informed by the views of Audit and Risk Management Services and Heads of Service. The results of this work allow the council to conclude that the system of internal financial control is largely effective.
64. Overall we are satisfied with the disclosures made in the corporate governance statement. The statement is consistent with our knowledge and understanding of the internal financial control framework operating at the council.

Looking Forward

65. In 2008 the CIPFA/LASAAC local authority SORP board 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 into line with other UK public sector bodies. A comparative balance sheet as at 1 April 2009 is required.
66. Local authorities were encouraged to have restated their comparative balance sheets by 31 March 2010. Whilst Fife Council did not meet this deadline, they have now completed this exercise.
67. The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 include the requirement for each administering authority to prepare an annual pension fund report. The pension fund report should be published on or before the December following the year end. The

Scottish Government is consulting on the requirement for a separate pension fund audit and we understand that a report on this subject will be submitted, in October, to the Policy, Finance and Asset Management Committee for consideration.

Use of Resources

Introduction

68. In this section we summarise the key aspects of Fife Council's reported financial position and performance to 31 March 2010. We also consider and report on the council's arrangements in place for workforce related issues, asset management and procurement.

The council's financial performance in 2009/10

69. Fife Council achieved a general fund surplus of £9.580m in 2009/2010. The general fund balance brought forward of £20.221m at 1 April 2009 increased to a cumulative net surplus balance of £29.801m at 31 March 2010. An analysis of the council's general fund reserve at 31 March 2010 is presented below:

Table 5: Analysis of General Reserves as at 31 March				
	2010	2009	2008	2007
	£m	£m	£m	£m
General Fund surplus at end of year	29.801	20.221	15.070	9.557
Less Earmarked Reserves				
• Tourist Development Fund	(0.257)	(0.433)	(0.640)	(0.757)
• Energy Management Fund	(1.495)	(0.745)	(0.701)	(0.707)
• Budget Carry Forward Scheme	(6.287)	(4.269)	(3.026)	(0.625)
• Devolved School Management	(1.210)	(1.118)	(1.325)	(0.875)
• Ring Fenced Projects	(2.777)	(4.916)	(3.656)	(3.342)
• Change Fund	0	0	0	(0.630)
• Single Status	0	0	0	(3.019)
• Landfill Aftercare Fund	(1.215)	(0.970)	(0.667)	(0.350)
• Earmarked Grants	(1.668)	(1.241)	(0.243)	0
• Police and Fire Pensions	(1.741)	(1.834)	0	0
• Other Commitments	(0.750)	(0.438)	(0.190)	(0.912)
Total Earmarked Reserves	(17.400)	(15.964)	(10.068)	(11.217)
(Deficit)/Uncommitted Balance on General Fund	12.401	4.257	5.002	(1.660)

70. The analysis above indicates that the council has earmarked reserves of £17.400m which leaves the council with an uncommitted general fund balance of £12.401m assuming maximum budget carry forward.

71. The council's approved policy is to maintain a minimum balance of 2% of general fund expenditure, or where stability exists through, for example, long term pay agreements a balance of 1.25% of net service budgets is considered acceptable. To achieve this, the council has

committed to restoring balances to a minimum level of £9 million over a three year period commencing April 2007. The council has therefore met this target.

72. Table 6 shows the balance in the council's cash backed funds at 31 March 2010 compared to the previous year. Funds include the insurance fund. As at 31 March 2010, the council had total cash-backed funds of £33.126m, an increase of £7.943m on the previous year.

Table 6: Fife Council cash-backed funds		
	2009/10	2008/09
	£m	£m
General Fund Balances	29.801	20.221
HRA	2.633	2.568
Insurance Fund	0.608	1.784
Capital Receipts Reserve	0.084	0.610
TOTAL	33.126	25.183
<i>Source: Fife Council Statement of Accounts 2009/10</i>		

73. The Housing Revenue Account returned a surplus of £0.065m in 2009/10. The surplus brought forward of £2.568m increased to a balance of £2.633m at 31 March 2010.

Police Services

74. Under the Police and Fire Services (Finance) (Scotland) Act 2001, police authorities are allowed to carry forward any money received and remaining unspent at the end of the year up to an annual limit of 3% of funding from police grant and a total limit of 5% when added to existing accumulated reserves of unspent police grant. LASAAC guidance advises that the amount earmarked for commuted sums should be excluded from the surplus when measuring the results against these prescribed carry forward limits. The accumulated surplus, excluding earmarked amounts, falls within these limits and is therefore available to be carried forward.

Financial Planning

75. In February 2009, the council approved its 2009-10 budget and draft budgets for 2010-11 and 2011-12. In comparison with its budget, the council reported a net contribution to its general fund balances of £14.544m (budgeted contribution was £1.683m). This demonstrates a strong financial performance during 2009/10.
76. The council reported a net under spend in service expenditure in the year (Table 7). Non-service related under spends against budget totalled £5.408m. This included unbudgeted income of £3.98m being generated through additional VAT recovery and a £5.051m under spend against budget in relation to centrally managed budgets including a £2m saving on electricity costs. Against these under spends was an increase in the amounts set aside to meet equal pay claims (£4.283m above budget).

	Actual Net Expenditure £m	Annual Estimate £m	Over/(under) spend £m
Education	273.462	275.328	(1.866)
Social work	181.064	181.810	(0.746)
Housing and communities	75.729	78.055	(2.326)
Environment and development services	98.771	99.890	(1.119)
Finance and resources	26.125	26.130	(0.005)
Performance and organisational support	16.441	17.484	(1.043))
Other services	60.501	62.245	(1.744)
Net cost of services	732.093	740.942	(8.849)

Source: Revenue Budget 2009-10 Provisional outturn report June 2010

Capital performance

77. During the year the council spent £132.849m on capital expenditure. This was financed by borrowing, capital grants and capital receipts and capital funded from current revenue (CFCR). This represents 83% of the council's revised 2009/10 capital plan approved in February 2009. The 2008/09 spend was £118.756m which represented 85% of the programme for the year. The council has re-phased £25.943m into 2010/11. Table 8 outlines the level of capital re-phasing over the last 4 years.

2009/10 £m	2008/09 £m	2007/08 £m	2006/07 £m
25.943	18.287	32.673	19.553

Source: Papers presented to Policy Finance and Asset Management Committee

78. This increasing level of re-phasing indicates that capital planning and management requires improvement.
79. In February 2009 the council approved its 2009-19 capital investment plan (CIP). This plan incorporates the previous 2008-11 plan and outlines the forecast level of capital spend over the following 10 years. The plan is based on a number of assumptions, including the future level of capital funding provided by the Scottish Government along with forecast capital receipts.
80. The capital investment plan proposes that over 60% of the expenditure is incurred in the first four years. Significant levels of re-phasing could potentially jeopardise the completion of individual projects and impact on future year capital plans.

