Dumfries and Galloway Council

Annual Report on the 2010/11 Audit

AUDIT SCOTLAND

Prepared for Members of Dumfries and Galloway Council and the Controller of Audit

October 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

Background

Scotland's public bodies are facing major spending cuts and must focus on their long term financial sustainability to ensure effective public services in the future, with clear priorities, budgets and workforce plans. Councils have responded to reductions in funding in 2011-12 and are making significant savings, however there is a risk that cost pressures will be greater than expected due to unforeseen events.

Pay restraint and reducing workforces are the most common approaches being taken by public bodies to reduce costs over the next few years. Most councils have already reduced staff numbers through recruitment freezes and voluntary redundancy schemes. The key issues for members include the leadership and governance of the public service reform, financial sustainability and workforce planning to deliver effective public services.

Best value, use of resources and performance

The council has made good progress in the last year in taking forward the council's improvement agenda which includes areas identified in the 2009 Best Value audit. The council has introduced a sound organisation-wide business planning and performance management framework.

Arrangements for people management have also been strengthened through the approval of a new Workforce Strategy, the introduction of a leadership development programme and the roll out of a staff appraisal and development scheme to apply to all employees. The council has also taken the positive step of completing a council wide staff survey and will use these results to help inform future improvements. The next critical step for the council is to apply its workforce strategy and take forward its approach to workforce planning.

There has over the last year been limited improvement in asset management. The council's Asset Management Plans are in place but a corporate strategy has yet to be developed. Improvement actions are however currently in progress which should ensure a best value approach to asset planning and management by the council. Action is now being taken to analyse service needs for assets against current levels of service provision. The council is working towards producing a long term vision for the use of the council's assets and enhancing member decision making procedures.

An improved approach to asset planning and management is now critical and strong member and senior management leadership will be essential to ensure the delivery of these necessary improvements.

Revised area working arrangements and a commissioning framework have now been agreed by the council. These are currently being implemented, along with a new performance reporting programme as part of the business planning framework. The commissioning framework helps to clarify the basis on which council work is awarded to delivery agents. This should be further enhanced to provide members with a clearer understanding of the delivery options available.

A great deal of work has been done over the last year in securing the necessary improvements to the council's arrangements for best value. We recognise that this is strong start, and there is further work required to embed the improvement agenda, with the first round of performance reports to members in November 2011. Strong political leadership and member joint working is required to ensure the council continues to improve.

Financial Statements

We have given an unqualified opinion on the financial statements of Dumfries and Galloway Council (the council) for 2010/11.

In common with other Scottish Local Authorities, the council's financial statements reflect material pension fund deficits. The combined deficit on the Local Government, Police and Fire pension schemes at 31 March 2011 was £425.3 million, of which £289.3 million (68%) related to the unfunded police and fire pension schemes. The pension liability had a substantial impact on the net worth of the council which was reported in the balance sheet at 31 March 2011 as a negative net worth of £95.1 million. The Head of Finance and Technology has considered the impact of the negative net worth on the ability of the council to continue to deliver services in the future and the future financing of the council's liabilities. As noted in the Explanatory Foreword to the financial statements, the future financing of the council's liabilities will be met by future grants and the application of future income and as such it is appropriate to adopt a going concern basis for the preparation of the 2010/11 financial statements.

The format of the 2010/11 financial statements have changed significantly from those prepared for 2009/10. This is due to the full application in 2010/11 of International Financial Reporting Standards (IFRS). Our audit of the 2010/11 financial statements confirmed that the council successfully implemented IFRS meaning the statements comply with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code).

Financial position

At 31 March 2011 the council had total funds of £60.72 million, with £53.23 million or 88% of which has been earmarked for future spending in specific projects. The council held an unallocated general fund balance of £7.49 million. While the level of unallocated general fund balances is in line with the council's minimum target, the financial pressures associated with the current economic climate are significant and close attention will have to be given to the continuing adequacy of the council's unallocated reserves.

When setting the 2011/12 budget the council identified a funding gap of £15.829million but approved a balanced budget through the identification of savings and efficiencies, including a significant proportion relating to staff costs. During 2010/11 the council introduced an early retirement voluntary release scheme to secure future savings through reductions in staff costs. During 2010/11 the scheme identified £8.1million of savings from 2011/12 onwards towards the overall savings requirement of £15.8million which had been agreed as part of the budget setting for 2011/12. This level of savings represents a reduction of 304 members of staff 104 of which left before the end of the financial year. In total the council approved the reduction of 304 posts, excluding vacancies. These savings were offset by upfront costs of £8.5million relating to termination benefits (£4.2million) and reimbursements to the pension fund in relation to the strain on the fund (£4.3million).

Although corrective action was taken during the year the council continued to underspend on its approved capital programmes. Initial planned capital expenditure for 2010/11 was £41.59 million. During the course of the year this plan was reviewed by the Capital Officers' Working Group and was subsequently re-profiled and reduced by £4.43 million to £37.16 million. The final outturn position for 2010/11 totals £29.67million representing a continuation of the historic levels of underspend and, slippage of £7.5million or 20%.

Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. On the 21 September the Cabinet Secretary for Finance and Sustainable Growth announced details of the Scottish Government’s budget for the 3 year period 2012/13 - 2014/15. This highlighted that the total revenue settlement for Scottish Local Authorities over the period 2012/13 to 2014/15 will be 'cash flat' and set at the same level, in cash terms, as the 2011/12 funding.

Current financial projections by the council indicate the need to deliver recurring savings totalling £27.050milllion over the period 2012/13 to 2014/15. This equates to a year on year savings requirement of £8.1million in 2012/13, £8.7million in 2013/14 and £10.25million in 2014/15.

The continued need for significant cuts in spending along with rising demands on services will require strong political and officer leadership, and over the coming years members are likely to be called upon to make challenging policy decisions. In particular, in the run up to the local government elections in May 2012 it will be vital that all members work together for the overall benefit of Dumfries and Galloway.

It is essential that the good progress made to date in taking forward the council’s improvement agenda continues.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of Dumfries and Galloway Council. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements), conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.

2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead focus on the financial statements and any significant findings from our wider review of Dumfries and Galloway Council.

3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management actions and have a mechanism in place to assess progress.

4. This report is addressed to the members and the Controller of Audit and should form a key part of discussions with the Audit Committee, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.

5. This report will be published on our website after consideration by the council. The information in this report may be used for the annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and presented to the Local Government and Communities Committee of the Scottish Parliament.

6. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.

8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland and give an opinion on:
   - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
   - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

9. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, statement on the systems of internal financial control and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit of the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of Dumfries and Galloway Council for 2010/11 give a true and fair view of the state of the affairs of the council as at 31 March 2011 and of the income and expenditure for the year then ended.

Legality

11. Through our planned audit work we consider the legality of the council's financial transactions. During 2010/11 the council released personal information relating to 900 employees which was subsequently published on a public-facing website (see ICT Data Handling and Security at Para 93). The breach occurred when the council's response to a Freedom of Information (FOI) request was not thoroughly reviewed prior to release. The council was alerted to the publication of this personal information on 1 June 2011, ensured the removal of the data from the website and informed all staff affected by letter. In addition, the Information Commissioner's Office (ICO) was notified of the incident and, in the intervening period where the ICO investigation was taking place, the council commissioned an independent review of this incident subsequently putting in place an action plan to address the corresponding control weaknesses. The results of the ICO investigation were published in October 2011 noting that 'Procedures clearly went wrong in this case' however the ICO was 'pleased that the council is reviewing its practices in light of the lessons that have been learned'. The ICO did not levy any penalties or fines regarding this data loss.

