East Dunbartonshire Council

Report to Members on the 2005/06 Audit

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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 key 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 East Dunbartonshire Council for 2005/06. We have, however, drawn attention to a failure to comply with the statutory requirement that all significant trading organisations break even on a rolling three year basis. This does not impact on the fairness of the financial statements and, therefore, does not affect the opinion on the accounts.

The council has incurred a general fund deficit of £2.960 million, which is an overspend of £2.660 million against the approved budget. The main factor contributing to the overspend is the cost of early retirals and redundancies arising from the council's restructuring exercise, the costs of which were not included in the 2005/06 budget.

The council had corporate governance systems in place during 2005/06 that operated well within a sound control environment. The council needs to complete its review of its asset management processes and, in particular, to ensure consistency in the information held by the estates section and that held by finance. Risk management continues to be rolled out across council services.

The council's strategic efficiency and best value review of council services has resulted in a restructuring exercise during the year which led to a reduction of the number of directorates from four to three. In line with this, staff numbers have also been reduced, including a reduction in directors and heads of service. Redundancy and retiral costs of £2.627 million relating to this exercise were incurred in the year. It is not yet possible to determine the impact that the restructuring may have on service delivery.

During the year, an equal pay offer was made to a range of employees, including some former and some male employees. The offer has been accepted by the majority of employees and equal pay costs of £4.128 million are included in the 2005/06 accounts. Payments made in the year were £2.826 million and the balance of £1.302 million is included as a provision. Included in this provision was an amount of £0.193 million for offers made to employees who have rejected the settlement. The provision is based on the offer made to the employees, although the council acknowledges that the actual costs that will be incurred to settle these cases will depend on the level of awards of any cases taken to tribunal. The provision is based on the most up to date legal information available to the council. The council accepts that this provision may be understated by an unquantifiable amount, but this is not material to the accounts.

Partnership working is increasingly important if the council is to deliver effectively on the themes and objectives set out in its corporate development plan. The council has recognised that it has difficulty monitoring the impact that partnership working is having on service delivery and is taking steps to address this. Information sharing with partners and joint risk management are areas which the council recognises require a more formal approach.

In common with many Scottish authorities, the council still has a high level of social worker vacancies, although the level of vacancies is improving. In addition, social work services continue to suffer from significant levels of sickness absence. Assurances have been sought, and received, from the council that statutory obligations have been met in relation to providing social work services during 2005/06.

The council has identified that, as a result of a lack of available housing, and a shortage of available land for development opportunities, the council risks being unable to meet its statutory responsibilities to homeless persons. Assurances have been sought, and received, from the council that statutory obligations have been met in relation to providing homeless services.

A full revaluation exercise of non-housing land and property was undertaken in the year and has resulted in an increase of £80 million to asset values in the accounts. This indicates that capital expenditure is not being properly identified and recognised in asset values, and that asset values may have been out of date for some time. The council needs to ensure that its asset revaluation procedures for the years between periodic asset revaluations are sufficient to ensure that the asset values are fairly stated in the accounts.

Outlook for future audits

The council has not yet implemented the single status agreement. Formal negotiations with trade unions were held in late September and early October 2006 and a final agreement is expected soon. 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. The amount budgeted for 2006/07 by the council is £3.300 million, which represents around 2.4% of current pay costs.

In respect of the efficient government agenda, the council has recognised that a proactive approach is required to reach appropriate and considered decisions in response to its current financial and public policy environment. The cashable savings projected by the council for 2005/06 exceeded those anticipated by the Scottish Executive. However, there is a risk that the savings anticipated may not meet the definition of efficiency gains. Going forward, a further £2.835 million of base budget efficiencies and savings have been identified for 2006/07 and 2007/08.   It will be challenging for the council to deliver on this ambitious programme of savings while managing the impact on overall objectives. Auditors will track the council's progress on the efficient government initiative over the coming years.

Developing modern infrastructure is essential for supporting the delivery of improved services. The council has been provisionally awarded £100 million from the Scottish Executive to fund a project to build six new secondary schools to replace some of the existing secondary schools. In June 2006, the council awarded the contract for the schools PPP project to InspirED, a consortium led by the AMEC group. Successful delivery of the schools PPP and the council's housing development plan will remain key components of the council's improvement strategy. The council also needs to further develop its asset management process to ensure that all the council's assets are used effectively and efficiently to deliver services in line with the council's priorities.

Changes to the code of practice on local authority accounting (ACOP) will have a significant impact on the presentation of the 2006/07 annual financial statements which will require to be more consistent with the accounts of other public and private sector organisations.

This is the final year of our current appointment to the audit of the council. From 2006/07 KPMG will be the council's appointed auditor for a five year period to 2010/11.

Audit Scotland
October 2006

Introduction

1. This report summarises the findings from our 2005/06 audit of East Dunbartonshire Council. The scope of the audit was set out in our audit risk analysis and plan (ARAP), which was submitted to the audit and risk management sub-committee on 13 June 2006. The ARAP 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 touch briefly 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 findings of national performance audit studies.

Corporate objectives and priorities

4. The corporate development plan for 2005 — 2007 sets out the key goals and priorities for the council until 2007 and explains how it plans to achieve these. The plan is set out in four objectives, which cut across a range of services:

   - building a safe and attractive environment;
   - ensuring high quality learning experiences;
   - supporting older and vulnerable people; and
   - investing in performance.

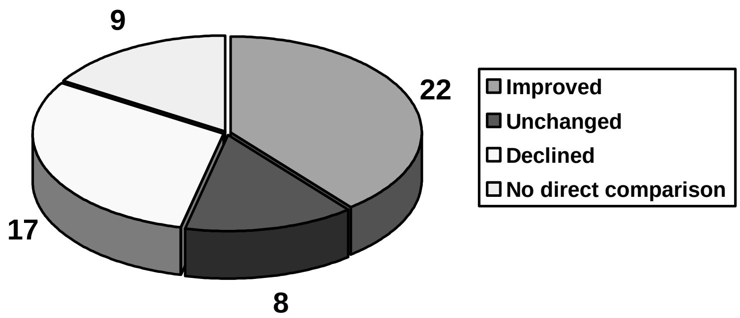
5. A total of 31 aims are established across these themes. These aims include the following pledges by the council's ruling group:

   - provide a choice of quality housing by increasing the supply of affordable rented housing;
   - provide widespread opportunities for lifelong learning by improving the school estate through a comprehensive package of new build projects;
   - provide a comprehensive and joined-up care infrastructure by implementing a strategy to prevent and alleviate homelessness in East Dunbartonshire and improving services for the homeless through targeted crisis intervention services;
   - provide efficient and effective services by developing effective partnerships with our community planning partners and the private and voluntary sectors;
   - provide efficient and effective services by developing a robust corporate asset management plan to meet the strategic needs of the council; and
   - promote sound corporate governance by embedding a risk management culture across the organisation by implementing the corporate risk strategy.