Action plan point 6

Future Financial Position

81. In 2010/11, the council again froze council tax in accordance with the concordat with the Scottish Government. The latest budgetary control reports suggest that the council is currently on target to deliver a small under spend (£0.367m) against its budget.
82. For the three year period commencing 2011/12, the council is forecasting a 12% reduction in Government funding. This is likely to be up to 20% by 2017. No commitment has been given to freezing council tax in 2011/12. The council are progressing to develop a range of proposals to address the potential budget shortfall.
83. The council has also forecast that capital grant funding from the Scottish Government is likely to fall from £191m to £108m over the nine year period 2010 to 2019 along with a reduction in capital receipts of £32m. Due to the existing cost pressures on existing budgets the council has assumed there will be no scope to finance capital expenditure through additional borrowing. Services are evaluating capital projects to identify projects which could be revised or removed from the capital plan.
84. The council has been looking at ways it can reduce its expenditure and the following initiatives are in place:
- Strategic Efficiencies programme which concentrates on mobile home working, depot rationalisation and savings in procurement.
 - Corporate improvement programme which includes the following:
 - i. Property rationalisation; the intention of reducing buildings the council occupies from 97 to 37
 - ii. Alternative delivery models, in particular fleet, transportation and building services are being considered for alternative delivery mechanisms (e.g. partnership working, internal improvement, external models and outsourcing).
 - iii. Consultants have been appointed to undertake a review of management structures.
85. It is estimated that the workforce will be reduced in a planned way by 10-15% over the next four years. A general recruitment freeze is in place at the council.

Efficiency Savings

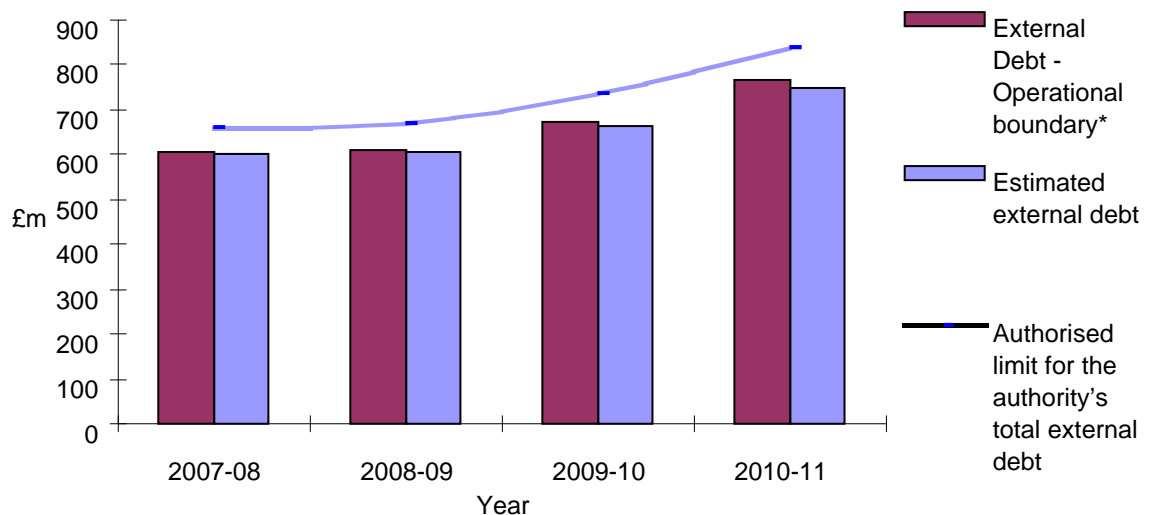
86. Fife Council's efficiency savings have been reported through the council's finance function. The council's benefit tracker system is used to produce the annual efficiency report and is used for reporting to the Efficiency Board. The council however has not linked performance reporting and performance information to each of the efficiency savings reported. The council does not have evidence that the delivery of reported efficiency savings have not resulted in reductions in the levels of services delivered or adversely affected service performance. The council does however recognise it must develop its arrangements for identifying the costs of delivering service

units and linking this to performance information to effectively demonstrate the impact of efficiency savings.

Treasury Management

87. The council has a net borrowing position with substantial long term loans outstanding. These consist of £332m in market loans and £218m Public Works Loan Board borrowing. A total of £11m was held in temporary deposits at 31 March 2010.
88. Figure 1 shows the council's treasury management external debt indicators as reported to the Policy, Finance and Asset Management Committee in March 2009. We are pleased to report that the council complied with these indicators during 2009/10.

Figure 1: Fife Council's treasury management external debt indicators



* The operational boundary is the indicator which the Authority uses to manage its day-to-day treasury management activity. The authority ensures that the total external debt does not exceed this limit.

89. The council's external debt indicators are approved on an annual basis. In March 2010 the council approved its prudential indicators for 2010/11. These however have not been updated to reflect the impact of the PPP transactions (paragraph 28) on its capital financing requirement. The council will need to ensure that their authorised limits and operational boundaries are revised accordingly. We understand the council has revised its indicators in returns to the Scottish Government. The revised limits have however have yet to be formally approved by the council.

Action plan point 7

90. The council's treasury management strategy allows a maximum of 15% of long term debt to mature in any year. This ensures that future cash flows will not be significantly impacted upon by current borrowing levels. The council has forecast that current long term loans will remain within

this limit. The council continuously monitors its portfolio of debt along with market conditions to identify areas where potential savings can be made against the costs of borrowing. In February 2010 the council rescheduled a loan of £30m at 4.35% to a two year PWLB loan at 1.49%. This is expected to generate annual interest savings of approximately £0.91m per year.

91. The council invests surplus cash flows in short term deposits to generate interest on balances. It has established limits to the amounts that can be invested in any one institution. The limits imposed are based on the credit rating of the institution. During 2009/10 the council reported that it breached these limits on one occasion during the year. The council had £10.485m in short term deposits with the Royal Bank of Scotland where the council's imposed credit limit was a maximum of £10m. The incident arose due to anticipated transactions not taking place over a weekend. We therefore do not consider this to be a significant weakness and find that the investments made by the council were done so prudently.
92. The Local Government Investment (Scotland) Regulations 2010 were laid before parliament on 4 February 2010. These regulations require local authorities to consider the totality of their investment activity investments of temporary surplus funds, shareholdings, loans and investment properties. Under the regulations, local authorities need to produce an annual investment strategy which details the investments made during the financial year, ensuring that amounts are not borrowed in advance of need and to ensure that the level of acceptable risk is established and monitored appropriately. In March 2010 the council's borrowing and investment strategy, covering the period 2010-13, was approved the policy, finance and asset management committee. We will monitor the council's treasury management arrangements during 2010/11 to ensure that they continue meet the regulatory requirements.

Asset Management

93. Asset management can be defined as the activity that ensures that the asset portfolio is making the maximum possible contribution to achieving the council's objectives. This will involve strategic considerations, including for example, what number, type and location of assets are required to meet council objectives. It also involves the day to day maintenance and running of the assets. The annual running costs associated with managing and financing assets tend to constitute the second highest element of revenue budgets after employee costs.
94. The appropriate use of assets in the right location can make the difference between good and poor service delivery. Good asset management helps to ensure that services are delivered in the most efficient and effective way. It can also reduce the opportunity cost of money associated with surplus property and reduce the council's carbon footprint.
95. During the year we carried out a review to consider the extent the council had implemented the recommendations made in our 2007/08 review of the council's asset management arrangements. Overall we concluded that the council had made progress in addressing the recommendations. Eight recommendations had been implemented with a further three either

partially implemented or to be implemented. Our report was presented to the Standards and Audit Committee in August 2010.