Statement on the systems of internal financial control

12. We are satisfied with the disclosures made in the statement on the systems of internal financial control (SIFC) and the adequacy of the process put in place by the council to obtain

the necessary assurances. The statement continues to reflect the weaknesses identified in the council's payroll system which were previously identified through a joint piece of work between internal and external audit. We are satisfied that the council has processes in place to address these weaknesses.

13. There are no legislative requirements to review and report on governance arrangements however the council has adequately applied the Code relating to internal financial control. The statement can be expanded to a statement on internal control or an Annual Governance Statement, provided that the expanded statement continues to meet the minimum requirements for a SIFC. In accordance with good practice the council should continue to develop internal processes to enable them to disclose an annual governance statement or statement of internal control in future financial statements.

Remuneration report

14. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2010/11 financial statements include all eligible remuneration for the relevant council officers and elected members.

15. Figures disclosed in respect of pensions and accrued benefits were sourced from Axis-e, the council's pensions administration system. There were a small number of cases where these figures did not reconcile with the council's working papers and one incidence where the calculations provided by the system were incorrect. The council has provided assurances regarding the accuracy of the figures used for the remuneration report and are investigating the reasons for the differences in the Axis-e system.

Accounting issues

16. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010 Code). We are satisfied that the council prepared the 2010/11 financial statements in accordance with the 2010 Code.

Accounts submission

17. The council’s unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. A comprehensive working papers package was also available by this date. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2011. The financial statements are now available for presentation to members and publication.

Presentational & monetary adjustments to the unaudited financial statements

18. Adjustments have been made to the 2010/11 unaudited financial statements in accordance with normal audit practice. These adjustments primarily relate to reclassifications within the balance sheet and have not had any impact on the general fund balance of the council. A

number of presentational amendments have also been processed to improve the disclosures within the financial statements.

Prior year adjustments

19. The 2010/11 financial statements have been prepared in accordance with the 2010 Code which is based on International Financial Reporting Standards (IFRS) instead of the previous practice of preparing financial statements under UK Generally Accepted Accounting Practice (GAAP). This transition required a prior year adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position. The main areas that required restatement included the treatment of capital grants, the inclusion of an accrual for employee benefits such as untaken annual leave and the classification of leases. These changes as shown in note 2 in the accounts resulted in the net liability position of the council as at 31 March 2010 changing from £314.527million to £272.120million. It should be noted that the accounting nature of these adjustments means that there has been no change to the usable reserves of the council.

20. As a result of the council's actuaries, Hyman Robertson, changing their valuation basis for police and fire injury benefits from one which uses current paid injury benefit to one which includes future estimated benefits, the council was required to make adjustments to the financial statements. Such changes reflect the additional liability for Police and Fire injury benefits of £6.9million at 1 April 2009 and £11.2million as at the 31 March 2010.

Resource Transfer Funding and Local Change Fund

21. The council continues to carry significant accumulated underspends in Resource Transfer funding from Dumfries and Galloway NHS within its financial statements. Following our reporting of this issue in each of our four previous year's reports to members the Social Work Services Committee set up a local change fund which would be available on a non-recurring basis to support transformational change in Social Work and to support a shift in the balance of care for the people the council support. The local change fund comprised £1.6 million resource transfer underspend and £304,000 from an underspend in Social Work budgets achieved in 2008/09. The Committee agreed the spending plan for the local Change Fund across the financial year 2011/12 and also to receive progress, milestones and outcome reports.

22. The latest revenue budget monitoring report to Social Work Services Committee for the period ending July 2011 reported that Service Reserves of £2.070million were available, primarily in relation to the local change fund.

23. The first progress report on spend against the local change fund was presented to the October 2011 meeting of the Social Work Services Committee. The progress report sets out proposals to spend £1.2 million by 31 March 2012 and to spend the balance in full during the financial year 2012/13.

Refer Action Plan No. 1

Events after the balance sheet date

24. There were no material events since the date of the balance sheet which required a change to the figures in the 2010/11 financial statements.

Pension costs

25. The council is the administering authority for the Dumfries and Galloway Pension Fund. The scheme is a funded defined benefit final salary scheme, which operates through both the council and employees paying contributions into the fund. In accordance with pensions accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the net liabilities for the pension fund in the balance sheet.

26. The valuation at 31 March 2011 provided by the scheme's actuaries reduced the deficit from £589.676 million last year to £425.362 million this year. The large decrease is primarily due to a change in statutory requirements, with future pensions' increases now linked to the consumer prices index (CPI) rather than the retail prices index (RPI). With CPI rates of inflation expected to be around 0.8% to 1.5% lower than RPI rates pensions increases are expected to be lower than previously reported. This change in indexation basis has therefore had a material impact in lowering the total deficit of the fund.

27. In April and May 2011 several public sector unions initiated proceedings for a judicial review of the decision to change from RPI to CPI as the basis for the annual uplifting of pensions. Decisions on this issue are still pending.

Pension fund

28. From 2010/11 onwards there is a requirement for a separate audit of Local Government Pension Funds. The council are now required to produce a separate set of accounts and annual report for the Dumfries and Galloway Pension Fund. As appointed auditors we have undertaken the audit of these accounts and will provide a separate annual report to members.

Whole of government accounts

29. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidated pack to the Scottish Government prior to the deadline of 29 July with the audited return being completed by the audit deadline of 30 September.

Trust funds

30. Dumfries and Galloway Council has 64 charitable trusts. Charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006, meaning a full set of financial statements is required for each trust fund.

31. OSCR’s feedback on 2009/10 submissions from each local authority allocates councils to one of four categories, fully compliant (0 councils), above average (2 councils), average (20 councils) and below average (8 councils). Dumfries and Galloway Council’s submission fell

into the “average” category as the individual financial statements had not been independently audited. However arrangements are in place for this requirement to be met, which should ensure a fully compliant rating for 2010/11 submissions.

Common good fund

32. In December 2007, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued guidance covering the common good fund. The council complies with this guidance with regard to separate disclosure in the council's financial statements and the separate identification of assets in the council's asset register.

Outlook

Carbon Trading

33. Following the comprehensive spending review in October 2010 there were a number of changes to the Carbon Reduction Commitment Energy Efficiency Scheme which had been due for implementation on the 1 April 2011. The requirement to account for and purchase carbon credits was replaced with a flat levy on emissions of £12 per tonne of CO2. In addition those incentives previously offered to the most energy efficient organisations through the ‘recycling of revenues’ have been withdrawn with all charges being retained by the treasury. Based on the council's own assessment of CO2 emissions of 29,800 tonnes, the total annual charge to the council under this revised scheme would be £357,600. The treasury figures provided as part of the spending review highlight that total revenue is expected to be in the region of £3.46billion over the next four years; a figure that indicates that the current charge of £12 per tonne is insufficient to generate the required revenue. As such future rises are therefore anticipated to a proposed £16 per tonne in 2016 and £30 in 2020. At a charge of £30 per tonne, the cost to the council could rise by £536,400 to £894,000 per annum.

34. The Council published a Carbon Management Plan in 2009, establishing emissions sources and identifying plans underway to reduce the Council’s carbon footprint. The Council’s Sustainable Development and Energy and Carbon management team have worked with Carbon Trust to review this document, and will bring the updated plan to Council for approval in December 2011. The reviewed carbon management plan takes account of the requirements of the Carbon Reduction Commitment and the Climate Change (Scotland) Act 2009. It details an increased volume of emissions reducing projects and key Council policy changes to underpin a cultural change across the Council in regard to emissions reduction. Emissions reduction targets contained within the plan (reduction of 42% of baseline figure by 2020) reflect those required of all local authorities in the Climate Change Scotland Act.