Overview of performance in 2005/06

Statutory performance indicators

6. Alongside a number of local performance indicators, the council's performance is measured by statutory performance indicators (SPIs), which are prepared and published annually. The SPIs in 2005/06 show a mixed picture, with 22 indicators which have improved from 2004/05 and 17 which have declined:



7. Improvements have been made in a wide range of areas such as:

- the percentage of home care clients, age 65 and over, receiving personal care and a service during evenings and at the weekend;
- the percentage of housing response repairs completed within the target time, in particular for second and third priority repairs;
- the percentage of council house sales completed within 26 weeks;
- current tenants' rent arrears as a percentage of net rent due; and
- the net cost of refuse collection per premise.

8. However, performance has declined in other areas such as:

- the percentage of the resident population that are borrowers from public libraries;
- the percentage of planning applications dealt with within 2 months;
- the percentage of the overall road network that should be considered for maintenance treatment; and
- the percentage of street light repairs completed within 7 days.

9. The public access SPI reports the number and percentage of buildings from which the council delivers services that are suitable for, and accessible to, disabled people. In 2004/05, the council reported that 38.2% of these buildings met the criteria. However, we had concluded that the reported indicator was based on unreliable information. During 2005/06, the council undertook an

access audit of all its buildings and identified that of the 87 buildings from which services are delivered, 12 (13.79%) met the SPI criteria as being suitable for and accessible to disabled people. The corporate management team has approved capital spend of £23,250 in 2006/07 to bring those properties which failed the access audit by reason of signage into line with the requirements of the Disability Discrimination Act 1995. This should result in a total of 17 properties (19.5%) meeting the SPI criteria in 2006/07.

10. The council has developed its own local indicators which are used in conjunction with a number of the statutory indicators to measure and report performance regularly to members. The council also reports performance against each of the corporate objectives to every household in the area in its quarterly publication *Edlife*.

Performance outlook – opportunities and risks

Introduction

11. In our audit risk analysis and plan we identified some of the strategic risks to East Dunbartonshire Council delivering on its stated objectives and priorities. These risks have been grouped into six risk areas which will drive and support service delivery.

Improving performance

12. Identifying opportunities for improvement in existing services and the increasing expectations of stakeholders present significant challenges for councils. In response, the council has introduced a range of initiatives focusing on performance review and improvement of its services.

13. In March 2005, members approved a strategic efficiency and best value review of all council services. A series of task groups were created and led by senior officers, to address specific areas and report to the strategic review group which was fulfilling the co-ordinating and monitoring role. In addition, a cross-party member scrutiny group was also established. A report in June 2005 recommended changes to the council directorate structure to increase sustainability and ensure efficient delivery of services. The council has undergone a restructuring, resulting in the number of directorates and directors being reduced from four to three. In line with this, staff numbers have also been reduced including a reduction in heads of service from 16 to 12. It is not yet possible to determine the impact that the council restructuring will have on service delivery.

14. Following on from the corporate best value action plan, the council implemented a corporate development plan (CDP) in December 2005. This sets out the main areas of action for the council, based around four key objectives, with corresponding key challenges, goals and the outcome measures to evaluate effectiveness. This demonstrates a commitment to developing a system that considers outcomes as well as internal processes, although the council has acknowledged that there

is an absence of prioritisation of these outcome measures. The corporate guidance on service planning for 2006/07 includes initial steps towards this prioritisation. In addition, the council has purchased and successfully piloted the covalent performance management software, which is specifically designed for local government performance management. This is to be rolled out to all departments for the 2007/08 service planning process, which should establish a clearer link to the corporate development plan objectives.

15. The council is making progress on risk management, with the establishment of a corporate risk strategy and appointment of a corporate risk manager. Service level risk registers are being progressed, although services are at different stages of completion. The corporate risk register will only be prepared once all service level registers are complete.

16. In 2004/05 we reported that, as part of the council's review of trading operations, the council anticipated that new structures and service level agreements would be put in place by 1 April 2006 for the roads and ground maintenance trading operations. There has been some slippage on this target for the preparation of new SLAs, due to delays caused by the restructuring of the roads client and contractor, and some restructuring and the change in IT systems used by the grounds maintenance trading operation.

17. The council has recognised that the current social work information systems are fragmented and in order to remedy this, have purchased a software system, CareFirst. The service department is now working closely with internal audit to prioritise resources and to establish a realistic and achievable timescale for data population and implementation. It is currently unclear when the system is likely to fully replace the current fragmented systems, and until this system is implemented, there is a risk that inefficient management information could impact on service delivery.

18. During the year the council has reviewed its position on public performance reporting. The review highlighted that there was a fragmented approach to performance reporting by services, and acknowledged the need for directorates to supplement the corporate performance report with reports geared to the needs of their local service users. From April 2006, directorates have been able to make use of the council's magazine *Edlife* to report on performance at regular intervals, and they are required to publish at least one annual summary report. This should enhance the consistency and relevance of the information presented to the public.

Affordability

19. The council has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer equal pay compensation payments to specific groups of employees as part of a compensation package. Equal pay is discussed in further detail at paragraph 74 onwards.

20. The council's affordability agenda includes the efficient government initiative. A key feature of efficient government is that it focuses on the public sector as a whole, rather than the individual organisation, with the intention of realising efficiencies through joining up. The primary objective is to deliver the same services with less money or to enable frontline services to deliver more or better services with the same money. In seeking continuous improvement and responding to increasing demands for council services the council needs to work with its partners to promote efficiency, getting the most from available resources to enhance services to local people.

21. The council's claimed efficiency savings appear to be soundly based with the majority occurring in changes to procurement arrangements and the outcomes of the strategic efficiency and best value review of council services. Some of the efficiency projects being considered by the council will take some years to produce tangible results. The development of performance management systems to fully confirm and track efficiency savings will take time to develop and embed. As a result, auditors will track the council's progress on the efficient government initiative over the coming years.

Effective partnership working

22. Increasingly, if the council is to deliver effectively on the themes and objectives set out in its corporate development plan, it needs to work effectively with partners to engage with and respond to customers, clients and communities.