96. The council's revised asset management plan was approved in September 2009. The first progress report on implementing this plan was originally due in June 2010 but has been postponed and will now be reported to committee later in 2010. There are 22 key actions within the asset management plan, of which ten should have been implemented by June 2010. We have been advised by the council that nine of these have been implemented and eight are being progressed. It is important that the council directs appropriate resources to delivering these actions by the target date and that progress reports are presented to committee on a timely basis.

Action plan point 8

Procurement

97. During the year we carried out a review on the council's overall processes in place for procurement, arrangements for collaborative procurement and the arrangements in place for capturing efficiency savings in procurement. Our findings were presented to the Standards and Audit Committee in August 2010. The paragraphs below provide a summary of our findings. We have not included our recommendations in this report.
98. In 2008, the council's procurement function was moved into the finance and resources directorate. The function was moved to raise its profile, improve reporting arrangements and enhance the interaction with accounts payable. The council's procurement strategy covers the period 2007-10 and was developed in consultation with local partners and external stakeholders, such as NHS Fife, Communities Scotland and Scottish Enterprise Fife. The strategy aligns the work of the procurement function with the council's eight key priorities. These priorities determine service and directorate objectives, six of which include specific measures and objectives for the procurement function to be delivered by March 2011. Progress against these objectives is reported on a six monthly basis. As at April 2010 the council considered it was on track to deliver against these objectives.
99. The council is establishing a procurement network. The network aims to identify opportunities for aggregating contracts and eliminating unnecessary duplication within existing arrangements. The establishment of the network also seeks to bring together all staff across the council who have responsibility for commissioning contracts. The network will be made up of approximately 75 staff from all services. The council believes that this network will enable opportunities for sharing good practice and will result in a more effective procurement function.
100. Fife Council must continue to develop and embed effective procurement arrangements across the council. Although the procurement function received a positive best value report in 2009, best value is a continuous process. The council must ensure that it can demonstrate good practice across all services' procurement arrangements and demonstrate it has responded to

national guidance and to issues and areas of weakness highlighted through the Audit Scotland survey and this report.

101. Procurement is one of the areas identified through the council's strategic efficiency programme. The procurement programme for the council as a whole aims to deliver £3.859m of recurring savings by developing collaborative procurement arrangements and encouraging procurement best practice within the council. Further work is required to develop the processes by which savings will be captured and reported. There is a need for enhanced reporting of procurement efficiency savings. Efficiency savings are only achieved if a service delivers the same quality and quantity for a reduced cost or an enhanced level of quality or quantity of goods or service for the same cost. The current reporting arrangements report procurement savings against financial information with limited links to quality and quantity. There is a need to formalise the accounting support for each review to ensure a consistency in the reporting of figures.
102. The Public Procurement Reform Programme aims to improve procurement across the Scottish Public Sector. To assess procurement performance across the Public Sector the Scottish Government promoted the use of an annual procurement capability assessment (PCA). The PCA assesses procurement performance and acts as a tool for sharing best practice and promoting continuous improvement across the public sector. Results are banded into non-conformance, conformance, improved performance and superior performance.
103. In 2009, the PCA was undertaken across Scotland's councils. Fife Council was graded within the conformance band. Whilst in relative terms the council's procurement performance is above the average for local government in Scotland, the score does highlight that there is scope for improvement. The findings from our review are consistent with the PCA findings. The council intend to use our review as well as its Procurement Strategy, which was revised to reflect the PCA findings, to improve procurement practices.
104. In the coming months Scotland Excel are due to undertake a follow up PCA review. We will monitor the Council's progress in improving procurement practices and will review the results of the PCA.

Performance

Introduction

105. An effective council is one which has a clear and ambitious vision for what it wants to achieve for its locality and communities and for securing high quality services and effective outcomes for local people. The vision should be promoted by elected members and senior officers of the council and supported by staff and partners. The vision should be supported by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective council is one which has a performance management culture embedded throughout the organisation. The council's performance management framework should be integrated with service planning and delivery.
106. In this section we provide a high level overview of performance management in Fife Council.

Strategic Planning for the Future of Fife

107. In late 2009 Fife Council began a series of workshops on future scenario planning for Fife with key members of the Fife Partnership. Using workshops, mock television documentaries and mock newspaper reports the work set out potential outcomes for Fife based on four possible scenarios. The scenarios incorporated decisions taken by the Fife partners as well as the implications of national and Scotland wide political decisions.
108. In April 2010, 120 individuals engaged in partnership working met to review the scenarios developed through this work. They discussed the implications of each of the four scenarios and the effect each would have on future partnership working, community engagement and the resulting resource implications. As a result of this scenario work the Fife partnership is now revising a future work plan which it expects to feed into Fife's future SOAs and outcome planning.

Single Outcome Agreement (SOA)

109. In 2008 the Fife Partnership developed an SOA for the whole of Fife for a three year period. The partnership's single outcome agreement 2008-11 was agreed by the Scottish Government and members of the Fife Partnership in June 2008.
110. In developing the 2009-12 SOA the Fife Partnership took the decision to reduce the number of local outcomes and indicators. The local outcomes within the Fife Partnership SOA are those which are incorporated in Fife's Community Plan. Delivery of the Community Plan is monitored through milestones and annual reporting through the 'State of Fife Report'. This report was also submitted to the Scottish Government as an interim report on the delivery of Fife's SOA. The Partnership will use this method to report on further SOA progress.

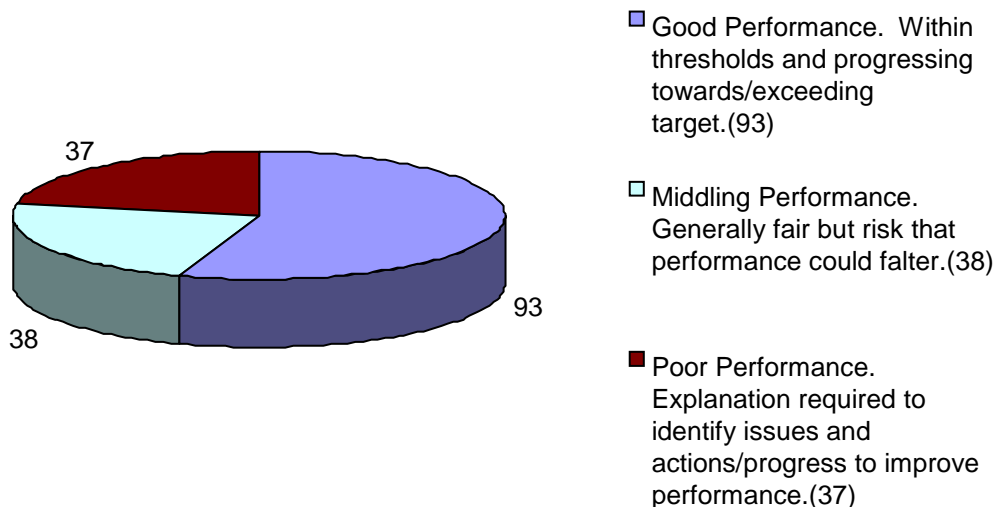
111. As part of its reporting against SOA outcomes Fife has now begun to provide six monthly reports on outcomes within its SOA. These reports are provided directly to the Fife Partnership Executive and copied to Fife partnership members. These reports are not formally tabled reports but are to provide the Partnership with progress information and to enhance scrutiny and decision making.