Audit appointment for 2011/12

35. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and members for their assistance during the last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) PricewaterhouseCoopers will be the appointed auditor for Dumfries and Galloway Council.

Financial position

36. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

37. Auditors consider whether audited bodies have established adequate arrangements and examine:

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- ability to meet known or contingent, statutory and other financial obligations
- responses to developments which may have an impact on the financial position
- financial plans for future periods.

38. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

39. In 2010/11, Dumfries and Galloway Council spent £424.763 million on the provision of public services, resulting in an accounting surplus of £45.051 million. The final outturn position however reflects the impact of capital accounting and pension entries and adjusting for these, council balances actually fell by £5.053 million to £60.716 million, due to the planned utilisation of funding previously set aside for specific purposes. The budget for 2010/11 was based on Band D council tax of £1,049. The budget did not assume any use of the general fund balances.

Budgetary control

40. The direct net expenditure by services across the council was £417.928 million, an underspend of £3.096 million against the budget. During 2010/11 service departments were requested to seek underspends of 1% against their budget allocations to support the creation of a corporate change fund. The change fund was to be used to support the upfront costs associated with the 2011/12 agreed savings, in particular the costs associated with the early retirement & voluntary severance schemes. These savings were to be achieved whist maintaining unallocated general fund balances at a minimum acceptable level which the council calculates as 2% of the council's annual planned expenditure. This equalled £7.5million for 2010/11.

41. Council services returned consolidated underspends of £3.096million which included underspends within Police (£0.871million), Education (£0.728million) and Fire (£0.530million). These contributed significantly to the overall level of service underspending. During 2010/11 these underspends have been attributed to a range of measures including tight spending controls and active budget management. Overall, service underspending contributed £1.943million to the corporate change fund during the course of the year.

42. Particular incidences of overspending within 2010/11 included:

- Social Work Services. In our previous reports to Members we referred to the challenges faced by Social Work Services to contain expenditure within budgeted levels and provide reasonable forecasts as part of ongoing monitoring reports. In response Social Work Services have continued to implement cost control measures including those on contracts and payments made under the Social Work Scotland Act as well as pursuing more cost effective options for alternative service provision, for example intensive fostering. Such measures have allowed the return of an overall service underspend in 2010/11 of £0.236million. However, the overall underspend is comprised of overspends in some areas of expenditure, underspends in other areas of expenditure and areas of expenditure which are aligned to budget. Overall as a consequence of the unpredictable nature of certain areas of spend, notwithstanding the success of budget control activity in the past two financial years, Social Work Services budgets remain an area of ongoing financial risk within the council.
- DGFirst. During the course of the year the council anticipated a £1million overspend within DGFirst resulting from the impact of the severe winter weather. DGFirst planned to fund this overspend through underspending in other areas (notably roads services) as well as the utilisation of £0.35million from the corporate contingency fund. The severity of the weather was such that expenditure was higher still with DGFirst overspending its budget on winter service provision (by £0.9million) and carriageway patching (£0.5million) taking the total overspend within DGFirst to £1.4million. DG First achieved higher than expected underspends within other areas; however this was not sufficient to meet the increased outturn figure. The council has to provide a further £0.3444 million to support this exceptional spend in DGFirst.

Financial position

43. At 31 March 2011 the council had total usable funds of £60.716 million, a decrease of £5.053million on the previous year. A significant proportion of the total usable funds have been earmarked for future spending in specific projects.

44. Exhibit 1 shows the balances in the council's funds at 31 March 2011 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing assets.

45. The general fund represents the most significant proportion of the usable reserves totalling £51.721million. The general fund is split between earmarked elements which have been set aside for specific purposes as well as an unallocated balance which is available to fund unanticipated demands on council expenditure. An analysis of the general fund balance is shown at Exhibit 1.

Exhibit 1: Reserves

Description	31 March 2010 £ million	31 March 2011 £ million
General Fund	52.443	51.721
Repair and Renewal Fund	1.843	1.668
Capital Fund	7.179	3.836
Capital Receipts Reserve	1.445	0.700
Insurance Fund	2.859	2.791
Total	**65.769**	**60.716**

Source: Dumfries and Galloway Council 2010/11 financial statements

46. Significant movements within earmarked balances during 2010/11 included net transfers out totalling £2.945million for the Schools PPP and transfers in of £1.868million from the Waste PFI (see Exhibit 2); these transfers are in accordance with the modelled expenditure profiles which will be used to finance the projects over their lifecycle. Whilst the council reviews the sufficiency of the PPP and PFI sinking funds as part of the budget setting process, no formal review is regularly reported to members, but it is recognised that this would be good practice to implement for future years. Given the current financial climate and pressures on future funding levels, the council should carry out a specific review of affordability and the future maintenance of the PPP and PFI sinking funds.

Exhibit 2: Analysis of the General Fund Balance

Description	1 April 2009 £ million	31 March 2010 £ million	31 March 2011 £ million
Unallocated Balance	9.783	7.272	7.494
Schools PPP Sinking Fund	15.194	18.711	15.766
Waste PFI Sinking Fund	8.986	11.623	13.491
Service Reserves	4.111	3.064	2.332
Other	8.403	11.773	12.638
Total	**46.477**	**52.443**	**51.721**

Source: Dumfries and Galloway Council Financial Statements 2010/11

47. Unallocated balances within the general fund total £7.494million having increased by £0.222 million in the year. This is in line with the council's target of holding a minimum uncommitted general fund balance of £7.5 million for 2010/11.

48. A suite of financial indicators has been developed for councils. The indicators assist in evaluating the council's financial sustainability and the affordability of financial plans. They also demonstrate the effectiveness of the financial management arrangements. The indicators for 2010/11 which will include the position for Dumfries and Galloway Council and comparators for all Scottish councils will be published separately.

Capital investment and performance

49. The 2010/11 financial statements detail capital expenditure of £65.8million. This includes £32.3million attributable to the PPP/PFI programme with the remaining £33.5million relating to the council's direct capital expenditure. The capital programme includes investments in buildings and improving primary and secondary schools, corporate IT projects, sports facility projects and disability discrimination act (DDA) compliance works.

50. Initial planned capital expenditure for 2010/11 was £41.588 million. During the course of the year this plan was reviewed by the Capital Officers' Working Group and was subsequently re-profiled and reduced by £4.432 million to £37.165 million. Despite the mid-year profiling of capital spending plans, there was still slippage of £7.492 million or 20% against the capital programme at the end of 2010/11.

51. Capital slippage within the council has been a long standing problem which has failed to be addressed despite various courses of corrective action taken by management. The level of capital slippage within the council over the last seven years is shown in Exhibit 3 and shows an average level over this period of 26%.

Exhibit 3: Capital Slippage

Year	Capital programme £ Million	Capital spend £ million	Underspend /Slippage £ million
2004/05	26.574	18.542	8.032 (30%)
2005/06	27.051	17.286	9.765 (36%)
2006/07	30.334	19.360	10.974 (36%)
2007/08	32.833	25.423	7.401 (23%)
2008/09	33.499	26.109	7.390 (22%)
2009/10	36.545	30.443	6.093 (17%)
2010/11	37.165	29.673	7.492 (20%)

Source: Dumfries and Galloway Council Annual Capital Outturn Reports to Members

52. Slippage in 2010/11 has occurred across a variety of projects including, DDA compliance work, community workshops along with residential childcare projects in both Dumfries and Stranraer. For a number of years the council has carried forward unused capital allocations assuming that these will be utilised in the following year; this has proved to be unrealistic.