23. The council has sound arrangements in place with partners for the delivery of community planning objectives. The council's community plan, launched in June 2001, is reviewed annually by the council. The action plan was formally updated in June 2003 to reflect progress and changed priorities. The community plan for 2006-2011 is due to be launched in late October 2006. The community planning board oversees the community planning process and monitors the progress made by the theme partnerships. The council are looking to develop a community engagement strategy to formalise involvement.

24. The council has recognised that it has difficulty monitoring the impact that partnership working is having on service delivery. To address this, the council is developing a performance management framework which will provide an interface between service, corporate development and community planning, and identify the added value that partnership working delivers. During 2006/07, each of the partnerships will complete logic modelling templates which will identify the contributions of partners to the delivery of outcomes and the added value they provide.

25. Although good information sharing exists between the council and its partners, this is largely informal and the council recognises that there is a need to formalise these arrangements, to improve planning and decision making. In contrast, the council does not have effective joint risk management systems in place with its partners. Therefore, there is a risk that the council may be unaware of risk areas in

partnership working and there may be insufficient plans in place to mitigate these risks. This is currently considered to be a low priority but the council intends to commence the development of joint risk registers with partners during 2007.

Workforce planning

26. People play the key role in delivering high performing services. The council needs to make sure it has the right skills, in the right place, at the right time. This requires effective workforce planning, successful recruitment and retention practices and good industrial relations.

27. The council has recently made appointments to fill four key senior posts, namely the corporate director of environment, and heads of finance and ICT, human resources, and policy and public affairs. The corporate development plan includes as an objective to *'ensure planned succession by implementing a Leadership Development Programme'* and one post, the director of environment, was filled internally. In respect of the other three posts, the council considered that there would be an advantage in appointing external candidates who had wider expertise. This leadership development programme commenced implementation in 2003/04 and has been rolled out across the council to all first, second and third tier managers.

28. The council has in place a performance management and development planning (PMDP) programme which has been implemented in the majority of services and is used to appraise staff performance and identify training needs. While PMDP has been rolled out across the council, it has not been completed in a number of areas, for example, revenues. It is important that this is now done in order that training and development needs of staff are identified and addressed.

29. As was reported in previous years, it remains the case that in common with many Scottish authorities, the council has a high level of social worker vacancies. The head of social work acknowledges that this presents a risk to the council. Since June 2003, the council has implemented a programme of measures to assist in recruiting and retaining staff, including a one-off payment to frontline professional social work staff who stay with the council and the introduction of a fast track training scheme for internal applicants. This programme appears to be having an impact, as the level of vacancies has fallen to 15 social worker vacancies, i.e. 27% of total WTE posts at April 2006. (31% in 2004/05 and 37% in 2003/04). Vacancies have been covered in the year with agency and contract staff. A scrutiny panel has been established to review this area. Despite the improving position, due to the remaining level of vacancies, assurances were sought, and received, from the council that statutory obligations have been met in relation to providing social work services during 2005/06.

30. The policy and resources committee receives quarterly monitoring reports on sickness absence statistics. While the overall figures for the council for 2005/06 to date are lower than for the same point in 2004/05, the level of sickness absence in social work services has increased.

Responding to customers, clients, communities and organisational change

31. The council's strategic best value review is considering whether services are configured in a manner that allows them to respond to identified needs and local priorities.

32. The council highlighted in its *Financial Outlook 2005/06 to 2007/08* that the population of East Dunbartonshire is predicted to fall by 5.8% over the period 2002 to 2018. Over this same period the authority is predicted to have the highest increase in the number of residents over the age of 75 and over the age of 85 in Scotland. This ageing and declining population has a particular impact on demand led services, such as personal care provision and other social and support services, increasing expenditure on such services. The council operates commitment accounting in social work services which will assist in the monitoring of these services in each financial year. However, there is a risk that failure to reflect increasing user needs in budgets, or to have adequate processes in place to prioritise the use of limited resources, could lead to budget overspends and the inefficient allocation of financial resources.

33. The council has identified that as a result of a lack of available housing, and a shortage of available land for development opportunities, there is a risk that it may not meet its statutory responsibilities to homeless persons. The local housing strategy included some initiatives to assist in this area. Assurances have been sought, and received, from the council that statutory obligations have been met in relation to providing homeless services for 2005/06, but this is a continuing risk to the council.

34. Elected members clearly play a critical role in representing the views of the electorate and in ensuring that the council responds to those views. In the changing local government environment, including the introduction of proportional representation in the 2007 council elections, there is a risk that current political governance structures are not fully effective. In preparing for the 2007 election, the council will have to adapt to whatever changes are required in the support provided to members, and the members' training programme should be kept under review to respond to the changing environment. The council has confirmed that the members support section will be heavily involved in any changes following the elections and the council plans to introduce a more co-ordinated plan for members' development with a specific budget.

Asset management and capital investment

35. The council requires physical infrastructure and assets that are suitable and sufficient to meet the delivery of the themes and objectives set out in the corporate plan. Infrastructure and assets need to support the provision of high quality services now and into the future in a sustainable manner.

36. The council's focus is on the asset management plan. In April 2005, a corporate asset manager was appointed to develop a corporate asset management strategy and assist in the development of a capital investment strategy to feed a revised capital programme. The corporate asset manager is

currently on long term sickness absence, and an acting corporate asset manager is to be appointed shortly. In May 2006, the corporate management team approved an implementation strategy and action plan for the delivery of the asset management plan by April 2007. A corporate asset management group has been established and meets on a regular basis. An asset management implementation team and an accommodation review group are currently being set up. The council will shortly be going out to tender for the purchase of asset management software and for the provision of the condition surveys.

37. The council has been provisionally awarded £100 million from the Scottish Executive to fund a project to build six new secondary schools to replace some of the area's existing secondary schools. In June 2006, the council awarded the contract for the schools PPP project to InspirED, a consortium led by the AMEC group. This is an important project for the council which should have a significant impact on service delivery.

Best value

38. 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 cyclical approach involving 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.

39. The council will receive a best value audit in 2006/2007. In preparation for this audit, the council has considered the requirements of best value and prepared a best value corporate action plan which was initially approved in February 2005. The council's action plan has taken on board suggestions made in the best value transitional audit work on performance management, equalities and sustainability. Progress against the best value corporate action plan is monitored by the corporate management team and the policy and resources committee on a regular basis.

National studies

40. 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 include reviews of public sector pension schemes, and the *National Fraud Initiative* as summarised later 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 for 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*

41. 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

42. 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 founds that the management of transfers is improving, but that better, clearer measures are needed to assess impact and value for money. The report recommends that the Scottish Executive should reinforce its approach with clearer goals and measures for quality of service and tenant involvement. This would help increase the overall impact and the value for money of transfers. The council has made some small scale housing transfers, but is not considering a complete transfer of its housing stock.

Following the public pound – a follow-up report

43. In December 2005, Audit Scotland published the results of a study of council funding of arms length and external organisations (ALEOs) to provide information about their 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.

44. The Accounts Commission found that no council fully complied with guidance which sets out best practice principles when councils fund external organisations. Five councils, including East Dunbartonshire Council, had a low level of compliance. The head of finance and ICT presented a position statement on the council's compliance with the Code of Guidance on Following the Public Pound to the September 2005 audit and risk management sub-committee and an action plan was agreed to address areas of non-compliance. The council also agreed to implement the action plan contained within the 2005 local audit report, to incorporate compliance with guidance into the financial

regulations at the next review and to prepare a local guidance document in relation to the funding of arms length organisations.

45. There is scope for councils to improve their financial and performance monitoring of arms length bodies. Councils should apply a risk-based approach taking account of factors such as the amounts of money involved, the size of organisations funded and how they are managed. 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.

Community planning – an initial review

46. In June 2006, Audit Scotland published its initial review of community planning arrangements. This 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. The report contains a useful evaluation framework of the characteristics of community planning partnerships which could be used as a checklist by the council.

Financial position

Introduction

47. 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

48. The council's net revenue expenditure in 2005/06 was £190.764 million, after the transfer of the housing revenue account deficit of £0.835 million. This was met by government grants and local taxation of £187.804 million resulting in a net general fund deficit of £2.960 million.

49. The budget set for 2005/06 was based on a Band D council tax level of £1,079. In setting the budget for 2005/06, the council was planning to use brought forward balances to fund a projected deficit of £0.300 million. The main factor contributing to the £2.660 million overspend is the cost of early retirals and redundancies arising from the council's restructuring programme (£2.627 million included in exceptional items). These costs were not included in the original 2005/06 budget but do represent a planned application of resources. It is anticipated this will result in future efficiencies as part of the council's efficiency programme.

50. Regular general fund revenue outturn monitoring reports are submitted to the policy and resources committee and departmental and global variances were identified and reported as they arose.

Reserves and balances

51. At 31 March 2006 the council had total cash-backed reserves and funds of £10.674 million.

Table 1

Reserves and Funds 2005/2006

Description	2005/06 £ Million	2004/05 £ Million
General Fund	9.254	12.214
General Fund — Housing revenue account balance	0.620	1.455
Repair and Renewal Fund — Education	0.672	0.610
Repair and Renewals Fund — central energy efficiency	0.128	0
	10.674	**14.279**

52. Significant amounts earmarked from the general fund balance total £5.634 million:

- £1.977 million was the anticipated surplus carried forward from 2005/06, of which £0.997m is to be used in support of council tax in 2006/07;
- £2.348 million for funding rescheduled projects which slipped in 2005/06, including funding capital expenditure from revenue (£0.266 million);
- a social work contingency of £0.860 million;
- a roads contingency of £0.300 million; and
- an amount held for insurance provision of £0.149 million.

This leaves an unallocated general fund balance of £3.620 million as at the balance sheet date.

53. The council faces a range of financial issues which could significantly deplete this unallocated balance and other reserves and this is discussed further in our financial outlook section.

Rents and the housing revenue account

54. The council is required by legislation to maintain a separate housing revenue account (HRA) 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 rent increases of 4.5% on the previous year. No contributions to or from balances were planned. The budget for 2006/07 was also based on rent increased of 4.5%, and again no contributions to or from balances are planned

55. On 30 June 2004, 861 properties (16.8% of the total housing stock) were transferred to Hillhead Housing Association (HHA). The council received nil consideration for the housing stock. In exchange for the transfer the council's debt payments on this housing stock are to be met by the Scottish Executive for five years. The transfer was approved on this basis by the council who were satisfied that the deal represented value for money. However, as reported in 2004/05, the council has

asked the Scottish Executive to write-off the debt on these houses, but it is still awaiting a response from the Scottish Executive on this matter. Meantime the council is meeting debt repayments on the debt outstanding but has not received central funding.

56. At 31 March 2006, the housing revenue account shows a deficit for the year of £0.835 million against a budgeted surplus of £0.267 million. The deficit arose primarily because there has been a delay in the receipt of Scottish Executive income of approximately £0.600 million to offset the Hillhead stock transfer debt payments, which has not been accrued, and capital funded from revenue of £0.400 million which was not budgeted for. The surplus brought forward from 2004/05 was £1.455 million, resulting in a balance carried forward of £0.620 million.

57. Total rent arrears as a percentage of gross rent are 7.5% (8.2% for 2004/05, 8.9% for 2003/04), based on £0.828 million arrears from a total rent debit of £10.989 million. A review of the 2005/06 statutory performance indicators shows that current rent arrears, as a percentage of net rent (excluding housing benefit and voids) have again fallen to 7.5% (8.3% for 2004/05, 9.9% for 2003/04). Officers have explained that this improvement is due to additional staff training and the fact that staff have been made more accountable for their wards. This improvement in the year has brought the council closer to achieving the target of 7% (net of HB and voids) which Audit Scotland's performance audit group states is reasonable for city and urban councils such as East Dunbartonshire.

Group balances and going concern

58. 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. This has become more important with the *Prudential Code for Capital Finance in Local Authorities* which requires authorities to take note of all their commitments, including those in alternative service delivery vehicles.

59. The 2005/06 financial statements report the position of East Dunbartonshire Council group accounts, consolidating subsidiaries and associates. The council has consolidated the results of Mugdock Country Park as a subsidiary and a number of other associates. The council has complied with the requirements of the *Code of Practice on Local Authority Accounting* (ACOP) in compiling its first group accounts; one exception, in common with other councils, relates to the valuation of land and buildings of the Strathclyde Passenger Transport Authority which is at historic cost, and this exception has been disclosed in the accounts.

60. 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 group accounts are primary accounting statements of the council. While the background to their introduction and basis of their preparation is summarised in the foreword to the accounts, no commentary is provided on the

group results or financial position. The statement on the system of internal financial control is only required to refer to the council itself. In future years there is an opportunity to take a wider perspective of the group as whole both within the accounts and in information reported to members.

61. The overall effect of the subsidiary and associate bodies on the group balance sheet is to reduce both reserves and net assets by £133.593 million, mainly because of pension fund liabilities, and the net worth is, therefore, £35,238 million. The accounts of all group bodies have been prepared on a going concern basis.

Spending on assets and long-term borrowing

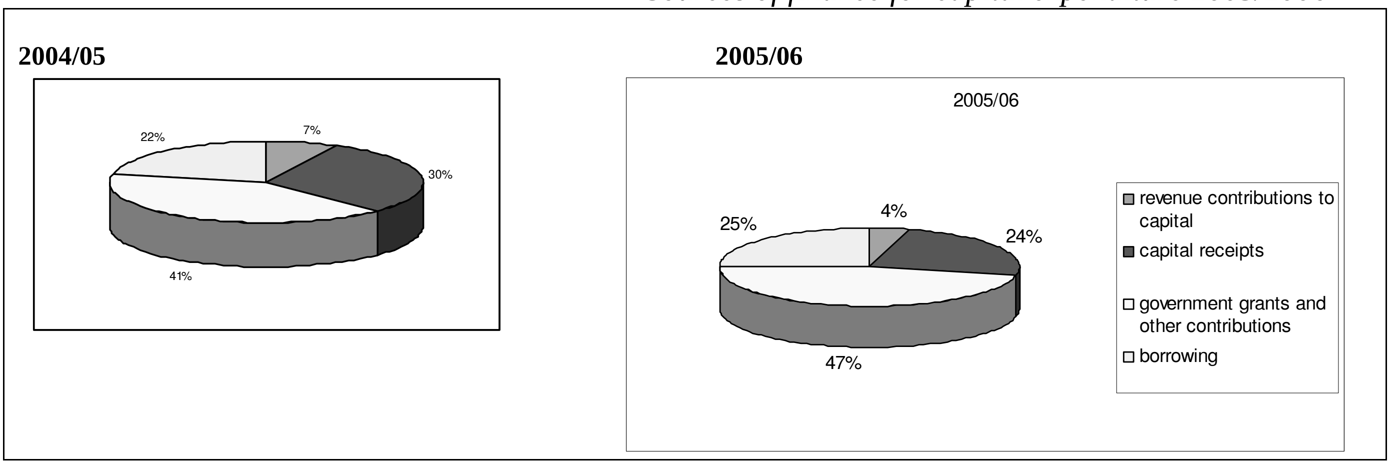
Capital performance 2005/06

62. 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.

63. Capital expenditure in 2005/06 totalled £24.833 million, compared with £19.124 million in 2004/05 and £20.392 million in 2003/04, the last year of central capital controls. Capital investment in the last two years was funded as shown below. The largest element of capital financing is from government grants and other contributions which totalled £11.621 million in 2005/06. The council has not required any additional borrowing in 2005/06, with aggregate long and medium term borrowing at 31 March 2006 of £121.182 million, a decrease of £2.09 million on the previous year.

Chart 1

Sources of finance for capital expenditure 2005/2006



64. Almost 90% of long and medium term loans at the year-end mature after more than 10 years. However, the council has actively managed its exposure to variable interest rate movements with 15% of all debt exposed to variable rate risk, which is below its prudential maximum exposure of 25%.

65. The council operates a rolling capital programme. The original general fund capital programme approved in February 2005 was £12.747 million. As a result of the slippage on the 2004/05 programme, this was revised to £18.868 million in August 2005 and subsequently to £20.171 million by March 2006. Actual expenditure was £19.041 million. Total project slippage in 2005/06 was £1.268 million and this has been carried forward into the 2006/07 capital programme. This level of slippage is an improvement on the 2004/05 position.

Forward capital programme

66. General services capital plans for 2006/07 and 2007/08 anticipate annual capital expenditure of £19.225 million and £10.252 million respectively. This is expected to be funded by a number of sources including capital receipts, grants and further increases in borrowing, totalling £19.751 million over the two years. As a result of slippage on the 2005/06 programme, the 2006/07 capital programme has been revised to £20.618 million. The council should ensure that it has the operational capacity to deliver this programme.

67. Housing services capital plans for 2006/07 and 2007/08 anticipate annual capital expenditure of £5.160 million and £5.000 million respectively. The majority of this spend (£9.850 million) will be funded from receipts from the sale of council properties, with the remaining £0.310 million being funded from rents. It is not anticipated that any borrowing will be required.

68. The council has recently undertaken a review of its housing stock in line with the Scottish housing quality standard and has identified that in order to meet the standard; the capital investment required over the ten year period 2005/06 to 2014/15 is £31.335 million.

Significant trading operations

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

70. In 2005/06, three year cumulative deficits have been reported for leisure services (£0.141 million) and facilities management (£0.467 million). The cumulative deficit for facilities management is due to payments made in respect of equal pay in 2005/06, whereas even if equal pay and FRS 17 pension costs are excluded from leisure services, a cumulative deficit would still have been made. All other significant trading operations have reported cumulative surpluses. Due to the failure of two trading operations to meet the statutory requirement to break even over a rolling three year period, an explanatory paragraph has been included in the 2005/06 auditor's report.

71. As a result of a review of the significant trading operations during 2005/06, the connect services committee approved that the leisure service significant trading operation be redesignated as a trading operation in advance of the development of the environment directorate service plan, effective from 1 April 2006.

Financial outlook

Current budget

72. The 2006/07 budget was based on a Band D council tax level of £1,122, being an annual rise of 4%. A contribution to the general fund of £0.977m was planned when the 2006/07 council tax was set. The budget included amounts for pay and specific contract inflation. A number of efficiencies and other savings were built into the budget. High level revenue estimates for 2007/08 have also been prepared, based on an indicative council tax rise of 4.4%.

73. Local authorities have yet to be provided with details of provisional Scottish Executive aggregate external finance allocations for 2008/09. The council has yet to agree a high level revenue budget or issue an indicative council tax level for this year.

Equal pay

74. 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.

75. Following cases pursued against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2005/06. There are risks for councils not only from traditionally female roles being underpaid but also in relation to many, mainly male, manual workers in areas such as cleansing, grounds maintenance and building trades who have received bonus payments that typically are not available in areas such as catering and cleaning staff where the workforce is predominantly female.

76. East Dunbartonshire Council has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer equal pay compensation payments to specific groups of employees. The council has had its settlement offer accepted by the majority of employees, including some former employees and some male employees. This is discussed in further detail at financial statements, paragraph 129.

77. 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 in this area, particularly 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

78. In 1999 a single status agreement was reached between Scottish local authorities and trades unions which would harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers covering pay, working hours, leave and negotiating mechanisms. There was a presumption that single status would be cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.

79. 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, this was extended by agreement between local authorities and unions to April 2004. To date only one council, South Lanarkshire, has implemented the single status agreement. East Dunbartonshire Council has yet to implement the single status agreement and discussions remain ongoing with trade unions. A single status strategy group has been established and is chaired by the chief executive. Formal negotiations were held in late September and early October 2006 and a final agreement is expected soon. The single status agreement will be backdated to 1 April 2006. The council had set aside £2.000 million in the 2005/06 budget to fund the single status agreement. This has not been utilised in the year and has been carried forward and added to the £1.300 million already included in the 2006/07 budget. An additional amount of £0.750 million is included in the 2007/08 estimates.

80. Until a local agreement is concluded, the initial and continuing costs to the council cannot be reliably estimated and this represents a significant financial risk to the council. The amount included in the council's 2006/07 budget represents around 2.4% of current pay costs. 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.

81. The implications for bonus payments are still being considered by the council, however it is expected that the implementation of single status will address the bonus scheme issues reported by us to members in previous years.

Efficient government

82. 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.

83. 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 has not notified councils of the efficiency savings they should achieve each year it anticipated that East Dunbartonshire Council's contribution to the top-sliced target of £168.3 million will be £3.341 million over three years, equating to £1.087 million for 2005/06.

84. 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 the quality of services provided. In order to claim an efficiency, councils need to demonstrate that service outcomes have been maintained or improved.

85. The council has recognised that a proactive approach is required to allow it to reach appropriate and considered decisions in respect of its response to the current financial and public policy environment. As a result, members agreed to a strategic efficiency and best value review of council services in March 2005 and initiated a full review of all council activities. This review has created a series of task groups, led by senior officers, to address specific areas and report initially to the council's strategic review group which has a co-ordinating and monitoring review. This will help the council to address the challenge of the efficient government initiative. The council has recognised that work is required to ensure that projects are adequately labelled to allow them to be monitored as efficient government projects. In addition, the council currently has insufficient systems in place to allow efficiency savings to be accurately quantified, particularly in relation to whether there is an associate impact on service delivery. However, the council are actively tracking any cash savings being achieved and consideration is being given to the most appropriate method of monitoring efficiencies.

86. In March 2006, the policy and resources committee agreed that the council should join a shared services consortium with Stirling, Clackmannanshire, Perth & Kinross and Falkirk Councils. The original three council consortium of Clackmannanshire, Stirling and Falkirk had successfully secured £100,000 of Stage 1 efficient government funding in 2005 to produce a business case for the establishment of a shared services centre for the provision of centralised finance, HR, payroll and procurement services. The committee also agreed that the contribution to the work on the business case should be supported in kind and through existing resources as a spend-to-save initiative. Progress on the council's individual business case will be reported to the December council meeting and a report on the consortium business case will be reported in early 2007.

87. The cashable savings projected by the council for 2005/06 were £1.737 million and therefore exceeded those anticipated by the Scottish Executive; however there is a risk that the savings anticipated may not meet the definition of efficiency gains. Going forward, a further £2.835 million of base budget efficiencies and savings have been identified for 2006/07 and 2007/08. It will be

challenging for the council to deliver on this ambitious programme of savings while managing the impact on overall objectives.

Pension liabilities

88. 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 including projecting increased life expectancy. In addition 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. 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 on the face of annual accounts.

89. The council's estimated pension liabilities at 31 March 2005 exceeded its share of the assets in the *Strathclyde Pension Fund* by £76.335 million, increasing from £75.700 million in the previous year. While the net liabilities in the main scheme have risen only slightly (0.8%), the unfunded liabilities for discretionary pensions, where the council agrees to fund an early retirement, have increased by £6.188 million (27.5%) during the year.

90. A full actuarial valuation of the *Strathclyde Pension Fund* as at 31 March 2005 was reported in early 2006. This has resulted in revised employer contribution rates. Employer contribution levels are based on percentages of employee contributions and in 2004/05 were 240%. As a result of the revaluation, the contribution rates increased to 250% in 2005/06 and will increase to 280% by 2008/09. These increased contributions will be financed through the consolidated revenue account.

Governance

Introduction

91. 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

92. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviours at the upper levels of the organisation. The council had systems in place that operated well within a sound control environment.

93. A statement on the system of internal financial control is included within the annual financial statements, with the aim of providing assurances on the effectiveness of the system of internal financial control in place within the council. The council has identified specific control weaknesses in relation to segregation of duties, and the fact that the roll out of the corporate risk management strategy to all council services is not yet complete.

94. At a corporate level the council has appropriate arrangements in place to prevent and detect inappropriate conduct and corruption. These arrangements include codes of conduct for elected members and staff, a whistle blowing policy and defined terms of reference for committees.

95. The council's audit and risk management sub-committee adheres to CIPFA's guidance note *Audit Committee Principles in Local Authorities in Scotland* and generally provides a sound contribution to the overall control environment. We identified in our audit risk analysis and plan (ARAP) that the agenda and papers for the meetings of the sub-committee are only issued a few days before the meeting, therefore there is a risk that there is inadequate time to allow full consideration of key issues by members. The council has now agreed that by 30 September 2006, sub-committee papers will be issued one week earlier than the current arrangement.

96. As recommended by the best value review of the internal audit service, services are now fully responsible for implementing internal audit recommendations. The responsible officer within the service is required to complete a proforma to include an update on progress made towards implementation. The proforma is then submitted to the audit and risk management sub-committee and where recommendations have not been implemented a service representative will be required to attend the meeting to discuss this. Internal audit will then undertake a follow-up visit at a later date to confirm the accuracy of the statements made by the service. The first follow-up under this new process was reported to the sub-committee in June 2006. Based on this meeting the new process for

the reporting of follow-up of agreed actions to the sub-committee appears to be resulting in increased scrutiny by members.

97. 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. In previous years, the performance of the internal audit service has been reviewed and audit's conclusion was that weaknesses existed in internal audit's performance. In response to external audit's ongoing recommendations and the implementation of findings of the best value service review undertaken of the internal audit section, we are pleased to report that improvements in the service have continued throughout 2005/06 to address the identified weaknesses in performance. As a result, in 2005/06, we were able to place some reliance on the work of internal audit for the first time.

98. However, there are still areas where the service could make improvements, including:

- to improve processes for monitoring the performance of internal audit, a range of performance indicators is to be identified and presented to the audit and risk management sub-committee meeting of 27 September 2006;
- action should be taken to ensure that control objectives are established for all major systems by 31 December 2006;
- annual consideration should be given as to whether the planned work of internal audit includes sufficient controls testing of the key financial systems to provide assurances on the adequacy of the systems of internal control, support the assertions made by the service directors in the assurance statements, and enable the council's new external auditors to place reliance on the work of internal audit;
- all issues identified by internal audit during the course of their work should be reported to management, even where they fall outwith the scope of the audit exercise; and
- the contract audit skills and experience which exist in the team should be utilised, and the input to contract audit in the 2006/07 plan increased accordingly.

Systems of internal control

99. In his annual report for 2005/06, the chief internal auditor provided his opinion that, based on the internal audit work undertaken during the year, reasonable assurance can be placed upon the internal controls in operation throughout the council. One key issue, an ongoing problem relating to the adequate division of duties, was highlighted in his report. The chief internal auditor notes that it is accepted that in most instances this is a resource related issue, but there does still exist the possibility of a significant degree of risk to the overall effectiveness of the internal control framework and

perhaps even the operations in some service areas. This risk has been reflected in the statement on the system of internal financial controls included in the accounts.

100. Recommendations made in previous years' internal and external audit reports are monitored by management and internal audit, and progress is regularly reported to the audit and risk management sub-committee. Our 2005/06 audit also included follow-up of progress made in implementing previous audit recommendations. The majority of audit's recommendations have been implemented and the audit and risk management sub-committee will continue to monitor progress against audit action plans.

101. 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 a number of the council's main financial systems. We assessed the central systems of main accounting, payroll, debtors, budgetary control and creditors as having a satisfactory level of control for our purposes.

Prevention and detection of fraud and irregularities

102. At the corporate level, the council has appropriate arrangements in place to prevent and detect fraud. These arrangements include an anti-fraud and anti-corruption strategy and defalcation procedures.

103. 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 initiative also enables bodies to detect overpayments made in error or through honest misunderstandings. 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.

104. In this council, total benefit overpayments of £38,638 were identified and reported as part of this initiative.

105. 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 needs to ensure that it uses the opportunities presented by the NFI on an ongoing basis to assist in the detection of fraud.

106. Each year Audit Scotland gathers information on actual cases of fraud identified by councils. In 2005/06, the council identified 1 case of fraud, a theft by a cashier, with a loss of £2,500. A further 29 cases of benefit fraud were identified, with losses totalling £121,185. Of these 29 cases, 7 had a value greater than £5,000, with losses totalling £81,478.

Governance outlook

107. Continuing development of risk management arrangements will further strengthen the council's corporate governance arrangements.

108. The council's planned rationalisation of payrolls has slipped beyond its target completion date and the payroll manager has advised that this is mainly due to staffing constraints. It is now intended that the possibility of reducing the number of payruns will be explored as part of the ongoing single status regime and job evaluation process.

109. 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

110. 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.

111. 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 period in question; and
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

112. We also review the statement on the system of internal financial control by:

- considering the adequacy of the process put in place by the chief executive and council to obtain assurances on systems of internal control; and
- assessing whether disclosures in the statement are consistent with our knowledge of the council.

Overall conclusion

113. We have given an unqualified opinion on the financial statements of East Dunbartonshire Council for 2005/06. We have, however, drawn attention to a failure to comply with a statutory requirement. This does not impact on the fairness of the financial statements and, therefore, does not affect the opinion on the accounts.

114. The Local Government in Scotland Act 2003 requires councils to maintain and disclose trading accounts for significant trading operations, which are required to break-even over a three year rolling period. As highlighted in para 70 of this report, the facilities management and leisure services trading organisations made aggregate losses of £0.467 million and £0.141 million respectively in the three years to 31 March 2006, with the result that the council has failed to meet this statutory requirement.

115. The council's unaudited financial statements were submitted to the controller of audit prior to the deadline of 30 June. Final accounts preparation processes and working papers were generally good and this enabled the audit to progress smoothly.

116. Audited accounts were finalised prior to the target date of 30 September 2006 and are now available for presentation to the council and publication. The financial statements are the 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

117. 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'). A number of accounting adjustments were made to the figures included in the unaudited accounts provided for public inspection. These adjustments had no effect on the year-end deficit, however, they increased total net assets by £18.259 million. Details of the adjustments and other significant accounting issues arising in the course of our audit are summarised below.

Provision for equal pay

118. The council has had its equal pay settlement offer accepted by the majority of employees. The costs for equal pay included in the 2005/06 accounts as an exceptional item are £4.128 million. Payments made in the year were £2.826 million. A provision of £1.302 million has been included in the accounts. Included in this provision is an amount of £0.193 million relating to offers made to 33 employees who have now rejected the settlements. The extent to which the actual costs vary from current estimates will depend on a number of factors including take-up rates and level of awards of any cases taken to tribunal. Costs above that already budgeted will increase further the financial pressure on the council. Current experience in England suggests payments taken to tribunal are up to four times the original settlement figures. If this was the case here, the provision required should be £0.772 million, an increase of £0.579 million. Following discussions with officers, I have concluded that the council has estimated the provision based on the legal advice currently provided to it. However, the council accepts that this provision may be understated by an amount that currently cannot be quantified.

Group accounts

Debt restructuring costs

119. Lender option borrower option arrangements (LOBOs) are variable rate loans whereby, if the lender decides to change the interest rate at certain predetermined dates, the borrower has the option whether to accept the change or to repay the loan principal.

120. Over the last four years the commercial money market has been increasingly competitive with new products such as LOBOs being of particular interest to councils as an additional form of borrowing over the longer term. Although LOBOs do not fully provide the guaranteed long term interest rate

stability of PWLB fixed rate maturity loans, longer term stability has improved in recent years with longer call intervals, and loan maturity now available up to 60 years.

121. There is currently a debate over the appropriate accounting treatment of LOBOs. One issue is whether the characteristics of a LOBO require any premium arising from replacing existing PWLB debt to be recognised immediately rather than over the life of the replacement borrowing. A secondary issue is whether interest should be charged according to the actual debt profile or smoothed over the length of the period.

122. The council had LOBO debt totalling £17.400 million at 31 March 2006. Its accounting policy is to recognise premiums or discounts arising from debt restructuring, including that involving use of LOBOs, over the full life of the replacement debt. The amount held within the consolidated balance sheet as at 31 March 2006 in respect of debt premium was £5.613 million of which £1.382 million relates to premiums incurred on switches from PWLB to LOBOs. The council has accounted for the £1.382 million premium by amortising to revenue over the period of the replacement loan. This approach has been taken because the council considers that the overall economic effect of the original and replacement borrowing is substantially the same. In reaching this view the council has taken into account:

- the definition of the term 'overall economic effect' offered by the SORP guidance note;
- the expected stability of interest rates over the period of replacement borrowing;
- that there is no evidence that lenders have sought in practice to impose significant interest rate increases or that authorities have refused to accept any increases; and
- the expectation that the LOBOs will run to maturity.

Revaluation of non-housing land and buildings

123. A full revaluation exercise of all non-housing land and buildings was carried out by an external surveying company during 2005/06. An upward revaluation adjustment of £80 million has been required to the accounts to reflect the results of this revaluation exercise. Such a large increase to asset values indicates that the values attached to assets have been out of date for some time. With effect from 2005/06, the council has moved from a rolling five year programme of asset valuation to a programme of revaluing all assets once every five years. The senior estates surveyor has advised that if there are any material changes to any of the council's operational or non-operational assets in the intervening period between revaluations, estates will revalue the subjects and inform finance of the updated value. We are concerned that this is the process currently followed by the council and yet there has been a need for a 47% increase to asset values, therefore suggesting that expenditure which should be capitalised is not being correctly identified and recognised in asset values. Therefore, the council needs to ensure that their asset revaluation procedures for the intervening

years between valuations are sufficient to ensure that the asset values are fairly stated in the accounts.

124. The revaluation exercise has revealed discrepancies in the asset information held by estates and finance with each department holding information on assets which are not included in the list held by the other department. Operational properties valued at £1.457 million and non operational properties valued at £1.191 million were identified through the revaluation exercise, and which had not previously been included in the accounts. In addition, operational properties valued at £1.165 million and non-operational properties valued at £2.098 million were previously included within the asset listing held by finance and therefore included in the accounts. However these assets were not included on the list held by estates and therefore were not covered by the revaluation exercise. These inconsistencies may have resulted in a misstatement of fixed asset values over several years. A matching exercise has been undertaken by estates and finance to ensure that the information held by both departments is consistent. This has resulted in a definitive list of council properties which is due to be finalised by the end of October. The estates section plan to introduce a system of notifying finance staff when any changes are made to the property database to ensure that the balance sheet accurately reflects the property owned by the council.

Deferred charges

125. The unaudited account included reference to deferred charges within the accounting policies, noting that *"expenditure which has been properly capitalised but which does not create or enhance tangible fixed assets of the council, have been written off in the year in which the expenditure is incurred*." Such expenditure in 2005/06 totalled £3.841 million. This definition relates to the previous capital s94 controls, which allowed certain expenditure of a revenue nature to be treated as capital spend. This previous system has now been replaced by the prudential framework and local authorities are no longer permitted to account for these items of revenue spend as capital. The corporate finance manager and capital accountant reviewed the deferred charges to identify the correct accounting treatment, and adjustments have been made to fixed assets and the consolidated revenue account to reflect this spend. There has been no impact on the council's deficit in the year.

Legality

126. Each year we request written confirmation from the head of finance and ICT that the council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The head of finance and ICT has confirmed that, to the best of her knowledge and belief and having made appropriate enquiries of the chief executive and corporate management team, the financial transactions of the council were in accordance with the relevant legislation and regulations governing its activities.

127. 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 provision 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.

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

Financial reporting outlook

129. 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 developing accounting practice. Significant challenges ahead are summarised below.

130. A number of changes have been made to the 2006 SORP. These include:

- changes to the single entity statement of accounts which include the 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; and the replacement of the statement of total movement in reserves with a statement of total recognised gains and losses;
- similar changes to the housing revenue account; and
- parallel changes to the group accounts that would result in them being easier to understand and have a common format to the single entity statement of accounts.

131. 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 should 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.

132. Further ahead, there are proposed changes to financial reporting standards (FRS) 25 and 26 in 2007. These standards will require the premium on loans that have been re-scheduled by the council to be charged to the revenue account in full in the year of re-scheduling rather than being written-off over the period of the replacement loan, which can be up to 40-50 years. Every council will be affected by these charges of potentially millions of pounds to the revenue account and the impact this could have on council tax. Directors of finance have been talking to the Scottish executive about legislation or

regulation which would remove the risk of increasing council tax through the application of accounting practice. Audit Scotland has been participating in the debate and will continue to be involved in trying to find a solution to this matter.

Change of external auditor

133. 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.

134. This is the final year of our current appointment to the audit of East Dunbartonshire Council. From 2006/07 KPMG 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

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

136. 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.

137. This is the final year of a five year appointment. I would like to take this opportunity to express my appreciation for the co-operation and assistance given to us by East Dunbartonshire Council's members and staff over the five years of our audit appointment.

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	13	The restructuring exercise undertaken in 2005/06 may have a detrimental impact on service delivery.			
2	15 & 25	There remain a number of service level risk registers, corporate level risk register and joint risk registers with partners to be completed, giving rise to a risk that the council is not aware of, and taking action to mitigate, all risks it faces.			
3	17	Until the Carefirst system is implemented, there is a risk that inefficient management information could impact on social work service delivery.			
4	25	Informal information sharing with partners could result in planning and decision making which is poorly informed.			
5	28	There is a risk that the training and development needs of all staff are being addressed as a result of the PMDP not being fully rolled out to all services.			
6	29 & 30	There is a risk to the successful delivery of social work services due to the continuing level of vacancies and sickness absence.			
7	32	There is a risk that failure to reflect increasing user needs in budgets, or to have adequate processes in place to prioritise the use of limited resources, could lead to financial resources not being allocated effectively and to budget overspends.			

Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
8	33	There is a risk that the council may not be able to meet its statutory duties in respect of homeless persons.			
9	79	Until the single status agreement is implemented there is a risk that the council could be judged to have contravened the 1970 Equal Pay Act.			
10	118	There is a risk that the costs to the council in respect of equal pay claims are greater than the provision included in the accounts.			
11	124	There is a risk that the balance sheet may not accurately reflect fixed asset values.	A matching exercise is being undertaken by estates and finance. Capital expenditure is to be accurately identified and reflected in asset values each year. Council house stock is to be subject to a full revaluation in 2006/07.		