Performance Management and Reporting

112. Fife Council revised its performance reporting arrangements in autumn 2009. Performance reports are now prepared by each of the council's directorates. The council has had mixed feedback on the revised reporting formats from elected members and directorates. There are concerns that there is too much detail within the reports which does not help elected members identify the key issues. The council is therefore reviewing its reporting arrangements in light of this feedback. Fife Council is keen that performance reports should demonstrate greater links between the council's key priorities, budget allocations and delivery by the council's directorates.

113. Figure 2 summarises progress in 2009/10 against 168 targets measured through the council's corporate balanced scorecard. This information is based on the 4th quarter performance information reported to the corporate management team.

Figure 2: Achievement of Fife Council's targets 2009/10



114. Based on the individual indicators, poor performance is particularly predominant under three of the council's big 8 priorities:

- To be the leading green council in Scotland (8 indicators)
- Improving local conditions for economic development (6 indicators); and
- To improve sport, leisure and cultural opportunities (7 indicators)

115. The report presented to the CMT includes comments on the performance in these areas, including an overall assessment. Over 22% of the indicators were assessed as being 'poor performance' highlighting a considerable drop in performance from the prior year where only 11% of the indicators were in this category. In comparison with the previous year, three areas where performance dropped are in relation to improving educational attainment and achievement, improving local conditions for economic development and improving sport leisure and cultural opportunities. At the time, the CMT agreed that the existing performance indicators and format of reporting needed to be reviewed to enable them to measure whether the aim of being a top performing council is being achieved. This would be linked more to outcomes and the SOA.
116. We also noted that whilst the report provides context to performance within the year the report did not provide explicit detail on how performance issues would be addressed or the expected timescales.

Action plan point 9

Statutory Performance Indicators

117. One of the ways of measuring council performance is through the statutory performance indicators (SPIs). For 2009/10, the Accounts Commission made a significant change to the SPI direction. The 2008 direction which defines the reporting requirements for 2009/10 incorporates the following main 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)
 - That each Fire & Rescue service report a range of sufficient information to demonstrate best value (SPI 3)
 - Police services will report performance in accordance with the requirements of the Scottish Policing Performance Framework, SPPF (SPI 4)
118. In reporting against the above, all councils are required to report performance against 25 specified indicators as defined in the 2008 direction. In addition, the council must select a range of non-specified indicators to demonstrate Best Value and compliance with the 2008 Direction. As a unitary authority, the council also reports on three specified fire service indicators as well as reporting against the Scottish Policing Performance Framework.
119. As auditors we are required to assess whether adequate arrangements are in place for collection and publication of accurate and complete information and that these are functioning effectively.
120. In order to meet the requirements of the 2008 direction, the council has decided to report the full range of 168 council plan indicators as non-specified indicators. To supplement these, seven non-specified fire & rescue service indicators, taken from the service's scorecard, are to be

reported. The range of indicators reported by the council ensures adequate coverage of performance information required by the 2008 direction.

121. The Accounts Commission is concerned that councils should make greater use of cost information to demonstrate that they are achieving a balance between cost and quality in service delivery as part of their Best Value performance management and public performance reporting obligations. The Commission is firmly of the view that service cost information is important to stakeholders and citizens, providing additional context for the assessment of performance. At present, service cost information is not widely reported through the council plan indicators.

Action Plan Point 10

122. We have carried out testing on a sample of indicators. Internal audit has also carried out an independent verification on the adequacy of the arrangements over a sample of council and fire and rescue service indicators. Overall our audit testing identified two indicators, one of which we would classify as unreliable and the other has not been reported:

- the number of formal council complaints – the systems used to generate this information includes both test complaints and actual complaints. In addition, we are aware not all services use this system to its full capacity. We would therefore classify this indicator as unreliable.
- the number of new VAT registered businesses per 1,000 working age population in Fife: since 2007/08, this indicator has been reported as the number of new start up businesses per 1,000 working age population in Fife rather than the number of new VAT registered businesses. We also noted that this indicator has not been reported through its balanced scorecard and is one its single outcome agreement indicators.

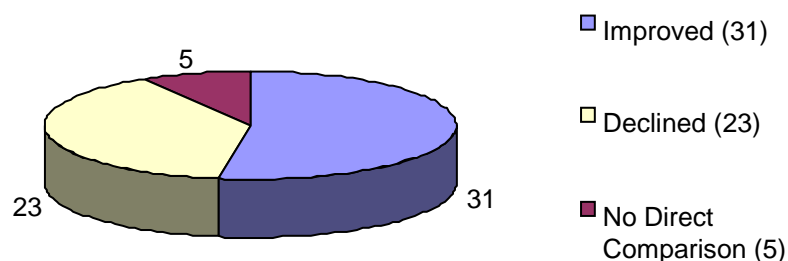
123. Furthermore, we noted that the council does not have procedures in place to ensure the internal verification of SPPF indicators as reported by the police.

Action Plan Points 11-12

124. The council plans to report the performance information of the 25 specified indicators by 30 September 2010 through the council's website. As in previous years, the council also intend to produce an annual "measuring up" performance report which will, in the current year, include data from its specified and non-specified indicators.

125. Figure 3 demonstrates where council's performance has improved or declined since 2008/09 in relation to the 25 specified performance council indicators.

Figure 3: Changes demonstrated by SPIs in 2009/10



Note: the 25 specified performance indicators comprise of multiple components therefore the results above report more than 25 indicators

126. The table below details a sample of those indicators where performance has declined in comparison with the prior year.