Annual capital plans which in themselves have proved unachievable due to factors such as delays in commissioning, tendering and site preparations have themselves been burdened with historic underspent capital programmes; overall slippage has continued to accumulate over time. In response, the council formed a Capital Officers Working Group to review the capital programme and despite their efforts the slippage continued to increase to a level of 20%. For 2011/12 the council has approved the creation of the Capital Investment Strategy Group which will again seek to produce a realistic capital programme and improve approaches to capital planning and monitoring. In addition a review of Professional and Technical Services is being progressed and a Members Scrutiny Group has been created to support engagement on the Council's future capital investment strategy and the SNAPI (Service Needs and Property Issues) Project.

53. Such a significant underspend in the capital programme has caused continued underspending within the council's loan charge budget. During 2010/11 the budget was underspent by £2.407 million. This underspend contributed towards the corporate change fund which was used to partly finance the one off costs associated with staff early retirements. The 2011/12 revenue budget monitoring report (at the end of July 2011) anticipates another in year underspend in loan charges of £1.6million.

54. Members should be presented with corporate capital monitoring reports on a quarterly basis. During 2010/11 this cycle of reporting was not kept and up to date reports on progress against the corporate capital programme were not regularly reported to members. A detailed reprofiling of the capital programme has been undertaken and reported to Members in September 2011. It is essential that this measure is supported through regular corporate capital monitoring reports on an ongoing basis to ensure that progress against the revised plan is regularly reviewed.

Refer Action Plan No. 2

Treasury management

55. As at 31 March 2011, Dumfries and Galloway Council held cash and temporary investments totalling £27.295 million (£36.393 million at 31 March 2010) whilst borrowing fell by £0.537 million to £171.562 million as at 31 March 2011.

56. UK interest rates have been at an all-time low of 0.5% since March 2009. Recent concerns about the strength of the economic recovery in the UK meant that the Bank of England have held rates at this level and whilst it is expected that rates will increase in the medium term rates for borrowing are still low. The council's 2011/12 treasury management strategy includes early borrowing to take advantage of these low interest rates at the start of the year and using variable rate borrowing which is expected to be cheaper than longer term borrowing.

57. Treasury Management is a main financial system which we review every year as part of our controls work and whilst we have concluded that the system can be relied upon to support the financial statements there are a number of controls which should be improved. These include issues regarding adherence to the CIPFA Code for reporting frequencies and the reconciliations of internal systems and the bank position. These issues have been taken

forward as part of our Review of the Main Financial Systems report and improvement actions have been agreed with management.

Financial planning to support priority setting and cost reductions

58. The council has been proactive in preparing financial plans and identifying savings to reflect the reduced local government settlements. In February 2010 as part of the 2010/11 budget setting process the council highlighted the potential for significant future funding cuts of 12% over the period 2011/12 to 2013/14 and sought to develop budget information, human resources and asset management policies to bridge this funding gap.

59. The finance settlement announced in December 2010 saw an overall cut in funding of £9.8million or 3% of the comparable Aggregate External Funding (AEF). While these cuts were significant it was less than the 4% anticipated by the council. The offer was however conditional on Local Authorities agreeing to a number of national policies including:

- A council tax freeze for 2011/12.
- To remain committed to the delivery of the Single Outcome Agreements, the three jointly agreed social strategies and the Curriculum for Excellence.
- Maintaining the number of police officers throughout 2011/12.
- To maintain the pupil / teacher ratio for P1 to P3 pupils.

60. Members considered savings options throughout the duration of the budget setting process. In December 2010 members agreed initial savings of £8.120million with a further £6.984million being agreed as part of the budget setting process in February 2011. In total, agreed savings options of £15.829million including £0.725million contribution from the Police Service were agreed. A balanced budget was set on this basis.

61. The council has made good use of its website to provide public information on the budget setting process and agreed savings options. This has provided clarity of purpose and direction and has furthered the council's position regarding its engagement with residents and providing clarity of decision making.

Workforce reduction

62. To deliver a package of sustainable budget reductions the council originally estimated that staff cost savings would account for 65% of Service Savings (i.e. £8.125million), and that 75% (£6.094million) of these savings would be through severance. Based on a cost/saving ratio of 1.2 it was anticipated that severance costs would be in the region of £7.3million.

63. As at 31 March 2011 104 staff had left the council at a total cost of £4.345million. Of this £2.340 Million was payable to Dumfries and Galloway Pension Fund in the form of strain on the fund with the remaining £2.005 Million paid to individuals as termination benefits comprising lump sums & redundancy payments. During 2011/12 a further 200 members of staff are due to leave the Council under the voluntary severance scheme with the Council having set aside £4.170million in the financial statements to cover the associated cost of these staff leaving. Total staff cost savings approved as part of the 2011/12 budget were

£10.398million (66%), with 78% (£8.134million) being achieved through severance, after taking into account the one-off costs of £8.515million.

64. As at 31 May 2011 a total of 195 staff had left as part of the voluntary early retirement scheme, with the remaining 109 staff due to have left by 31st September 2011.

65. In light of ongoing financial pressures and projected funding gaps there is the continued possibility that the staff costs budget, being the council's highest expenditure item, will be targeted for further review and rationalisation. It is essential that the council keep under review the impact of reductions in staffing on the future provision and continuity of services as well as issues such as staff morale and succession planning.

Partnership working

66. The council has, in their role as part of the Dumfries & Galloway Strategic Partnership, contributed to the drafting of the new Single Outcome Agreement 2011-14. This SOA forms the main partnership planning document for the Dumfries & Galloway region. Progress on the development of the SOA is monitored by the Strategic Partnership at its regular meetings. The Partnership are now undertaking a quality assurance exercise, inviting stakeholders to review the draft document. This exercise will be completed in November 2011.

67. The Strategic Partnership receives updates on progress of shared services initiatives, including projects on Property Services, Human Resources and Transport. The Partnership has agreed to form an Efficiency Working Group to take a more robust approach to securing savings and clear objectives from shared services projects.

68. In July 2011, the council signed a Joint Statement of Intent with NHS Dumfries & Galloway. The statement sets out the intention to form a joint strategy on care for older people in the region, addressing the increasing pressures and long term challenges arising from demographic changes in the region, and reaffirms the council’s commitment to continue successful partnership working with the NHS in Dumfries & Galloway.

69. The council has continued efforts to improve linkages between services and work as part of a Community Health and Social Care Partnership in the region. The Framework agreement was established in 2010 and partnership agreements have been put in place. The joint governance arrangements should facilitate effective partnership working.

Outlook

2011/12 budget

70. The council, like all public sector organisations, faces a very challenging financial climate. Budget savings approved in 2011/12 were £15.829million and are far in excess of the £5.132million of savings identified in the prior year. This requires strategic planning and the implementation of sustainable measures to balance the budget, including rigorous monitoring.

71. The budget reduction measures included within the council's 2011/12 budget were extremely detailed for each service department and included specific service programmes and corporate savings activities.

2011/12 budget reporting

72. The 2011/12 budget monitoring report (to 31 July 201) predicts an underspend of £2million. This is largely attributable to underspending outwith operational budgets including underspends on loan charges (£1.6million) and transfers from reserves (£0.424million) and the capital fund (£0.4million).

73. Within services, both Education and Planning and Environment are anticipating overspends of £0.309million and £0.121million respectively. Although these are early indications of the pressures facing these Services, we are advised that Service Management Teams are fully committed to ensuring that the implementation of tight spending control measures and active budget management will result in expenditure being contained within the allocated budgets by the end of the financial year.

Financial forecasts beyond 2011/12

74. Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. On the 21 September 2011 the Cabinet Secretary for Finance and Sustainable Growth announced details of the Scottish Government’s budget for the 3 year period 2012/13 - 2014/15.

75. One of the key disclosures was that the total revenue settlement for Scottish Local Authorities over the period 2012/13 to 2014/15 will be 'cash flat' meaning that annual settlements will be at the same level, in cash terms, as the 2011/12 funding levels. No additional funding is being provided to support inflationary increases or budget pressures. The Scottish Government estimates that a flat cash settlement equates to a real terms (i.e. inflation adjusted) reduction in the level of funding of 7.5% over the next 3 years. At a local level the council is currently encountering inflation rates well above that level in a range of areas particularly for contracts tied to existing RPI rates (e.g. PPP/PFI).

76. The settlement also highlights that all councils will be required to find funding to support a change fund for 'Reshaping Care for Older People and Early Years/Early Intervention' and it is estimated that the council will need to commit £1.2million, £1.65million and £2.4million from its 'cash flat' budget over the next three years.

77. These announcements along with the potential for local variations in funding mean that the council anticipates the need to deliver savings of £8.1million in 2012/13, £8.7million in 2013/14 and £10.25million in 2014/15. This equates to recurring savings totalling £27.050million over the 3 years 2012/13 to 2014/15. Whilst these figures represent high level estimates at this stage of the budget setting process, the scale and scope of the required savings are clear and represent significant financial challenge for the council over the next

three years. To achieve the scale of the projected savings, members are likely to have to make difficult decisions which may impact on front line services. This will require effective joint working by members which is focused on agreeing policies for the future benefit of Dumfries and Galloway.

Refer Action Plan No. 3

Governance and accountability

78. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

79. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

80. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:

- corporate governance and systems of internal control
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption.

81. In this part of the report we comment on key areas of governance.

Corporate governance

Internal control

82. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

83. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

84. As part of our work, we took assurance from key controls within the council's financial systems, with the controls of three key systems being tested by internal audit as well as their follow up work tested as part of a cyclical programme. The results of our review of key controls were reported to officers in August 2011 and Members of the Audit and Risk Management Committee in October 2011. The identified weaknesses were taken into account in our approach to the audit of the financial statements.

85. The council is to further strengthen its system of internal control by investing in new systems. The council intends to replace its financial management system and has recently undergone a

tendering process to identify a preferred supplier to take this forward. In addition the council continues to revise and strengthen its controls framework for iTrent, the combined HR and payroll system. Our joint review with internal audit on the iTrent system was followed up in 2010/11 and was also the subject of a post implementation review, the results of which are being used to help inform the management of future projects.

ICT, data handling and security

86. Overall, the council makes good use of ICT to support and deliver services. Technology Solutions, the council's ICT service, is continuing to make savings through operational efficiencies and system rationalisation. Future savings are planned through infrastructure reduction associated with the VoIP – Telephony Replacement Project, which will also enable the opportunity for savings from other council services. The need to generate potential cost savings whilst maintaining existing service levels and introducing new technologies will be a major challenge.

87. There have been no major operational problems with ICT during 2010/11. The overall availability was 99.996% and the small level of outages was due to hardware failures and planned upgrades.

Post Implementation Reviews

88. Sound project management can result in a project successfully meeting its project goals and objectives. Project management is a discipline covering: planning, organising, securing and managing resources. Many methods for delivering projects have been developed and used by organisations. Most are based on specifying the project objectives at the start and from these identifying measurable benefits. At the end of a project it is worth establishing whether the objectives were achieved and the anticipated benefits realised.

89. Following the completion of a project it is considered good practice to conduct a review of the project. This is a formal exercise is normally called a post implementation review (PIR). A PIR examines and determines whether the expected benefits from a project have been obtained.

90. During 2010/11 we carried out an overview of the council's approach to carrying out post implementation reviews. This focused on iTrent, Framework i and the setting up of the Monreith data centre. Our review highlighted that while processes were adequate there was some scope for strengthening current PIR approaches by:

    - Ensuring wherever possible that the review is be conducted by someone independent of the project with input from the people involved in the project.
    - Including a timeline outlining the major events for a complex project lasting several years.
    - Clearly highlighting the key messages from the review.

91. The council has approved the expansion of the benefits of the Technology Solutions' Programme Office to support key council programmes and projects. This has seen the

introduction of adoption of a standard framework and increased awareness and understanding of programme and project management more widely across the council.

Data handling and security

92. As highlighted in our 2008/09, 2009/10 and 2010/11 Annual Reports to Members data handling and security receives a lot of public and media attention as a result of a number of national and international incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions, HM Revenue and Customs, and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence, opt out from services, and higher compliance costs due to enforcement action and handling any incident. It should be noted that from April 2010 the Information Commissioner's Office has had the power to fine organisations up to £500,000 for serious data protection breaches.

93. During 2010/11 the council suffered an information security breach. In response to a Freedom of Information (FOI) request the personal information of approximately 900 council employees was included. This information was posted on a popular FOI-related website for 71 days before a council employee notified the council. Action was taken by the council to get the information removed from the website. However, the council cannot be certain of the number of people that viewed the data or if anyone had downloaded a copy of the data from the website. The Information Commissioner has concluded his investigation and whilst weaknesses were noted no fines were levied.

94. In response to the data loss the council commissioned Scott Moncrieff to provide a report into the circumstances surrounding the loss. The report was considered by the Audit and Risk Management Committee in September 2011 where an action plan was agreed to mitigate the risks identified in this report.

95. In October 2008 we issued a report on data handling. The action plan highlighted 11 separate areas of weakness and risk regarding the management of information within the council. When this report was followed-up in August 2009 we found that none of the actions identified had been addressed. This was twice reported to the Audit and Risk Management Committee (in October and December 2009). We conducted a second audit, looking at data handling in greater detail. A further four separate areas of weakness and risk were reported to the council in September 2010 and to the Audit and Risk Management Committee in October 2010. This matter was highlighted in each of our last three annual reports.

96. We note that the council developed an Information Management Strategic Framework in response to our first report. This framework identified a programme of work to address the audit issues and implement effective Information Management.

Prevention and detection of fraud and irregularities

97. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.

98. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy and response plan, codes of conduct for elected members and staff and defined remits for relevant regulatory committees. The council's policy document 'Raising Concerns with the Council' makes reference to whistleblowing and it is important that staff are fully supported in the use of the council's whistleblowing facility with the council's external provider.

99. As in the previous year we have sought specific assurances, through internal audit, from Service Directors regarding the council's handling of financial irregularities. In the current year Service Directors confirmed that there were no significant frauds within any of the council's Services and that they had complied with the council's relevant Financial Codes.

100. During the course of the year and as part of our routine discussions with officers we noted that DGFirst had suffered a theft during March 2010. Four vehicles and a trailer were stolen (which were short term hires, leased or contract hires) along with a digger which was owned by the council and was later recovered undamaged. DGFirst had provided a nil return for financial irregularities for both 2009/10 and 2010/11.

101. The theft within DGFirst was referred to the police for investigation however no insurance claim has been raised due to the policy being voided as a result of the keys being left in the vehicles overnight. The total cost to the council resulting from these thefts totalled £0.053million being the amounts invoiced from the lessee companies. These costs were to be met from the DGFirst's revenue budget which at the year-end was overspent by £0.286million. Steps should be taken to ensure all council assets are held securely.

National Fraud Initiative in Scotland

102. Thus far cumulative outcomes for NFI reviews in Scotland have exceeded £58 million and, for the UK, £660 million. The National Fraud Initiative was rolled out in Scotland as part of 2004/05 audits, principally the audits of councils and police and fire boards. The Scottish Public Pensions Agency, the Student Awards Agency for Scotland and Audit Scotland itself also provided data for the exercise. The exercise was expanded for the 2006/07 NFI project by the inclusion of health bodies and a wider range of datasets.

103. Since then, there has been an exercise covering 2008/09, which has already been reported, and another covering data from 2010/11, which is ongoing. The results of this NFI exercise are expected as part of a national report due in 2012.

The council has demonstrated a good level of commitment to the NFI exercises having established suitable business and management processes meaning that the performance and investigation of data matches has been good. The council's NFI data for 2010/11 showed a total of 2505 matches, of which 472 were classed as matches recommended for investigation. The council is currently reviewing these matches and to date, a total of 2 frauds and 24 errors totalling £0.047 million have been identified. As in previous years we anticipate that officers will provide ongoing reports to Members throughout the current matching exercise.

Best Value, use of resources and performance

104. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.

105. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that audited bodies have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

106. As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:

- a performance audit which may result in the publication of a national report
- an examination of the implications of a particular topic or performance audit for an audited body at local level
- a review of a body's response to national recommendations.

107. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.

108. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

109. This section includes a commentary on the Best Value / performance management arrangements within the council. We also note any headline performance outcomes and measures used by the council and comment on any relevant national reports.

Management arrangements

Best Value

110. The first Best Value audit of Dumfries and Galloway Council was reported in March 2009. The 2009/10 Report to Members assessed the progress made by the council against this report. It found that the pace of change needed to be increased to deliver Best Value. It noted some progress in improving leadership, and budget planning but important corporate areas including performance reporting, workforce planning, and demonstrating competitiveness required further development. In this second follow-up, we have focused the audit on the following areas:

- Political and managerial leadership
- Performance management and improvement
- Resource management areas of people and asset management and the council's commissioning framework

Leadership

111. The corporate management team (CMT) has made good progress in putting measures in place to improve both political and managerial leadership. The political management arrangements allow for collaborative working across political parties. The Leadership Panel introduced in July 2010 allows leaders from all political parties to consider strategic issues and council priorities, and the Budget Development Working Group allows members from all parties to engage in the budget process. The council also operates 'challenge day' seminars to explore specific issues in detail.

112. The council has taken the positive step of carrying out a specific review of the effectiveness of member-officer working relationships drawing on the good practice identified in the Audit Scotland 2010 How Council's Work series regarding roles and relationships. The review found that relationships were professional and constructive and that the introduction of member officer working groups has been beneficial in fostering constructive relationships and engaging members in policy development and other key strategic issues facing the council. Members considered forums that focused on specific issues such as the Budget Development Working Group were more effective than the forums such as the Leadership Panel that considered a range of agenda items. *The council's Leadership Panel is intending to carry out a self assessment of its effectiveness and working practices* Areas identified for further improvement included strengthening trust and respect among members and officers and improving the understanding of members' roles and responsibilities on external bodies.

113. A range of training opportunities are available for members including guidance on performance management and scrutiny, and the council's area framework. However experience shows that the uptake of training by members can be limited therefore reducing the impact of its effectiveness. The Organisational Development Framework (ODF) leadership theme team is considering ways to encourage wider training in competencies and better participation by members in learning and development opportunities. The council signed up with members to new development programme through the Chartered Institute of Personnel and Development with most members now having a personal development plan. A formal induction programme is also being developed for all members following the 2012 election.

114. The CMT has put in place sound measures to strengthen managerial leadership and collaborative working across the-organisation. These include the creation of a Corporate Improvement Team to drive the councils improvement programme, the roll out of leadership development programme; a cross-council forum of senior managers, and a revised appraisal process to give a clearer focus on performance management and employee development.

115. In the run up to the local government elections in May 2012 strong leadership will be essential and it will be vital for all members to work together for the overall benefit of the region. During this time members are likely to be called upon to make difficult policy decisions on the future of services against the backdrop of the need for significant budget cuts.

Performance management

116. The 2009/10 Report to Members noted that performance reporting to committee was limited and that this impacted on the ability of elected members to scrutinise performance. Because of the need to focus on the introduction of the organisation development framework, there was little improvement in the level of performance reporting to members over the year to March 2011 with performance reporting to committee remaining limited and inconsistent. This will have restricted the ability of members to effectively scrutinise performance in the last year. However the work of the ODF teams under the direction of the Assistant Chief Executive has strengthened the council's approach to performance management.

117. A well-structured framework has been introduced for business planning and measuring and reporting performance. This became operational from April 2011 with members approving business plan guidance in February 2011 and business plans in April and May 2011. The guidance is sound and will help to ensure a more consistent approach than had previously been taken. The plans set clear objectives and the performance indicators used in the plans have been approved by service committees. The business plans include workforce information. These provide baseline data which the council recognises will need further development and analysis to develop workforce planning.

118. Performance against the plans is scheduled to be reported to members at six monthly intervals to include the first half year and the final year outcome, with the first round of performance reports due to be submitted to committee in October 2011, including reporting at area committees as part of the revised Area Framework agreed by Council in June 2011. As such it is too early assess the extent to which the agreed performance reporting processes are being applied in practice and the impact this is having on improving members scrutiny and wider performance.

119. The Chief Executive, Directors and Assistant Chief Executive are using progress reports and delivery of performance targets described in business plans as part of the evidence to support regular performance management reviews with senior officers. This information forms part of the evidence for annual appraisal of senior officers and is being built into the current work to revise personal development processes within the Council.

120. Officers have prepared guidance documents for elected members to support them in their scrutiny role. Officers should continue to support members once reporting comes into place, both in challenging the information, and scrutinising the adequacy of plans to improve. This will be critical to ensure that the council meets the fundamental requirement of Best Value to effectively challenge and manage performance.

Improvement

121. The council's Organisational Development Framework (ODF) has been the council's main vehicle for delivering improvement. The ODF included major strategic improvement priorities and also incorporated actions arising from the 2009 BV audit.

122. The ODF has been led by the Corporate Improvement Team with strong input from the Chief Executive, Assistant Chief Executive and service Directors. The ODF themes are led by senior managers each supported by 5 heads of service drawn from across the organisation to communicate and engage with staff more widely.

123. The council has made good progress against its improvement priorities over the last year, including:

- Performance management framework developed, including Business planning guidance and agreed business plans.
- Workforce Strategy approved in July 2011 setting out a vision for improved practice.
- Council-wide appraisal process for staff developed and linked to performance management.
- The Leadership Development Programme in place for senior managers with almost half of the council's 48 senior managers having completed the programme.
- Area and Strategic commissioning frameworks have been developed and are in the progress of being implemented.

124. Going forward members and senior managers should ensure that they manage the impact of the improvement and change programmes on morale and capacity in the organisation. The recent staff survey is a positive move to better engage with employees and should provide valuable management information for assessing and monitoring morale and engagement in the future.

Resource management (People)

125. The council has successfully strengthened its approach to workforce management by the introduction of a number of key requirements of effective staff development and management. A revised workforce strategy was approved in July 2011 which sets out a clear vision for improved people management. Other developments introduced under the people management theme of the ODF include: a revised appraisal process to apply across all employees at all levels, and which includes performance management and development; the council's leadership development programme; staff focus groups to improve communication and involvement. "Values cards" have also been issued to all staff to communicate council priorities and to help to strengthen the council's sense of identity.

126. The council has recently reported on its first full staff survey to be completed for more than ten years. 43% of council staff completed the survey, which was considered to be a positive response rate and in line with other local authority staff surveys. The key findings for the survey included that almost all of the staff (96%) are loyal to the service they work for, with over three quarters (77%) being satisfied with their job. The survey also highlighted that a

third of staff (33%) reported that they didn't received any recognition or praise for doing a good job, that 51% of staff didn't feel secure in their job and that 95% of staff were concerned about the financial challenges facing the council.

127. The council should strive to maintain this pace of change as it continues to implement the strategy. There remain a number of important tasks to complete and focus has been given to developing workforce planning as part of the business planning process as a priority.

Refer Action Plan No. 4

Competitiveness and the Commissioning Framework

128. In December 2010 the Corporate Policy Committee approved the 'commissioning framework' which had been under development since 2008. This sets out the relationship between the council's service committees as commissioners of services, and the delivery bodies who provide the services. Delivery bodies comprise the council's internal service providers such as DGFirst who provide a range of roads, and environmental services, and external providers including private companies and the third sector.

129. Service committees have agreed eighteen strategic commissions including environmental and social care services. These set out a range of performance, costs and competitiveness information. This in turn is used to confirm whether the activity will continue to be provided by the in-house or external delivery body provided that it can demonstrate value for money.

130. The commissioning framework has the potential of being an effective system for the council officers and elected members to formally commission activities, and to challenge whether the delivery arrangements remain competitive. However in this first stage of commissions some of the value for money and comparative performance information is limited or not clearly indicated. There is also limited information on alternative delivery options, especially where the service is already provided in–house and is considered to offer value for money.

131. The council recognises that this is an evolving process. Service managers should ensure that they continue to develop better comparative cost and quality information and ensure that members are informed of the available options for delivering services, along with their advantages, disadvantages and risks.

132. A programme of service reviews is also being drawn up which are aimed at securing savings through better practices and more efficient operations. One of these reviews covers the refocusing of Chief Executive Service and has a target of identifying potential savings of £1.3 million over the next two years.

Asset management

133. The effective management of the council's asset portfolio is essential if the council is to achieve its objectives and get best value from its investment in property and other assets. The current economic climate demands a strong approach to managing assets which is linked and informed by the council's overall priorities and which is supported by good management

information. Improving use of the council's Property management Information System (PMIS) will provide a strong base for delivery.

134. In our 2009/10 final report to members we reported that asset management was still not being carried out at a corporate level and was not integrated with strategic planning. At the time the council recognised this as an important future development to ensure the effective delivery of its corporate priorities and outcomes including managing its significant backlog in property repairs and improving its roads. The council set out an action plan and target for the development of a corporate asset management strategy by September 2011.

135. There has over the last year been limited improvement in asset management. The council's Asset Management Plans are in place but a corporate strategy has yet to be developed. Improvement actions are however currently in progress which should ensure a best value approach to asset planning and management by the council. These include :

- A programme of area based reviews which will analyse service property needs against current levels of provision - the Strategic Needs and Property Investment (SNAPI).
- The further development of the council's Property Management Investment Systems (PMIS) to better support members decisions on the future of the council's assets in conjunction with the implementation by the Improvement Service of a national property information management systems for elected members (ISSYS).
- The provision of a £1 million fund for planned preventative maintenance works.
- The development of a long term council vision for its asset portfolio.
- A review of the professional and technical services.

136. The current review of the council's property needs may identify the need to rationalise properties within communities. This will need strong leadership from senior management and members to make such difficult decisions.

Refer Actions Plan 5

137. There continues to be significant pressures from the backlog in property repairs. The council's Property Asset Management Plan identifies a capital investment requirement of £62.9million for maintenance and £37m for development – therefore total investment need of approximately £100m. The development of PMIS shows that this requires considerable refinement and this work is currently underway.

Refer Action Plan No. 6

Procurement

138. During 2010/11 we carried out a specific follow up audit of the joint Accounts Commission / Auditor General for Scotland report, 'Improving public sector purchasing' which was published in July 2009 and examined the progress and impact of the Public Procurement Reform Programme, which was introduced in 2006.

139. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement. In 2009 the Scottish Government introduced an annual evidence-based

assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. So far two rounds of PCA assessment have been completed (the 2009 and 2010 assessments). In light of the resources available and the proximity of the 2010 review to the reporting and actions from the 2009 review, the council chose not to take part in the second round of PCAs, focusing instead on progressing the planned improvements.

140. The main improvement areas were in procurement leadership & governance and key purchasing processes and systems with further improvements required in the management of demand, contracts and suppliers. The results of the 2009 PCA review identified that the council achieved the required standards in only two of the eight sections (as was the case with nearly all 32 Councils); Key Purchasing Processes and Systems and Procurement Leadership and Governance with significant weaknesses noted in the remaining areas.

141. The procurement function within Dumfries and Galloway Council continues to work towards delivering procurement efficiencies against a backdrop of resource pressures and the need to demonstrate compliance with the good practice arrangements within the PCA. Since its establishment the procurement unit has identified potential savings of £4.5million. However the results of the PCA assessment highlighted that these savings were not delivered within a framework which ‘conforms’ to the good practice guidance. At the time of the first 2009 PCA review the council could not demonstrate that it was a best value[1] council in terms of its procurement function, which was in line with all other Councils at that time. Local Authorities need to achieve a score of 25% or above through the PCA process in order to obtain a ‘conformance’ rating. The council achieved a score of 19% which was below the local government average of 22%, as were 18 other Councils.

142. In response to the assessment the council developed a PCA improvement plan which contains 25 actions covering a number of sections, notably:

- Practices, Processes and Systems
- Strategic Policy and Governance
- Organisation Resources and Skills
- Strategic Sourcing and Collaborative Procurement
- Performance Management and Customer Service

143. In the period since the first PCA exercise the council has put in place an improvement plan to deal with the weaknesses identified. To date progress has been good with a significant proportion of the actions identified being addressed. With the actions being targeted at the establishment of a best value framework the successful completion of these actions represents a starting point rather than best practice being achieved.

[1] Best value as defined as the overall value of results for a superior performing organisation under the McClelland Report, Review of Public Procurement in Scotland - Report and Recommendations, Appendix B

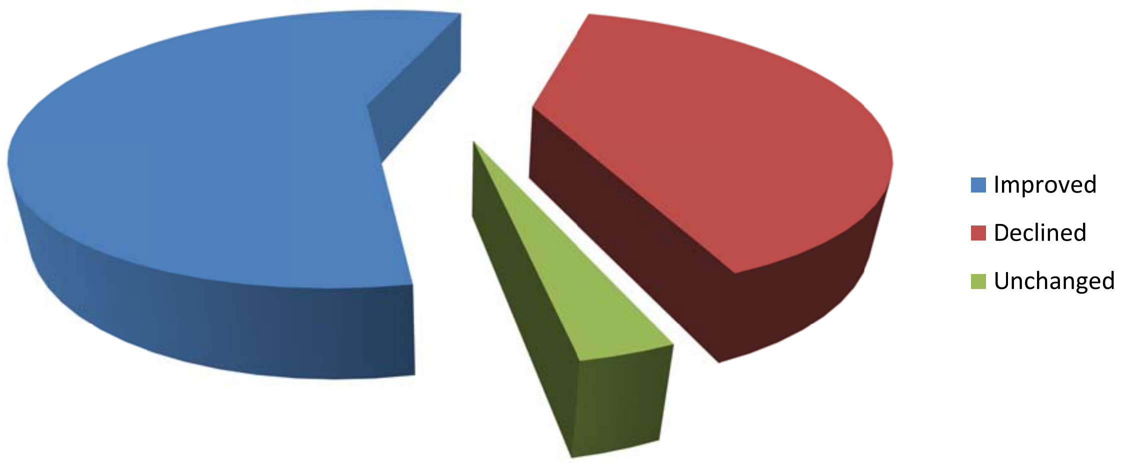
144. The next PCA review is due to be carried out between October and December 2011. The council has indicated that it intends to take part in this review, which will provide an independent appraisal on the progress to date.

Overview of performance in 2010/11

Statutory performance indicators

145. In 2010/11 the council published Performance Indicators covering 21 discrete areas. As reported to the Scrutiny and Performance Committee in September 2011 more indicators were improving than declining. The distribution of current year performance indicators compared with the same indicators for 2009/10 are illustrated in Exhibit 4 below.

Exhibit 4: Improvements demonstrated by SPIs



Source: Dumfries and Galloway Council SPI data returns

146. The improved indicators include the cost of council tax collection per household, council tax collection rates, asset usage and condition, the use of museums, libraries, recycling and cleanliness.

147. Performance indicators which have declined during the year relate to the processing times for planning applications, attendances at sports and leisure management facilities and, with the exception of B class roads, the carriageway condition of the council roads. The reductions in performance are being investigated by the council to establish the most appropriate action.

National performance reports

148. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 5.

Exhibit 5: A selection of National performance reports 2010/11

- The cost of public sector pensions in Scotland
- Scotland's public finances: responding to the challenges
- Maintaining Scotland's roads: a follow-up report
- Physical recreation services in local government
- An overview of local government in Scotland 2010
- Community Health Partnerships
- Improving energy efficiency: a follow-up report
- Transport for health and social care

Source: www.audit-scotland.gov.uk

Scotland's public finances: responding to challenges

149. This report provides an overview of the financial environment facing the public sector in Scotland and the cost pressures currently faced. It outlines what the public sector is doing to respond to current and future budget reductions, and highlights a number of key risks and issues that the public sector needs to manage in responding to the challenges. Key messages in the report include the following:

- The budget reductions affect revenue and capital expenditure differently with the capital budget taking the largest cut in percentage terms.
- The need to reduce costs provides public bodies with an opportunity to reform and streamline public service delivery. However, in doing so, bodies must focus on long-term financial sustainability.
- Pay restraint and reducing workforce levels are the most common approaches being taken by public bodies to reduce costs over the next few years. Good workforce planning is necessary to ensure that the right people and skills are available to deliver effective public services in the future.
- Public bodies are considering how they can work better together to reduce costs. While a number of initiatives are being planned to increase working together, sharing resources and involving voluntary and private organisations, progress to date has been limited.

150. As noted in paragraph 58, the council has been proactive in preparing financial plans and identifying savings to reflect the reduced local government settlements. In recognition of the

difficult financial climate the council has, during the course of the year, put in place a revised budgeting framework to provide a more robust basis for prioritisation, realignment and reduction of expenditure. This process has facilitated the identification of savings options for 2011/12 which has resulted in savings options of £15.827million being identified and taken forward as part of setting a balanced budget.

Maintaining Scotland's roads: a follow-up report

151. This report examines the progress on implementing the recommendations contained in the initial report published in November 2004, with particular emphasis on the change in condition of the road network, current expenditure on road maintenance and management arrangements. Key messages in the report include:

- Limited progress has been made to improve the road networks based on an assessment against the recommendations from the 2004 report.
- The condition of Scotland's roads has worsened since the 2004 report despite public spending rising by around 25 per cent. Only 63 per cent of roads are now in an acceptable condition.
- The present levels of spending are insufficient to maintain Scotland's roads, even in their current condition.

152. The council recognises that the transport infrastructure is probably the most valuable asset under its control both in terms of overall value and it being key to the delivery of essential services within the region and is covered within the Roads Asset Management Plan. The roads network within Dumfries and Galloway is however deteriorating from a 'headline backlog' of £102.4million in 2008, to £105.7million in 2010 to a 2011 position of £116.3million, an increase in backlog of £13.9million over the period. The latest data survey also indicates that 47.2% of the council's road network should be considered for maintenance, a position which has also worsened from 2010 when only 43.6% should have been considered for review. The council's response to the national report was, in May 2011, to request an urgent review of the RAMP improvement plan which has still to be completed.

153. The impact on the roads resulting from the unusually cold winter months is one factor which the council has highlighted as a contributing factor with £2million being required in the current financial year to return the roads to their previous condition before the winter months.

154. In order to halt this deterioration which means keeping the backlog at its current position, the council has estimated that it needs to invest an additional amount in excess of £3million per year in its roads network. In order to significantly reverse the deterioration the council needs to consider additional investment of in excess of £5million per year. As part of the 2011/12 budget setting process the council allocated an additional £0.586million along with another £0.958million from the Scottish Government highlighting that for 2011/12 additional funding of £1.544million would be applied to the roads network.

Refer Action Plan No. 6

Impact Returns

155. Audit Scotland aims to maximise the impact of its work and the extent to which our reports inform improvements. During 2010/11 the council responded to a number of national reports by either submitting them to committee or the CMT for review. During 2010 the council has responded to the following Audit Scotland reports:

- Improving Energy Efficiency
- Children in Residential Care
- Physical Recreation Services
- How Councils Work: Roles and Working Relationships: are you getting it right?

156. The council should continue to review Audit Scotland's national reports and where applicable draw upon the good practice and suggested self assessment checklists to support improvement within the council.

Outlook

157. Strong leadership, performance management and the efficient use of resources will be critical over the coming years if the council is to successfully manage the very challenging demands of future cuts in funding and increasing demands on services. The council has made good progress over the last year in improving its corporate arrangements for best value and has successfully developed the frameworks and processes to support the council going forward. It is recognised that while this is strong start, the improvement agenda has not yet been fully delivered and there is a need, now more than ever, for clear policies and strong political leadership and joint member working for the benefit of Dumfries and Galloway.

Refer Action Plan No. 7

Appendix A: Audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit and Risk Management Committee
Annual Audit Plan – Dumfries & Galloway Council	January 2011	May 2011
Review of adequacy of internal audit	May 2011	May 2011
Review of Preparations for IFRS	May 2011	N/A
Shared Risk Assessment / Assurance and Improvement Plan (presented to joint meeting of Scrutiny Committee and Audit and Risk management Committee)	May 2011	June 2011
Improving public sector purchasing follow-up	September 2011	October 2011
Review of internal controls	August 2011	October 2011
Report to those charged with governance on the 2010/11 audit	September 2011	September 2011
Audit opinion on the 2010/11 financial statements	September 2011	September 2011

Appendix B: Action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	23	**Use of Resource Transfer Money / Local Change Fund** The council has yet to fully utilise the £1.9million set up within a social work services local change fund made up from underspends in resource transfer monies and service reserves. The council has committed to spend £1.280million by the end of March 2012 and the remaining balance of £0.620million by the end of March 2013. **There is a risk that:** The council fails to fully utilise the local change fund in line with the spending plans agreed by members.	Report to Social Work Services Committee on actual spend by year end 2011/12 at earliest opportunity following closure of 2011/12 accounts. Report to Social Work Services Committee on actual spend by year end 2012/13 at earliest opportunity following closure of 2012/13 accounts.	Director of Social Work Director of Social Work	No later than June 2012 No later than June 2013
2	49 to 54	**Capital Investment and Performance** Historic underspends in the capital programme have continued despite a review of the programme by the Capital Officers Working Group. In addition the council	A Capital Investment Strategy Group has been established which has undertaken a reprofiling of existing capital programmes and will seek to improve approaches to capital planning and monitoring. In addition a review of	Head of Finance & Technology	February 2012 and ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		has not regularly reported progress against the corporate capital plan to members during 2010/11 **There is a risk that:** Delays in the completion of capital projects may prevent the delivery of services and delays in the completion of planned maintenance.	Professional and Technical Services is being progressed and a Members Scrutiny Group has been created to support engagement on the council's future capital investment strategy and the SNAPI (Service Needs and Property Issues) Project.		
3	74 to 77	**Economic Forecasts and Budget Pressures** