Angus Council

Report to Members on the 2005/06 Audit

Contents

Key Messages

Introduction

In 2005/06 we looked at the key strategic and financial risks being faced by the Council. We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our main findings, summarising key outcomes in 2005/06 and the outlook for the period ahead.

Key outcomes from 2005/06 audit

We have given an **unqualified** opinion on the financial statements of Angus Council for 2005/06.

The Council had corporate governance systems in place during 2005/06 that operated well within a sound control environment. Continuing development of the performance management system, embedding of risk management arrangements and the integration of service planning and the budgeting process will further strengthen the Council's arrangements in the future.

Overall the Council has made steady progress against the improvement actions agreed as a result of its 2004 best value audit. Development of performance management arrangements is ongoing, with full implementation planned for summer 2007. Performance information available to elected members and management in 2005/06 did not provide a complete picture of the extent to which the Council is delivering on its priorities and strategic objectives. Primarily, the Council continues to rely on statutory performance indicators (SPIs) to measure its performance and is looking to develop service standards and targets as part of the performance management system roll out.

The Council's performance as measured by SPIs has historically been good. This year, although many SPIs demonstrated improvement, some highlighted a decline in performance. In some instances where significant improvement has been made, such as the average time taken to process new claims for benefits, there is still improvement required to meet national targets. The level of rent arrears and rents lost due to void (empty) properties continues to rise year on year and has a significant impact, reducing rental income received in the year by over 11%. The Council is investigating areas where performance has declined with a view to taking appropriate remedial action.

The Council recognises efficient government requirements, is acutely aware of the resulting funding pressures and has a number of effective processes in place. The Council's financial strategy includes efficiency reviews which are monitored and managed through the budget process. However, the Council should further develop the strategy's integration with performance issues to ensure efficiency savings do not adversely impact on service standards. The Council is not yet in a position to fully demonstrate that its efficiency savings have not impacted on service outcomes or quality.

The Council's Customer First Strategy is in its early stages, with further revisions to the strategy required following the introduction of Scottish Executive initiatives. Other areas currently under development include the Community Plan for 2007 onwards which will include more outcome focused actions, performance targets and standards that will be integrated with the Council's performance management system.

At the end of the year the Council had a large favourable variance against its 2005/06 budget, largely as a result of underspends of earmarked monies and a budget for additional burdens that was not required until 2006/07. The Council held significant reserves at 31 March 2006. Most of these funds, however, are already earmarked for identified priority matters, with plans being developed for the housing revenue account uncommitted balance to review the programme to achieve the Scottish Housing Quality Standard for the Council's housing stock.

Although the Council's significant trading operations achieved their statutory target to break even, they are still working to agreements which substantially originated during the compulsory competitive tendering era. As a result, these are largely out of date and need to be reviewed to ensure that the Council can demonstrate value for money by addressing competitiveness of services and trading operations.

Outlook for future audits

In common with many other Scottish councils, Angus Council has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer payments to specific groups of employees as part of a compensation package. Provision for £2.853 million has been recognised in the 2005/06 financial statements for the estimated one-off cost of these payments. While moves to agree compensation payments will help to reduce financial risk in this area to some extent, there remain significant risks while existing pay and reward structures remain in place. The future implementation of the single status agreement provides an opportunity to address any underlying inequalities in pay and other conditions of service.

The implementation of the single status agreement in the Council is planned for 2007, subject to the outcome of discussions and agreement with the trade unions. Until a local agreement is concluded the initial and continuing costs of single status cannot be reliably estimated. This represents a significant financial risk to the Council. Evidence from other councils is that variation in the level of potential costs can be up to 10% of the current pay-bill on a continuing basis. A portion of the general fund reserves of £1.7 million has been earmarked to meet some of these costs. In securing a local agreement the Council needs to ensure it maximises the opportunity for service and job redesign to ensure it achieves value for money from its investment in its staff.

The Council aims to deliver in excess of the indicative three year efficiency gain targets set by the Scottish Executive for 2005 – 2008. It will be challenging for the Council to deliver on its programme of savings while managing the impact on services, service users and the Council's overall objectives.

Significant change in 2007, with the introduction of proportional representation and multi-member wards, may mean that current political governance structures will require to be considered by the newly elected Council. The first phase of the Council's management restructuring has been completed with phase two, looking at the redesign of services, currently being undertaken. The Council has also started a review of the political structure, with the intention of reporting to committee prior to the elections.

A number of initiatives are underway which will help to transform the way in which the Council engages with individuals with the help of technology. Although the Council has developed an approach to public performance reporting, this area will require to be kept under review in anticipation of revised Scottish Executive guidance.

Changes to accounting rules will have a major impact on the presentation of the 2006/07 annual financial statements. The Council has confirmed that it will take this opportunity to review the presentation of its budget and summary financial results to members and the wider public to ensure transparency.

This is the final year of our current appointment to the audit of the Council. From 2006/07 Henderson Loggie will be the Council's appointed auditor. The co-operation and assistance given to us by Angus Council members and staff over the five years of our audit appointment is gratefully acknowledged.

Audit Scotland
October 2006

Introduction

1. This report summarises the findings from our 2005/06 audit of Angus Council. The scope of the audit was set out in our Audit Risk Analysis and Plan, which was submitted to the Audit Sub-committee on 18 May 2006. This plan set out our views on the key business risks facing the Council and described the work we planned to carry out on financial statements, performance and governance.

2. We have issued a range of reports this year, and we briefly touch on some of the issues we raised in this report. Each report set out our findings and recommendations and the Council's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.

Performance

Introduction

3. In this section we summarise key aspects of the Council's reported performance and provide an outlook on future performance, including our views on the current status of identified risks. We also comment on the progress against agreed improvement actions arising out of the 2004 best value audit and the findings of national performance audit studies.

Corporate objectives and priorities

4. The Corporate Plan for 2003 – 2007 sets out the key goals and priorities for the Council and explains how it plans to achieve these. The plan is based on four themes, cutting across a variety of services:

- the economy;
- lifelong learning;
- healthy, safe and caring communities; and
- the environment.

5. In December 2005 the Strategic Policy Committee approved the key priorities that the Council would focus on through to April 2007. Six high level priorities and 45 related actions were established and included the following pledges by the Council:

- developing the high quality services that matter to the public;
- consulting and engaging with communities about the future of Angus and the services delivered;
- involving managers and staff and ensuring that they have the skills to deliver quality services;
- delivery of the Customer First Strategy and Implementation Plan 2005 – 2008;
- using performance management to help manage services; and
- playing an active role in the reform and improvement of local public services along with the Scottish Executive, and other public sector partners.

Overview of performance in 2005/06

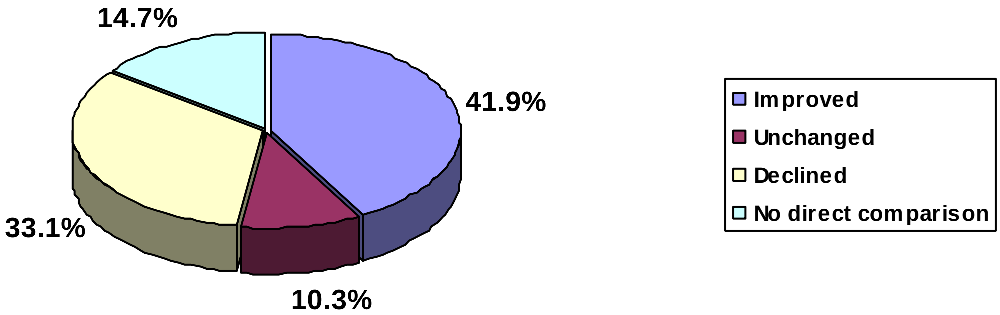
Annual report

6. The Council has issued the publication *Putting You First* to Angus Council residents which highlights some of the Council's key developments against the themes identified in the Corporate Plan and other significant areas such as working with citizens and best value/quality services.

7. While the Council highlights improvements in relation to corporate priorities, the lack of a comprehensive suite of performance targets and indicators means there can be no detailed analysis of the impact on the Council's achievement of its priorities or an assessment of whether resources are being used in the most effective manner to address these priorities. The Council is continuing to develop the performance management system which will incorporate specific actions and targets in relation to the corporate plan, linked to service plans and actions, as an integral part of performance management and monitoring.

Statutory performance indicators

8. The Council's performance as measured by statutory performance indicators (SPIs) has historically been good. This year, many SPIs for 2005/06 demonstrated improvement in year on year performance:



9. Substantial improvements have been made in a wide range of areas such as:

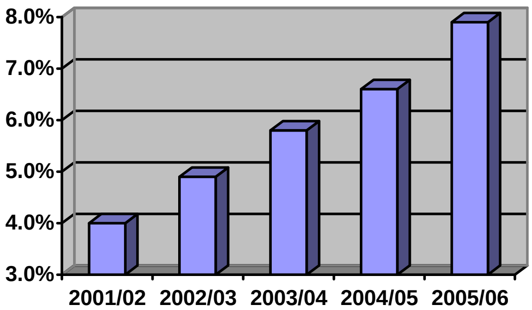
- the proportion of new probationers seen by a supervising officer within one week and the percentage of children seen within 15 days from being placed on supervision;
- the percentage of cases where the calculation of the amount of benefit due was accurate;
- the percentage of Council buildings that were suitable, or accessible to, disabled people;
- attendance at the Council's pools and usage of terminals in learning centres or access points in the Council's libraries;
- the decrease in the percentage of primary schools where the occupancy rate was below 60%;
- the percentage of inspections undertaken on high risk trading premises;
- a reduction in the percentage of roads that should be considered for maintenance treatment;
- a reduction in the proportion of street lights that are over 30 years old and an improvement in the percentage of street light repairs completed within 7 days.

10. Although performance on processing new claims for benefit has continuously improved in recent years, the Council still has some way to go to achieve the targets set out in the Department for Work and Pensions Verification Framework:

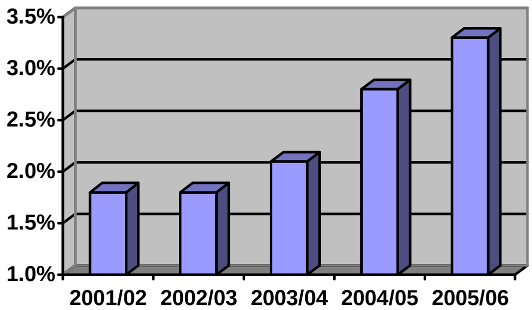
	Angus 2003/04	Angus 2004/05	Angus 2005/06	DWP Target	National Average 2004/05
New Claims	77 days	53 days	43 days	36 days	42 days
Changes of Circumstances	19 days	16 days	17 days	9 days	11 days
Administrative Cost per Case	£78.80	£77.72	£77.19		£48.22

11. As highlighted in last year's report, performance has continued to decline in some areas. For example, the level of housing rent arrears from current tenants has almost doubled since 2001/02. Similarly the percentage of rent lost due to vacant/void properties has continued to increase.

Current tenant's rent arrears



Voids as a %age of rent due in year



12. Performance has also declined in other areas such as:

- the proportion of social enquiry reports submitted to court by the due date;
- the cost of council tax collection per dwelling;
- the attendances at indoor sport and leisure facilities (excluding pools);
- the percentage of the population that are borrowers from the Council's libraries and the average number of issues per borrower;
- the percentage of noise complaints settled on the day of receipt;
- the percentage of inspections undertaken on low risk trading premises;
- the net cost per premise of refuse collection and disposal and the number of refuse collection complaints.

The Council is investigating areas where performance has declined with a view to taking appropriate remedial action.

Performance outlook – opportunities and risks

Introduction

13. In our Audit Risk Analysis and Plan we identified some of the strategic risks to Angus Council delivering on its stated objectives and priorities. These risks have been grouped into five risk themes.

Funding future improvement

14. Although the Council has a sound approach to ensuring the affordability of its spending decisions in the shorter-term, there is a risk that these decisions are not sustainable due to the need to improve longer-term financial planning. The Council has a history of generating annual underspends through robust financial management but current financial pressures are likely to put pressure on reserves.

15. The Council continues to make and is planning improvements to its financial strategy arrangements, including:

- the recently issued 2007/08 revenue budget guidance which is aiming to align the timetables for preparing service plan updates and the budget process. There is an identified need to improve the transparency of the alignment of budgets and Council priorities;
- continuing to develop work undertaken to date to assess the long term affordability of the capital programme and a strategy to meet the identified funding gap;
- the Older People Services Demographic Review to be reported shortly which will inform the Council's long term financial strategy;
- the pilot exercise for zero based budgeting which is planned for 2007; and
- the corporate asset management plan which continues to be developed, with the linkage to the budget process being progressed in parallel.

Responding to change

16. Local authorities are working in an environment of major change as government seeks to reform and modernise public services. The Efficient Government initiative expects savings to be generated through service redesign, streamlined bureaucracy and shared service support. Failure to deliver such savings could increase pressure on existing resources.

17. The Council has recognised that existing structures and cultures may not be fit for purpose in dealing with this changing environment. A review was undertaken and a new management structure has been implemented in August 2006. The second phase of this review is currently underway with each Director responsible for:

- a review of the scope of their service looking at the removal of duplication and rationalisation of functions within the service;
- producing a business plan for the service, identifying the issues facing the service and an implementation plan for achieving the necessary change; and
- a review in conjunction with the Chief Executive of the possibility of transferring functions between the new service groupings where this will lead to greater efficiency, improved service delivery and better joined up working.

18. Further significant change in 2007, with the introduction of proportional representation and multi-member wards, may mean that current political governance structures will no longer be appropriate. The last review of political structure within the Council was undertaken in May 2003. The Council has started a review of the political structure, with the intention of reporting to committee prior to the elections.

19. Councillor's roles have become more complex and demanding. The Kerley Report stressed that members have an obligation to take advantage of relevant, available training and that all councils should set aside a specific training budget for members. The Improvement Service has identified core objectives which may include national standards for elected member training. The Scottish Local Authorities Remuneration Committee has recommended that '*Councillors should have a role description, participate in a training needs assessment and have a personal development plan in place once they are in receipt of the new remuneration package*'.

20. With the above changes and the potential loss of experience due to the retiral of existing elected members, a member/officer working group has been established by the Council to develop induction and personal development programmes for elected members.

21. In an environment of major change, the Council may not have the capacity to deliver all the planned projects at the pace required. A focus on major change projects is also likely to limit the ability of individuals to manage 'business as usual'. These risks have been recognised, with workforce issues included in the Community Plan, Corporate Plan and Business Plans. The Council also intends to review its approach to workforce planning, including consideration of a corporate workforce plan, in the light of work currently being undertaken in this area by the Improvement Service.

Delivering improved performance

22. The Council needs to work hard to support continuous improvement in areas where performance is already relatively high and to address areas where performance is below average or declining. A corporate framework for managing and reporting performance is in the process of being implemented but will not be fully functional until summer 2007. In the interim there is a risk that it is difficult for elected members and the public to form a judgement about the Council's performance.

Responding to customers, clients & communities

23. Community planning requires the development of effective engagement processes and community engagement has been identified as a key priority for the Angus Community Planning Partnership. A *Responding to Change* agenda has been initiated covering customers, staff, corporate priorities, services, business processes, structures and technologies. This agenda is aimed at making services more responsive to the needs of customers and citizens.

24. The Council has approved an Angus Customer First Strategy which reflects the aims in the Scottish Executive's Customer First Programme. The strategy and related implementation plan have a number of main themes including:

    - the extension of the existing scope and capacity of the Council's telephone and face-to-face contact centres;
    - a need to build an appropriate technical infrastructure over which to deliver the strategy;
    - a rigorous review of a number of existing business processes across the Council to identify where, through the adoption of modern technology, the customer experience can be enhanced and/or the cost of service delivery can be reduced;
    - the continued review of the Council's Customer Care strategy with particular emphasis on staff training and development; and
    - extensive consultation with service users to ensure that the changes made are responsive to users' needs.

25. Progress against the implementation plan is monitored through an officer's group (Programme Monitoring Sub-group). The group has identified the need to revisit the plan in light of recent initiatives from the Scottish Executive and the Improvement Service including smartcards, the national projects for Client Relationship Management/Citizen's Accounts and Electronic Service Delivery.

26. Local authorities are required to report regularly on all aspects of their activity with the aim of providing the right information, to the right people, at the right time. The Council has reviewed its corporate arrangements and revised its system to report performance to the public but recognises that these arrangements will require further extension once revised Scottish Executive guidance has been issued, particularly in relation to progress reports on recommendations for improvement by auditors, inspectorates and regulators.

Effective partnership working

27. Increasingly, if the Council is to deliver effectively on the themes and objectives set out in its corporate plan, it needs to ensure that services and professions work more closely together to focus the design of services around the needs of individuals and communities.

28. In June 2006, Audit Scotland published *Community planning – an initial review* which found that community planning is progressing, but complexities make aims difficult to achieve. While community planning partnerships have made progress, they need to do more to show how their work is improving public services. The report also calls on the Scottish Executive to support community planning more effectively. In particular, the large number of national policy initiatives, each with their own funding arrangements, can make it difficult for partnerships to plan and deliver effectively.

29. The further development of community planning is a major part of the Council's strategy and it has made good progress so far. However, in the absence of better-aligned financial information systems with partners, and an effective performance management reporting system within the community planning area, there is a risk that the Council and its partners are unable to demonstrate sufficient progress in improving outcomes within challenging timescales.

30. The current community plan covers the period up to 2007. A new community plan is being developed and is expected to be available for consultation in 2007 incorporating a long term vision, outcome focused actions, performance targets and measures that are linked with the Council's developing performance management systems. The aim is for the new plan to be more outcome focused.

31. New partnership structures continue to be developed, such as the Community Health Partnership, Central and Tay Transport Partnership and Tayside Community Justice Authority. These structures will require partners to develop an agreed and integrated agenda even although there may be differences in governance and resourcing arrangements.

Best value

32. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response the Accounts Commission introduced new arrangements for the audit of best value based on a full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out by the local auditor.

33. Angus was the first council to be subject to a full best value audit, with the report published in September 2004. The Council developed an improvement plan in response to the issues raised and our findings on the Council's progress against the plan are reflected throughout this report.

34. Overall, adequate progress has been made against the improvement plan, although there has been slippage in a number of the actions. Revised deadlines for these actions have been agreed and progress monitored by an officer's group (Programme Monitoring Sub-group). Progress against the plan is also being reported to members through the Strategic Policy Committee.

35. The Council recognises the need to maintain the pace of change and is taking account of issues raised in other best value reports to ensure they are well-placed to demonstrate continuous improvement.

National studies

36. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year on reviews of public sector pension schemes, community planning and the National Fraud Initiative are summarised elsewhere in this document. Other reports published during the year and of direct interest to the Council are set out below. Further information on these studies and reports can be obtained from Audit Scotland's webpage at www.audit-scotland.gov.uk.

A mid-term report: a first stage review of the cost and implementation of the teachers' agreement *A Teaching Profession for the 21st Century*

37. In May 2006 Audit Scotland published the results of a review of the implementation of the teachers' agreement arising from the McCrone report. This found that the agreement has brought benefits for the teaching profession, but the lack of performance measures makes it difficult to assess the wider impact of the £2.15 billion investment. The report recommends that the Scottish Executive work with other parties to the agreement to identify and report on a set of comprehensive performance measures.

Council housing transfers

38. In March 2006 Audit Scotland published the results of a review of how well the Scottish Executive's housing transfer policy has been implemented and whether transfers have provided good value for money. This found that the transfer of council housing ownership is bringing benefits for tenants, including more investment in properties, promoting tenant control, facilitating increased repairs and maintenance and the building of new homes, and keeping rent increases down. The report also found that the management of transfers is improving but better, clearer measures are needed to assess impact and value for money.

Following the public pound – a follow-up report

39. In December 2005, Audit Scotland published the results of a study of council funding of arms length and external organisations (ALEOs) to provide information on the scale of funding and how councils perform against the code of guidance on funding external bodies and following the public pound. This report stated that Scottish councils provided £220 million to 14,000 organisations - including companies, trusts and voluntary organisations - to deliver a wide range of council-related services such as support for people with disabilities and the management of leisure centres.

40. The study found that no council fully complied with the guidance, although only five councils had a low level of compliance. Angus Council was identified as one of nine councils demonstrating a high level of compliance with the code. The national report commended the Council on its good reporting procedures and in particular recognised the Council's work on the guidance and preparation of Service Level Agreements with ALEOs.

41. The report recommends that councils have a register of funding to external organisations, develop a corporate policy on free or subsidised use of council properties, vehicles and facilities, take a risk-based approach to dealing with the organisations they fund, and focus their resources on organisations who contribute to the council's objectives, have arrangements for scrutiny and explore joint working with other councils.

Financial position

Introduction

42. In this section we summarise key aspects of the Council's reported financial position and performance to 31 March 2006, providing an outlook on future financial prospects, including our views on potential financial risks.

Council tax and the general fund

Revenue performance 2005/06

43. The Council's net revenue expenditure in 2005/06 was £195.651 million and was met by government grants and local taxation of £194.948 million, resulting in a net general fund deficit of £0.703 million compared to a budgeted deficit of £5.411 million. The underspend was largely as a result of:

- a net underspend on general fund services of £3.179 million;
- an underspend on the Housing Revenue Account (HRA) of £1.160 million; and
- a reduced contribution to the Capital Fund of £0.937 million.

44. The Acting Director's Report highlights that the general fund service underspend is due to restrictions impacting on the ability to spend earmarked monies within the year and a budget provision for additional burdens that was not required until 2006/07, with the remainder arising mainly from additional income generation, staff vacancies and a reduction in the subsidies paid to bus operators.

45. The HRA surplus of £0.657 million compares to a budgeted deficit of £0.503 million. This was mainly due to lower interest charges, staff vacancies, lower supplies and services costs and reduced spending on repairs and maintenance, coupled with an increase in rental income.

Reserves and balances

46. At 31 March 2006 the Council had total cash backed reserves and funds of £21.211 million, including a capital fund established to aid delivery of the capital programme, an insurance fund that underpins the Council's self-insurance arrangements and a renewal and repairs fund used to finance expenditure to be incurred in repairing, maintaining, replacing and renewing fixed assets.

Reserves and Funds 2005/2006

Description	2005/06 £ Million	2004/05 £ Million
General Fund	10.272	10.975
General Fund – Housing revenue account balance	3.663	3.006
General Fund - other	0.398	0.389
Capital Fund	3.254	6.903
Repair and Renewal Funds	2.701	3.378
Insurance Fund	0.923	0.787
	21.211	**25.438**

47. The Council's strategy was to maintain an unallocated General Fund balance of £2.800 million and an unallocated HRA balance of £0.500 million. Amounts earmarked in June 2006 totalled £6.705 million, leaving an unallocated General Fund balance of £3.965 million and an HRA balance of £3.663 million, both of which are above the target levels set for each fund.

48. Significant earmarked amounts include:

- contribution to the anticipated costs of the single status job evaluation process of £1.7 million;
- devolved school management balances of £0.781 million;
- £0.799 million for replacement of assets; and
- ring fenced monies and amounts under the budget carry forward scheme of £3.027 million.

49. The 2006/07 budget plans to make a contribution of £1.335 million of the uncommitted balances to the renewal and repairs funds and the use of £0.911 million of the HRA balance. The Council faces a range of financial issues which will significantly impact on its reserves position and this is discussed further in our Financial Outlook section below.

Rents and the housing revenue account

50. The Council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. The budget set for 2005/06 was based on an average weekly rent level of £38.68, an increase of 3.6% on the previous year.

51. The budget set for 2006/07 is based on a further increase in rent levels of 3.7%, with a planned contribution from the HRA balance of £0.911 million. As noted in the Acting Director's Report, the remaining HRA balance will be used to review the programme to achieve the Scottish Housing Quality Standard for the housing stock as early as possible.

Group balances

52. The Council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. All of these boards (Tayside Police, Tayside Fire and Rescue Services, Tayside Valuation and Tayside Contracts) had an excess of liabilities over assets at 31 March 2006 due to the accrual of pension liabilities.

53. The overall effect of inclusion of the Council's share of subsidiaries, joint ventures and associates on the group balance sheet is to reduce net assets by £141.3 million, substantially as a result of these liabilities. All group bodies' accounts 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, government grant and council tax.

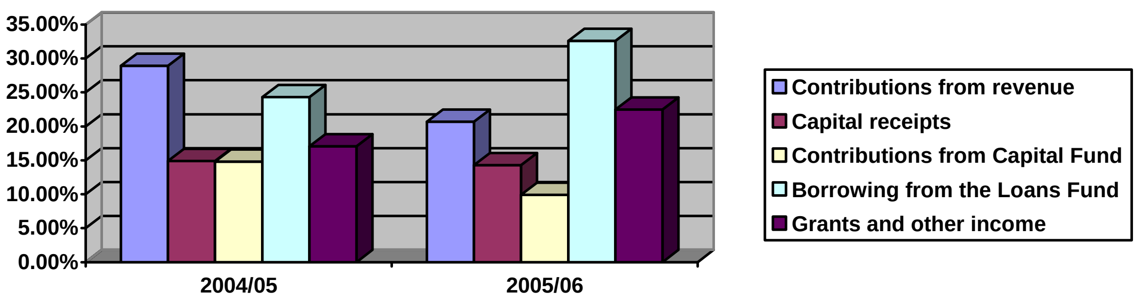
Spending on assets and long-term borrowing

Capital performance 2005/06

54. Following the introduction of the prudential code in April 2004 the Council can decide locally on a capital investment strategy which must meet best value requirements as well as being affordable. The Council's prudential indicators for 2005/06 were set in February 2005 and significant increases in capital expenditure have been made under these freedoms as the Council seeks to improve its asset infrastructure. These increases have been approved by the Council in accordance with the code's principles of being affordable, prudent and sustainable.

55. Capital expenditure in 2005/06 totalled £42.775 million, rising from £36.543 million in 2004/05 and £26.010 million in 2003/04, the last year of central capital controls. Capital investment in the last two years was funded as shown below. As the Council has increased its capital spending, the proportion funded by debt has increased significantly with aggregate long and medium term borrowing at 31 March 2006 of £129.869 million, an increase of £17.5 million on the previous year.

Sources of finance for capital expenditure



56. Over 94% of long and medium term loans at the year-end mature after more than 10 years and the Council has actively managed its exposure to variable interest rate movements with most of its debt on fixed interest rates.

57. Budgeted capital expenditure for 2005/06 was £47.727 million. Once again significant slippage was experienced, with an underspend of £4.952 million against budget (although an allowance for some slippage had been built into the budget). The Council has identified capital planning and budgeting as a significant issue and is taking a number of steps to improve procedures. These include the application of revised capital project appraisal and option appraisal guidance to provide a robust approach to capital project development and a long term affordability assessment on the capital programme with a strategy to meet an identified funding gap.

Forward capital programme

58. The 2006/07 budget set for the general services capital programme of £36.451 million includes an allowance for expenditure slippage of £2.239 million. The 2007/08 capital budget is still to be finalised following submission of financial plans by departments. This is expected to be funded by a number of sources including capital receipts, grants and other contributions and further increases in borrowing of £15.578 million.

59. The housing service 2006/07 capital budget £9.45 million is to be funded through capital receipts of £4.45 million and contributions from revenue of £5 million. The Council has completed its housing stock review and identified in a review of the Local Housing Strategy in 2004/05 that there was a funding gap of £10.3 million in relation to new affordable housing.

Significant trading operations

60. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering (CCT) regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period. The first three year period ended in 2005/06.

61. The Council has identified three trading operations - Grounds Operations, Sports Services and Waste and Cleaning Operations. In the three years to 31 March 2006 the trading accounts have made an aggregate surplus of £1.171 million, meeting the statutory target of break even in all three cases. The Waste and Cleaning Operations incurred a deficit of £0.051 million in 2005/06 due in part to rising fuel costs, equal pay costs and increasing regulation for landfill sites.

62. The Council is still operating agreements with its STOs which substantially originated during the CCT era. As a result, these are largely out of date and do not reflect current ways of operating, new work areas and current costs. With the Council's new management structure now in place, trading arrangements are being reviewed. This review should aim to put the contracts on a firm, up to date, footing and ensure plans and budgets are suitably realigned to recognise work undertaken and charged. The review should also ensure that the Council can demonstrate value for money by addressing competitiveness of services and trading operations.

Action point 1

Financial outlook

Current budget

63. The 2006/07 budget was based on a Band D council tax level of £1,072, an annual rise of 3.4%. General allowances for pay and cost inflation pressures were built into the budget, together with a shift of resources towards the delivery of the Council's budget priorities. A number of efficiencies, other savings and budget cuts were also built into the budget.

Equal pay

64. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an Employment Tribunal. Following cases pursued against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2005/06.

65. In common with many other Scottish councils, Angus Council has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer payments to specific groups of employees as part of a compensation package. Provision for £2.853 million has been recognised in the 2005/06 financial statements for the estimated one-off cost of these payments. £1.660 million of this relates to payments for Angus Council's share of Tayside Contracts' equal pay costs.

66. The extent to which the actual costs vary from current estimates will depend on a number of factors including take-up rates, any employees not covered by the calculations and the level of awards of any cases taken to tribunal. Officers estimate that approximately 97% of the payments have been agreed by employees therefore it is considered that there will be no material impact on future budgets. Costs above that already budgeted will increase the financial pressure on the Council.

67. While moves to agree compensation payments to affected employees will help to reduce financial risk in this area to some extent, there remain significant risks while existing pay and reward structures remain in place. The future implementation of the single status agreement provides an opportunity to address any underlying inequalities in pay and other conditions of service.

Single status

68. In 1999 a single status agreement was reached between Scottish local authorities and trades unions to introduce a common pay and grading structure for, and to harmonise the terms and conditions of, manual and administrative, professional, technical and clerical workers. There was a presumption that single status would be cost neutral with any increased costs arising from the new pay and grading structures being offset by savings from changes to other conditions of service or from efficiencies.

69. The original national single status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, was extended by agreement between local authorities and unions to April 2004. To date only once council, South Lanarkshire, has implemented single status.

70. Implementation of the single status agreement in Angus Council is planned for 2007, subject to the outcome of discussions and agreement with the trade unions. As noted above, £1.7 million has been accumulated to 31 March 2006 as an earmarked part of the general fund to be applied to the costs of the single status exercise.

71. Until a local agreement is concluded the initial and continuing costs to the Council cannot be reliably estimated. This represents a significant financial risk to the Council. Evidence from other councils is that variation in the level of potential costs can be up to 10% of the current pay-bill on a continuing basis. In securing a local agreement the Council needs to ensure it maximises the opportunity for service and job redesign to ensure that it achieves value for money from its investment in its staff.

Efficient government

72. The efficient government initiative is a central part of the government's programme of investment, reform and modernisation and is a five year programme aimed at attacking waste, bureaucracy and duplication in Scotland's public sector.

73. The Efficient Government Plan sets targets to achieve £745 million of cash-releasing savings, and £300 million of time-releasing savings, by 2007/08. It is anticipated that local government as a whole will contribute £325 million in cash-releasing savings to the overall target. Although the Scottish Executive (SE) has not notified councils of the efficiency savings they should achieve each year, it anticipated that Angus Council's contribution to the target will be £3.604 million over three years, equating to £1.154 million for 2005/06.

74. The majority of these assumed efficiency savings have been incorporated into annual financial settlements, presenting an immediate challenge as efficiency gains through service redesign are likely to take longer than one year to be fully realised. Failure to achieve the level of savings anticipated will increase financial pressures and may impact adversely on services provided. In order to claim an efficiency a council needs to demonstrate that service outcomes have been maintained or improved.

75. Based on information supplied by councils across Scotland, it is apparent that:

- few councils have a system in place to properly monitor, measure and report efficiency gains and that effort is still required to ensure that appropriate guidance is issued to staff to clarify what constitutes an efficiency;
- the level of projected efficiencies varies significantly between councils;
- the majority of planned efficiencies relate to areas and projects other than the SE's five key work streams of procurement, asset management, absence management, streamlining bureaucracy and shared support services;
- plans for projects to create time releasing efficiencies are not well developed and little in the way of efficiencies is expected to be generated by 2007/08 through shared support services. In both cases this is indicative of the time required to develop plans for fundamental service redesign.

76. In Angus Council, efficient government requirements have been recognised and the Council is acutely aware of the resulting funding pressures and has a number of effective processes in place. The Council's financial strategy includes efficiency reviews which are monitored and managed through the budget process. However, the Council should further develop the strategy's integration with performance issues to ensure efficiency savings do not adversely impact on service standards.

77. The Council's best value reviews are effective at identifying efficiency improvements at a corporate and service level, with the results and associated budget savings considered at committee. Corporate initiatives are managed by the Programme Management Group, with departments also assuming responsibility for identifying and delivering efficiency savings through the budget setting process. There are a number of departmental and corporate initiatives touching on the main work streams identified by the SE in *Building a Better Scotland*, although overarching corporate strategies in these areas have yet to be fully developed.

78. The Council is piloting processes to measure and monitor efficiencies and is implementing a performance management IT system that will assist in integrating budget and performance measurement. Until a single efficiency monitoring and measurement system is in place it will be difficult to evidence claimed efficiencies. In common with other councils, significant effort is still required to ensure that appropriate guidance is issued to staff to clarify what constitutes efficiency and how it should be measured, monitored and reported.

79. The Improvement Service has commissioned an external partner to develop and implement measures of productivity and efficiency in local government services. These measures will be available for councils to assist in their forward planning and to aid them in demonstrating their efficiency gains for the financial year 2006/07. The Auditor General for Scotland intends to publish a report around the end of 2006 to summarise the position across the Scottish public sector on the efficient government initiative. The Council should consider the findings and any recommendations included in this report when reviewing their own position.

Pension liabilities

80. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. A recent Audit Scotland report on public sector pension schemes highlighted that the combined funding shortfall and unfunded liabilities of the six local government pension schemes in Scotland may be as high as £53 billion. There are proposals to amend the Local Government Pension Scheme which are designed to reduce the ongoing cost, although these have not yet been implemented.

81. In accounting for pensions, Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised in the annual accounts.

82. The Council's estimated pension liabilities at 31 March 2006 exceeded its share of the assets in the Tayside Superannuation Fund by £78.145 million. A full actuarial valuation of the Tayside Superannuation Fund was reported in March 2006. Factors such as the volatile stock markets and increasing life expectancy have resulted in the funding level, calculated as the ratio of fund assets to past service liabilities, falling from 97% at 31 March 2002 to 91% at 31 March 2005. The actuary is required to make a 3-year assessment of the contributions that should be paid by the employing authorities from April 2006 to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions, normally 5% - 6% of salary. Budgeted contributions from the Council are expected to rise from 275% of employee contributions to 315% by 2008/09.

Governance

Introduction

83. In this section we comment on key aspects of the Council's governance arrangements during 2005/06. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2005/06

84. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviours at the upper levels of the organisation. In previous years we have concluded that the Council had systems in place that operated well within a sound control environment and have reached the same conclusion this year.

85. The Strategic Policy Committee approved a *Revised Local Code of Corporate Governance* in June 2005. The management and review arrangements implemented include annual assurance statements from Chief Officers which are reviewed by the Policy and Performance Unit. Internal audit also report on compliance with the local code and have concluded that although there are a number of areas which still require to be completed, core governance arrangements within the Council remain sound.

86. Internal audit's review highlighted areas where further work was required, including:

- finalisation and implementation of the performance management framework, completion of service standards and further development of balanced scorecard arrangements;
- review of the structures for the delivery of embedded risk management to ensure fitness for purpose, embedding risk management in operations and decision making, updating the corporate risk register and developing management, reporting and review arrangements for both corporate and departmental registers;
- full integration of service planning and budgeting processes;
- completion of the information and communications strategy.

87. At the corporate level, the Council has appropriate arrangements in place to prevent inappropriate conduct and corruption. These arrangements include codes of conduct for elected members and officers, a whistle blowing policy and registers of members' interests.

88. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda. Members in Angus have the opportunity to challenge service activities and performance through the operation of the Monitoring Group which has a scrutiny role in relation to performance management issues and the Audit Sub-Committee which deals with financial and governance matters. From our attendance at these groups, we can confirm that an ethos of challenge is in place and this should be further strengthened in the future through planned training for members and the provision of improved performance information. The Council's Audit Sub-committee adheres to CIPFA's guidance note *Audit Committee Principles in Local Authorities in Scotland* and provides a sound contribution to the overall control environment.

89. Internal audit plays a key role in the Council's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the Council's internal audit arrangements and found that the function continues to be well managed and operates to the highest standards. Staff are experienced and competent and the audit plan for 2005/06 was comprehensive.

Systems of internal control

90. A *Statement on the Systems of Internal Financial Control* for the Council was included within the annual financial statements. The Acting Director of Finance concluded that he was satisfied that the Council has in place a sound system of internal financial controls, but that improvement actions have been identified including the outcome of an investigation currently underway within the Council. He was also satisfied that mechanisms are in place which would identify, and address, any material areas of weakness on a timeous basis.

91. To support the statement, the Chief Internal Auditor provided an opinion that, based on the internal audit work undertaken and formal assurances from the Council's Chief Officers during the year, reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal financial control systems.

92. As part of our work to provide an opinion on the annual financial statements, we assessed the extent to which we could gain assurance on high level controls in a number of the Council's main financial systems. Our overall conclusion is that high level controls exist and operate effectively in these systems. We have also made some recommendations to management to improve internal controls, such as the need to retain supporting documentation for journal entries and improve purchase invoice authorisation controls.

Prevention and detection of fraud and irregularities

93. At the corporate level, the Council has appropriate arrangements in place to prevent and detect fraud. These arrangements include an anti-fraud and corruption policy and response plan.

94. Under the National Fraud Initiative (NFI), councils compare information about benefit applicants, students, public sector employees and pensioners with other public bodies to find fraud and errors. The findings of the 2004/05 exercise were published in May 2006, highlighting that **across Scotland** £15.1 million of fraud, overpayments and savings were found, including:

- 270 cases where pensions were being paid to people who had died;
- 564 cases of public sector employees and pensioners either fraudulently claiming housing benefits or receiving them in error;
- 215 cases of housing benefit overpayments to students; and
- 53 cases referred to the Procurator Fiscal and 32 employees who have been dismissed, disciplined or who resigned as a result of the initiative.

95. In Angus Council, the investigations were completed in December 2005 with few cases of fraud found (£0.007 million). Overall, we are satisfied that reasonable progress has been made in completing the initiative.

96. Audit Scotland is working with the Audit Commission to widen the scope of the NFI during 2006/07. Public bodies will provide information again in October this year and will have fresh information to investigate in early 2007. The Council should ensure that it uses the opportunities presented by the NFI on an ongoing basis to assist in the detection of fraud.

Governance outlook

97. Continuing development of the performance management system, embedding risk management arrangements and the integration of service planning and the budgeting process will further strengthen the Council's corporate governance arrangements.

98. The Council also continues to improve its governance arrangements in relation to community planning. The national study identified that the governance of Community Planning Partnerships needs to be improved by clarifying their accountability arrangements and developing more effective scrutiny and risk management arrangements.

99. The forthcoming local government elections in May 2007, bringing the introduction of proportional representation and multi-member wards, have potential implications for the political make-up and governance of the Council. The Scottish Executive's intention is also to remove barriers to encourage the widest possible range of people to serve as councillors, with changed remuneration arrangements for members. These reforms will require significant input from the Council to ensure its governance arrangements are fit for purpose, including committee structures, role/remits of members and arrangements for training new members.

Financial statements

Introduction

100. In this section we summarise key outcomes from our audit of the Council's financial statements for 2005/06. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.

101. We audit the financial statements and give an opinion on:

- whether they present fairly the financial position of the Council and its expenditure and income for the year; and
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

102. We also review the Statement on the System of Internal Financial Control by considering the adequacy of the process put in place by the Council to obtain assurances on systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the Council.

Overall conclusion

103. We have given an **unqualified** opinion on the financial statements of Angus Council for 2005/06.

104. The Council's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Audited accounts were finalised a month in advance of the target date of 30 September 2006 and are now available for presentation to the Council and publication. The financial statements are an essential means by which the Council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

Accounting practice

105. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the 'SORP'). Two adjustments were made to the unaudited financial statements that increased the general fund deficit by £0.222 million and reduced the housing revenue account surplus by £0.114 million. A further adjustment of £0.536 million was required to the group accounts which moved a deficit into a surplus for the year. Details of these adjustments and other significant accounting issues arising in the course of our audit are summarised below.

Management restructuring

106. In December 2005 the Council approved a new management structure, with relevant staff informed of the implications for them prior to 31 March 2006. Under accounting rules the costs of the management restructuring require to be recognised in 2005/06 although paid in 2006/07, based on the best estimate of final costs. Adjustments of £1.159 million and £0.114 million were therefore required to recognise these costs in the 2005/06 consolidated revenue account and housing revenue account respectively, establishing a provision in the consolidated balance sheet.

Capital accounting

107. Various issues were highlighted and amended in relation to capital accounting, such as:

- fixed asset registers were not timeously updated to reflect additions and disposals during the year and disposals and categories of assets were not initially fully recognised in the accounts;
- deferred charges were incorrectly classified as capital;
- the reserve adjustments in relation to fixed assets were misstated.

108. Further adjustments were made by the Council to the way it set aside funding for capital expenditure, reducing the amount appropriated to the Capital Fund by £0.937 million.

Group accounts

109. Modified arrangements for the preparation of group accounts were mandatory for the first time in 2005/06. The widening diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to present fairly the activities of an authority. The Council prepared group accounts in accordance with the new requirements following a review to determine its interest in subsidiaries, associated entities and joint ventures. The consolidation process resulted in some errors in the unaudited statements which were subsequently rectified.

Public Private Partnership

110. During the year we provided our judgement on the Council's proposals to treat the Forfar and Kirriemuir Community Resource Centre (Beech Hill House) as off balance sheet. We also commented on the Council's provisional judgement that the Forfar/Carnoustie schools project should be off balance sheet. In both cases we concluded that the process followed by the Council to determine whether the transactions should be accounted for as on or off its balance sheet was in accordance with the current underlying guidance and that the judgements were reasonable. In relation to the schools project we noted that pupil demand projections are to be further developed as part of the final accounting judgement.

111. Securing value for money (together with affordability) are key requirements for public bodies to progress PPP projects. We concluded on the value for money of the Forfar/Carnoustie schools project that, based on the financial adviser's analysis, at this stage the quantitative assessment demonstrates that the PPP project represents overall value for money, in accordance with current guidance.

Legality

112. Each year we request written confirmation from the Director of Finance that the Council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Acting Director of Finance has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the Chief Executive and the Senior Management Team, the financial transactions of the Council were in accordance with the relevant legislation and regulations governing its activities.

113. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work. As highlighted earlier in this report, the Council has recognised a liability in the financial statements in relation to the potential contravention of this Act. Until the single status agreement is implemented, however, there remains the possibility that the Council could be judged to have contravened the Act.

114. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

115. Overall the Council is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It has a record of responding positively to audit issues and changing accounting rules. Challenges ahead include a number of changes that have been made to the 2006 SORP:

- replacement of the consolidated revenue account with a traditional income and expenditure account;
- a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit;
- replacement of the statement of total movement in reserves with a statement of total recognised gains and losses; and
- similar changes to the housing revenue account and group accounts.

116. These changes will have a significant impact on the presentation of the 2006/07 annual financial statements to make them more consistent with the accounts of other public and private sector entities. The Council has confirmed it will take this opportunity to review the presentation of its budget and summary financial results to members and the wider public to ensure that financial planning and activity is fully transparent.

Action point 2

Change of external auditor

117. Regular rotation of auditors is required by auditing standards and is an important component in guarding against perceived or actual threats to auditors' objectivity and independence. Audit Scotland's policy is to rotate auditors at least once every five years. Where the audit is carried out by Audit Scotland staff rather than a private firm, the engagement lead and other key staff will be rotated.

118. This is the final year of our current appointment to the audit of Angus Council. From 2006/07 Henderson Loggie will be the Council's appointed auditor. The change of auditor represents an opportunity to build on existing good practice to continuously improve accounts preparation processes in partnership with the incoming auditor.

Final Remarks

119. The members of Angus Council are invited to note this report. We would be pleased to provide any additional information that members may require.

120. We have made a number of recommendations in the various reports we have issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate. Attached to this report is a list of significant matters arising from the audit which we consider to be of particular interest to members.

121. The co-operation and assistance given to us by Angus Council members and staff over the five years of our audit appointment is gratefully acknowledged.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
1	62	**Trading accounts** The Council is still operating agreements with its STOs which substantially originated during the CCT era. As a result, these are largely out of date. ***Risk: the Council is not seen to be achieving best value in its trading operations.***	Whilst a number of discrete reviews have been undertaken as matters have arisen it has been recognised that a comprehensive best value review should be applied across the trading operational agreements. This exercise is to be undertaken as part of the phase 2 management structure review.	Director of Infrastructure Services, Neighbourhood Services and Corporate Services	September 2007
2	116	**Financial reporting** Changes have been made to the 2006 SORP which will have a significant impact on the presentation of the 2006/07 annual financial statements. ***Risk: in the event of insufficient preparation, the 2006/07 financial statements may not comply with accounting requirements. Unexplained differences between financial reporting requirements and budget monitoring during the year may result in a lack of transparency for members and the public.***	The changes emanating from the 2006 SORP have been acknowledged and appropriate development actions are being progressed. These include the transparent reconciliation of financial reporting requirements and the presentation of key budget monitoring reporting mechanisms to elected members and the public.	Director of Corporate Services and Head of Finance	March 2007