Table 9: Indicators where performance has declined in comparison with 2008/09			
		2009/10	2008/09
Sickness Absence	Average number of working days per employee lost through sickness absence for teachers	7.2	6.3
Equal Opportunities	The number and percentage of the highest paid 2% of earners among council employees that are women.	36.0%	40.0%
Administration Costs	The gross cost per case for benefits administration.	£53.17	£51.79
Asset Management	The proportion of operational accommodation that is in a satisfactory condition	78.6%	82.2%
	The proportion of operational buildings that are suitable for their current use	72.8%	74.8%
Cultural Services	The number of attendances per 1,000 population for pools	2,617	3,150
Managing Tenancy Changes	Average time to re-let dwellings (not low demand)	84 days	62 days
	Average time to re-let dwellings (low demand)	147 days	136 days
Rent Management	The percentage of former tenant arrears written off or collected during the year	37.7%	26.6%
Cultural Services	Library usage: number of visits per 1,000 population	4,823	4,936
Environmental Services	The cleanliness index achieved	73	75

Public Performance Reporting

127. Fife Council has a comprehensive public performance reporting (PPRg) strategy in place which aims to ensure all PPRg carried out is planned, systematic, monitored and reviewed and that it meets the requirements of legislation and statutory guidance. This strategy focuses on PPRg as part of the council's overall best value responsibilities.
128. There is a high level of awareness about the Big 8 priorities across the council and these drive its performance reporting. The focus of the council's PPRg tends to follow the committee reporting cycle and while the reporting of up to date live information should be seen as a priority it is recognised that reporting cycles of committees inevitably slow this process down to a significant degree (*Reporting Performance Information to Citizens, Communities and Local Government, 2008*).
129. Whilst the council has arrangements in place for annual public performance reporting, it relies on the publication of committee papers on its website as a source of ongoing performance reporting during the year. Although the internet is one obvious means of presenting information where necessary, to accommodate service users and professional audiences, authorities should consider producing separate reports to meet the needs of different audiences. To truly engage its stakeholders it should seek further ways to report its performance to the public.
130. We have carried out a review of the council's PPRg arrangements during the year. Our findings and recommendations have been incorporated into a separate report which will be presented to the Standards and Audit Committee later this year.

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

131. Following the publication of Fife Council's Best Value and Community Planning report in 2009, the council authorised the preparation of an improvement plan in response to the Accounts Commission findings. The plan was based on the improvement agenda included in the best value report. Progress against the council's Best Value Improvement Plan is reported on a six monthly basis to the policy, finance and asset management committee. Regular progress updates are also reported to the council's corporate management team (CMT).
132. The agreed timescales for implementing the improvement plan have now all passed. The most recent update presented to the policy, finance and asset management committee (March 2010) noted that the council had continued to make good progress on the agreed BV1 improvement actions. In accordance with the assurance and improvement plan we will continue to monitor progress by the council in implementing its best value improvement plan over 2010/11.

Governance

Introduction

133. Governance is about direction and control of organisations. It is concerned with structures and processes for decision making and accountability. Good governance can be defined as “*the way local authorities operate is based on sound decision-making and effective processes are in place to support it*”.
134. We have reviewed the council's corporate governance arrangements during the year. This section sets out the main findings from our review.

Roles and Relationships

135. Fife Council is also the Police Authority for the Fife area. In our 2007/08 Annual Report to Members we commented that:

“There is evidence in Fife Council that greater clarification is required as to the specific responsibilities of the council as the police authority and those of the Chief Constable. Therefore, we recommend that the council agrees a Memorandum of Understanding with the Chief Constable and police service to clarify the specific responsibilities of the police authority and those of the Chief Constable and, in particular, how the police authority's activities are covered by the existing Fife Council governance arrangements.”

136. In response to this and further comments made in our 2008/09 report and the Best Value report, the council agreed to review the arrangements in place for discharging its responsibilities as a unitary police and fire authority.
137. In June 2009 the council agreed a revised remit for the Police, Fire and Safety Committee which incorporated a more explicit responsibility for scrutiny and review of performance. At the same time it was agreed that the Police Financial Regulations be reviewed to provide greater clarity in relation to roles and responsibilities. As part of the attempt to provide greater clarity it was also agreed that the Police, Fire and Safety Committee should develop an accountability framework with the Chief Constable to specify how the revised governance arrangements would operate in practice.
138. The Police Fire and Safety Scrutiny Group were tasked with agreeing the accountability framework. Due to differences of opinion regarding the content of the framework, the Group were not able to reach an agreed position.
139. In December 2009 revised Police Financial Regulations were approved by the council. The Chief Constable however expressed concerns over the Regulations to the extent that she could not subscribe to them.

140. Due to the impasse that had been reached, Audit Scotland and HMIC were asked to facilitate a process to agree a new governance framework for policing in Fife. A number of meetings were held with the Chief Constable and Chief Executive to try to progress matters. However as a result of concerns being expressed by the Chief Constable these meetings were suspended by HMIC and Audit Scotland. Due to the impact these issues were having on the council a cross-party leaders group, chaired by the Chair of the Standards and Audit Committee was then set-up to address the outstanding police governance issues. This group consulted with the Chief Constable, Chief Executive and Audit and Risk Management Services Manager before agreeing on revised governance arrangements which were approved at a special meeting of Fife Council in June 2010.
141. An updated accountability framework was approved by the Police Fire and Safety Committee on 2 September 2010 and changes to the Police Financial Regulations will be taken to a future meeting of PFAM.
142. During this process to agree a new governance framework we were consulted on a number of areas. The revised arrangements reflect a pragmatic response to defining the responsibilities of the police authority and Chief Constable in an area that lacks clarity at a national level. We have two observations:
- We are concerned to ensure that the arrangements allow for the Standards and Audit Committee and Section 95 officer to direct internal audit to review any area of the Police Authority even if this is not included within the internal audit programme agreed by the Police, Fire and Safety Committee. We have been assured that the agreed arrangements allow for this.
 - The revised arrangements state that Fife Constabulary is an independent organisation strategically linked with Fife Council but neither a department nor a service of the council. We have been assured that this status which is considered to derive from the Police (Scotland) Act 1967 does not confer on Fife Constabulary the status of a Joint Committee or Joint Board under the Local Government (Scotland) Act 1973.
143. We would also note that all governance structures require trust, openness, responsibility and accountability to succeed. The difficulties experienced over the last year have indicated that at times these behavioral characteristics have not always operated both at a member and officer level. It is critical that the council and Fife Constabulary now work to ensure these new arrangements operate effectively. We will continue to monitor their practical implementation over the remainder of our audit appointment. Fife Constabulary and the police authority will be subject in due course to a joint best value audit and inspection by Audit Scotland and HMIC.

Support and training to elected members

144. Fife Council has recognised that its previous arrangements for elected member training have not been effective. The council has revised these arrangements and sought to put in place alternative methods which will address previous weaknesses.

145. Under the previous arrangements training was provided on a monthly basis to elected members. Topics to be covered by elected member training were highlighted by officers and was seen by members as being an officer led agenda. Attendance at elected member training sessions was poor, often less than twenty percent of elected members and there was little formal feedback or follow up on the effectiveness of the training. Attendance for committee members on specific legal issues, such as planning and recruitment has historically been very high. This would suggest that councillors can understand the need for certain training but may not realise how additional training events can support them in their role as an elected member.
146. In 2009, following consultation with elected members, the council appointed an elected members development focus group. This group includes membership from the four main parties within Fife Council. The Group aims to help shape elected member training, engaging with elected members to identify their training needs and wants. Through consultation with the elected members the council identified a wide list of potential training issues. This has been prioritised by members and the council to ensure that the training targets the key issues, such as the single outcome agreement and training for chairs.
147. Further work is required by the council to develop and improve its elected member training. Currently there is no system in place for recording and monitoring members' skills and training needs. Neither does the council formally report on elected members' attendance at members' training events. The council assumes that the political parties will hold members to account for training but this information is not being centrally co-ordinated and formally reported on by the council.

Action plan point 13

Code of Corporate Governance

148. Fife Council has identified four key elements to its governance structure:
- Accountability and scrutiny
 - Sound management
 - Internal controls
 - Management of risk
149. The council's code of corporate governance outlines how it works to ensure it meets these four elements. The Code is a document by which the council operates within to ensure integrity, focus on doing the right things and efficiently.
150. In April 2010 the Standards and Audit Committee approved a revised Code of Corporate Governance. The revised Code replaced the previous Code which was approved by Fife Council in September 2003.
151. The revised Code has been developed using CIPFA /SOLACE guidance '*Delivering Good Governance in Local Government – Guidance Note for Scottish Ministers*', the Fife Excellence

Model and the council's previous Code of Corporate Governance. The council has mapped the key elements of these documents against the revised Code to ensure that this reflects best practice as well as existing arrangements in place at the council.

152. Council services will be required to assess compliance with the revised Code by providing an annual assurance statement. The services will be required to provide comprehensive evidence that they have complied with the governance framework and this will be subject to triennial review of each service.
153. The council has developed training programmes for both assessors who will perform triennial reviews of services as well as training for individual officers responsible for completing annual assurance evaluations. Whilst the service directors are responsible for ensuring that the annual assurance statement reflects the actual arrangements in place we recommend that the evaluation framework is evidenced by the officer responsible for completing the assessment to ensure that they have undertaken the appropriate level of training.

Audit action point 14

Political Scrutiny at Fife Council

154. Scrutiny within Fife Council remains the responsibility of Fife Council and its strategic service and area committees. The Policy, Finance and Asset Management Committee has a responsibility for corporate policy scrutiny and has overall responsibility for the effectiveness of scrutiny and performance review arrangements across the council. The Standards and Audit Committee has an important responsibility for scrutiny within the council.
155. In our 2008/09 report we noted that following a pilot project, scrutiny arrangements at the council were being revised. Council's strategic committees were to identify areas for detailed scrutiny following committee scrutiny of service plans (on an annual basis) and detailed scrutiny reviews would be considered by Scrutiny Panels. These scrutiny panels would be cross-party and could appoint co-opted members. Political groups would be invited to nominate members for appointment to a core scrutiny group from which members of scrutiny panels may (but not exclusively) be drawn. It was expected that the number of scrutiny reviews to be carried out in any year would be limited to four.
156. Since our previous report we note that strategic committees were asked specifically during their consideration of the Spring planning and performance reports to consider any issues which might merit detailed scrutiny. To date we note that only one issue has been identified for consideration by a scrutiny panel. This is a topic selected by the social work and health committee.
157. Effective scrutiny is an important component of good governance and enhances the effectiveness of decisions, policy and outcomes. All elected members have an important role in promoting and contributing to this scrutiny. We would urge members of service committees to reconsider which areas should be subject to detailed review by a scrutiny panel. We would also

recommend that members are given more support and training in how to select and conduct scrutiny reviews.

Action plan point 15

158. Fife Council is a unitary police authority but under the revised governance arrangements referred to in paragraph 135 many of the functions of the council as a police authority are delegated to the Police, Fire and Safety Committee. The committee's remit includes the police authority's role for agreeing a strategic vision for police and fire services, making arrangements which secure best value, ensuring the effective management of police and fire resources and making arrangements which secure best value. The scrutiny responsibilities of the committee are carried out by the Police, Fire and Safety Committee Scrutiny Group who have a remit to scrutinise in detail the full range of the Police Fire and Safety Committee's remit.
159. We noted that the Police, Fire and Safety Committee Scrutiny Group consists of the same members of the Police, Fire and Safety Committee and is also chaired by the committee convenor who is a member of the administration. CIPFA recommend that there is a role for different groups of members to undertake scrutiny of areas. Indeed we note that the Scheme of Scrutiny and Performance Reporting states that "scrutiny is enhanced by the involvement of independent contributions from those not directly responsible for the policy or service area."
160. The Scrutiny Group was set up in May 2009 and has met a number of times since then. A number of scrutiny topics were identified for review. The Group was also tasked by the Police Fire and Safety Committee to agree an Accountability Framework which would clarify how the governance arrangements between the Council and the Chief Constable would operate in practice.
161. The group considered the draft Accountability Framework on four occasions and as a result detailed scrutiny reviews were put on hold. We note that the programme of scrutiny reviews of policing areas will recommence now that the Accountability Framework has been finalised. The scrutiny group was set up prior to the approval of the council's revised scheme of scrutiny. We recommend that the group's role be brought into line with the council scheme of scrutiny. We suggest that further consideration is also given to the independence of the group.

Action plan point 16

Community Planning Partnerships

162. Fife's Community Plan 'A Stronger Future for Fife' is the overarching strategic plan for Fife. It is co-owned by Fife Council and its partners, including NHS Fife, and provides a framework for every other strategy of Fife Partnership partner organisations.
163. The plan sets out the overall strategy for the people of Fife and can be cross-referenced to each individual partner organisation's own plans and strategies. The current plan was produced in 2007, and is due to be revised in late 2010.

164. The Joint Health and Wellbeing Alliance for Fife has developed a Joint Health Improvement Plan to provide a strategic lead for improving health and wellbeing and tackling health inequalities. This plan covered the three years from 2007 – 2010 and is linked to the council's Local Delivery Plan.
165. Fife Council has the advantage of sharing co-terminous boundaries with its strategic partners. The clear identity of the Kingdom of Fife also enhances close partnership working and a commitment to supporting the delivery of services within the Fife area by all partners. There are clear links between the partnership documents and between these documents and the strategic objectives of Fife Council. Partnership objectives are reviewed at regular intervals and reflect the priorities and targets of the council and its partners.
166. Whilst partnership arrangements and structures are in place, more work is required on developing effective outcome based reporting. Existing performance monitoring tools were not necessarily designed to produce outcome reports on partnership performance. Clear baselines for service delivery have not been established for all targets and outcomes or across partnership themes. Otherwise, the council may find it difficult to demonstrate the impact that this partnership working is having on the people of Fife.

Action plan point 17

Following the Public Pound

167. The Code of Guidance on Funding External Bodies and Following the Public Pound (the Code) emphasises the need for good governance and clear accountability. Over the last two years the council has moved towards using arms length organisations to deliver services. These include, for example, the establishment of Fife Sports and Leisure Trust, AttFife and Fife Coast and Countryside Trust to deliver sport and leisure services, arts and theatre services and environmental services respectively.
168. In 2008/09 we undertook a comprehensive review of the council's arrangements for following the public pound. As part of our 2009/10 audit we carried out a follow up review. We found that agreements had been established for each Trust specifying the services to be provided on the council's behalf. Draft service level agreements have been established between Fife Sports and Leisure Trust and the council. These have yet to be formally agreed. Service level agreements however between the other trusts and the individual council services had not been developed. The service level agreements should cover the services provided by the council to or on behalf of the trusts, for example internal audit services. A formal agreement ensures that the level, quality and value of service provided is agreed and acts as a basis on which to measure the performance of service delivery.

Action plan point 18

169. The council has established a monitoring and evaluation framework which covers the financial and non-financial monitoring arrangements in place over voluntary sector bodies. The contracts element of the framework is currently being developed to incorporate new legislation as well as

reflecting funding arrangements between the council and third party organisations that do not fall under grant funding arrangements. The update to the framework will also cover the procedures to be put in place to ensure that services are appropriately collating officer's interests in third party organisations.

170. The council envisage completion of this section of the framework by December 2010. Training has been completed during the year to ensure that all staff are aware of the requirements of new legislation and the outstanding section relates to the updating of the register.

Risk Management

171. Fife Council has established a comprehensive strategic risk management register which is directly linked to its Big 8 strategic priorities.
172. The Standards and Audit Committee has overall responsibility for overseeing the effective management of risk by officers of the council. The council's Corporate Management Team (CMT) ensures that adequate risk management arrangements are in place. In August 2009 the committee approved a revised risk management manual for services. This document outlines the arrangements in place for risk management across the council and incorporates the council's risk management strategy and policy.
173. Two main groups assume responsibility for risk management within the council. The risk management strategy group (RMSG) is responsible for reviewing and ensuring the implementation of the strategy and raising awareness and developing a risk management culture within the council. The operational risk management group (ORMG) is the focal point to assist services in their implementation of the strategy at an operational level. Each service has a representative on the ORMG who is responsible for risk management within their own service. The ORMG consists of officers from each service plus officers from health & safety, community safety, risk management, audit services and property services.
174. Risk management has yet to be fully embedded across the council. Whilst a number of services have made progress in implementing risk management arrangements, the level of development varies considerably across the council. This position has been reported during prior year audits as well as being raised by the council's audit and risk management services. The table below summarises the findings of audit and risk management services service level reviews undertaken during 2009/10. The table demonstrates the varying level of development of risk management systems across council services.

Table 10: Audit and Risk Management Services – findings from service level reviews	
Grading	Number of Services
Risk naïve – no formal approach developed for risk management	1
Risk defined - Strategy and policies in place and communicated. Risk appetite defined.	5
Risk aware – scattered silo based approach to risk management	5
Risk managed - Enterprise approach to risk management developed and communicated.	1

²Grading based on the institute of Internal Auditor's guidance on assessing an organisation's risk maturity

175. In August 2009 the Standards and Audit Committee approved a risk management manual for services. Whilst this manual has been made available to officers, there is still limited progress in implementing consistent risk management arrangements across the council.

Action plan point 19

Fraud and Irregularity

176. The integrity of public funds is at all times a matter of concern. As external auditors we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities.
177. At a corporate level, the council has appropriate arrangements in place to help prevent and detect fraud and irregularity. These arrangements include, for example, an anti-fraud and corruption strategy, a whistle blowing policy and codes of conduct for elected members and staff. Overall we concluded that arrangements at Fife Council were generally satisfactory to prevent and detect fraud and other irregularities.
178. One council member had their conduct referred to the Standards Commission during the year. The Commission concluded that the member had not contravened the Councillors' Code of Conduct.

National Fraud Initiative

179. The National Fraud Initiative is a counter-fraud exercise currently undertaken in Scotland as part of statutory audits. In May 2010, Audit Scotland reported the results of the 2008/09 exercise 'The National Fraud Initiative, making an impact'. The cumulative outcomes of NFI in Scotland are now around £58m.
180. At a local level, the council reported a total of nine frauds and 71 errors with a total value of £114,640. £80,477 of this has been recovered. The council adopted a positive approach to NFI. Appropriate officers have been assigned responsibility to coordinate the exercise and the council makes effective use of the web application and reported results to the Standards and Audit Committee.

181. The council is currently preparing to submit its data for the 2010/11 NFI exercise. This is due on the 4th October 2010.

Appendix 1: Action Plan

Our action plan details the key weaknesses and opportunities for improvement that we have identified during this review. To assist the council in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated.

Our rating structure has been revised to ensure consistency with the structure used by Audit and Risk Management Services. The rating structure was approved by the Standards and Audit Committee in 2008.

The rating structure is as follows:

Significant	Weaknesses in existing controls leaving the council or service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high for the matter to be reported specifically in the Annual Assurance and Corporate Governance Statements
Substantial	Weaknesses in existing controls leaving the council or service open to high risk of error, fraud, financial loss or reputational damage
Routine	Weaknesses in existing controls leaving the council or service open to medium risk of error, fraud, financial loss or reputational damage
Minor	Administrative weaknesses in existing controls posing little risk of error, fraud, financial loss or reputational damage

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

Action Plan Point	Para Ref	Recommendation and Rating	Management comments	Responsible Officer	Agreed Completion Date
1	33	The council should ensure its review of lease dilapidations considers instances where the lease agreement requires to be put back to its original condition. Routine	A risk managed approach is to be established to address contingent dilapidation liabilities.	Corporate Asset Manager	May 2011
2	43	It is essential that the Council review its surplus assets and develop a strategy for the use of each asset. Substantial	An initial review has been undertaken in conjunction with Services. A strategy for each asset is currently being agreed, following which assets identified as surplus will be disposed of.	Corporate Asset Manager	March 2011
3	50	Arrangements should be put in place to ensure the council continue to implement the recommendations raised in our report on the council's arrangement for common good Substantial	Work will continue to complete the actions agreed with the auditors.	Senior Manager (Standards & Governance)	June 2011
4	55	The council should ensure arrangements are in place to ensure it complies, in 2009/10, with the filing requirements as outlined by OSCR. Substantial	Our approach in preparing the Trustee Annual Reports for 2008-09 was agreed with OSCR in advance of filing the accounts in December 2009. This recognised that the Council was in the process of reorganising the Trusts. Arrangements will be put in place to fully comply with the filing requirements and we will strive to improve the quality of reporting, in so far as this is possible pending the reorganisation of the Trusts.	Chief Legal Officer	December 2010

Action Plan Point	Para Ref	Recommendation and Rating	Management comments	Responsible Officer	Agreed Completion Date
5	58	<p>We recommend that the level of charging by the Building Services STO is reviewed to ensure that service accounts are receiving best value.</p> <p>Substantial</p>	<p>In April 2010 Building Services reviewed their pricing strategy for all housing works and introduced significant reductions in charges across the full spectrum of component replacement and maintenance operations. Allied to the price review was the introduction of a robust independent benchmarking framework ensuring comprehensive best value comparisons with public and private sector organisations.</p> <p>From 1st April 2010, all housing task book repairs prices were reduced by 6% and all SHQS investment packages by 4%. These reductions again realign profit levels with the audit recommendations. An open book approach has also been implemented which will ensure that service accounts receive best value.</p>	Head of Asset & Facilities Management	Implemented April 2010, review December 2010

Action Plan Point	Para Ref	Recommendation and Rating	Management comments	Responsible Officer	Agreed Completion Date
6	80	<p>With a challenging capital programme over the next ten years, the council should ensure arrangements are in place to minimise re-phasing of capital expenditure.</p> <p>Substantial</p>	<p>The Council is continuing to spend more on the enhancement of its assets. Capital expenditure was £132.6m in 2009-10 and this represented an increase of 11.7% on the level of spend achieved within 2008-09.</p> <p>ISG has taken steps to improve the delivery of the capital programme. Programme managers have been appointed to work with Services in order to improve delivery performance. This has led to the development of a tool that is being used to profile expenditure based on a realistic basis that reflects the various stages and timescales that projects need to progress through. This has highlighted that the current plan is very ambitious and work is required to improve/update the plan based on deliverability. This will be addressed through the Capital Plan Review that is ongoing at the moment.</p>	Executive Director (Finance & Resources)	February 2011
7	89	<p>The council's revised prudential indicators should be presented and approved by the Policy, Finance and Asset Management Committee</p> <p>Routine</p>	<p>Agreed. Revised prudential indicators taking into account changes relating to the accounting treatment of the Council's PPP projects, will be presented to PFAM for approval.</p>	Executive Director (Finance & Resources)	31 December 2010

Action Plan Point	Para Ref	Recommendation and Rating	Management comments	Responsible Officer	Agreed Completion Date
8	96	It is important that the council directs appropriate resources to delivering the actions in its asset management plan by the target date and that progress reports are presented to committee on a timely basis. Substantial	The key objectives of the Asset Plan 2009-12 are to progress office and depot rationalisation. Reports on these 2 programmes were considered by PFAM Committee in June and September 2010. The annual update report on the Asset Plan is due to be considered by PFAM Committee in October 2010.	Corporate Asset Manager	October 2010
9	116	We recommend that the CMT quarterly performance report includes information on actions to be taken to improve performance and timescales for the delivery of these actions. Substantial	Report already contains explanation of performance information from services. Advice will be provided to improve the reporting of actions to deal with performance issues.	Senior Manager (Policy & Communications)	February 2011
10	121	The Commission is firmly of the view that service cost information is important to stakeholders and citizens, providing additional context for the assessment of performance. At present, service cost information is not widely reported through the council's scorecards. We would encourage the council to consider developing further indicators on service costs. Routine	Improved financial information will be explored but significant amounts of financial information are provided to elected members and the public through specific financial reports. Service cost information and unit cost measures are produced as part of the diagnostic information that supports the budget process. Consideration will be given to include some of this information in the Council's scorecards.	Senior Manager (Policy & Communications)	April 2011

Action Plan Point	Para Ref	Recommendation and Rating	Management comments	Responsible Officer	Agreed Completion Date
11	123	Our audit testing identified a further 2 indicators which we would classify as unreliable. Arrangements should be put in place to ensure that reliable information is generated for these indicators Substantial	One indicator was reliable but had not been reported because of changes in the definition of the indicator by the central government department that supplies the statistics. This has already been addressed and changed through a report to PFAM Committee in September 2010. Other arrangements are being put in place to address the other indicator.	Senior Manager (Policy & Communications)	April 2011
12	123	Arrangements should be put in place to ensure the internal verification of Scottish Policing Performance Framework indicators. Substantial	Arrangements will be put in place to carry out internal verification of these indicators.	Chief Superintendent Corporate Management Division	April 2011
13	147	A central database of elected member training should be created and maintained by the council. The council should also receive formal reports on elected member training and levels of attendance. Routine	Elected member development is considered in detail by the Cross Party Leaders` Group who, having regard to government advice, agreed that individual training records should continue to be maintained but that there would be no merit in publishing these. Consideration will be given to formal reports on training and attendance levels.	Senior Manager (Democratic Services)	December 2010

Action Plan Point	Para Ref	Recommendation and Rating	Management comments	Responsible Officer	Agreed Completion Date
14	153	<p>Whilst the service directors are responsible for ensuring that the annual assurance statement reflects the actual arrangements in place we recommend that the evaluation framework is evidenced by the officer responsible for completing the assessment to ensure that they have undertaken the appropriate level of training.</p> <p>Routine</p>	A procedure will be put in place to ensure the assurance statement is evidenced by the individual responsible for completing it.	Senior Manager (Standards & Governance)	March 2011
15	157	<p>We would urge members of service committees to reconsider which areas should be subject to detailed review by a scrutiny panel. We would also recommend that members are given more support and training in how to select and conduct scrutiny reviews.</p> <p>Substantial</p>	Further training for members on selection and conduct of scrutiny reviews will be arranged and committees will be invited to consider areas for scrutiny in accordance with the Council's scheme.	Senior Manager (Democratic Services)	June 2011

Action Plan Point	Para Ref	Recommendation and Rating	Management comments	Responsible Officer	Agreed Completion Date
16	161	<p>We note that the programme of scrutiny reviews of policing areas will recommence now that the Accountability Framework has been finalised. We recommend that the group's role be brought into line with the council scheme of scrutiny. We also suggest that further consideration is given to the independence of the group.</p> <p>Substantial</p>	<p>The Council will review the scrutiny arrangements for the Police Fire and Safety Committee (PFS). As with the other Strategic Committees, the PFS Committee will also be expected to identify areas for detailed scrutiny which will be referred to the Standards and Audit Committee which will determine which areas will be the subject of consideration by a Scrutiny Panel.</p>	<p>Senior Manager (Standards & Governance)</p>	<p>Ongoing</p>
17	166	<p>Whilst partnership arrangements and structures are in place, more work is required on developing effective outcome based reporting. Clear baselines for service delivery should be established for all targets and outcomes or across partnership themes.</p> <p>Substantial</p>	<p>This work will be progressed as part of the development of the new community plan. Outcome based reports are now reported every 6 months to the Fife Partnership Executive Group with an annual report to the Fife Partnership. This is considered sufficient as this point.</p>	<p>Senior Manager (Policy & Communications)</p>	<p>June 2011</p>
18	168	<p>Service level agreements between the trusts and individual council services should be developed. The service level agreements should cover the services provided by the council to or on behalf of the trusts, for example internal audit services.</p> <p>Substantial</p>	<p>Arrangements will be made for the required agreements to be put in place.</p>	<p>Chief Legal Officer</p>	<p>31 December 2010</p>

Action Plan Point	Para Ref	Recommendation and Rating	Management comments	Responsible Officer	Agreed Completion Date
19	175	<p>The council should review arrangements in place for promoting and implementing risk management arrangements across services to ensure such arrangements are consistent across all services.</p> <p>Substantial</p>	<p>The Risk Management Strategy Group is currently monitoring the annual risk management action plan for the embedding of risk management arrangements throughout the Council. This is currently subject to annual review as are the Council's risk management policy, strategy and guidance documents. In addition, internal audit are in the process of a three phase audit of risk management arrangements for all services.</p>	<p>Audit & Risk Management Service Manager</p>	<p>Ongoing</p>



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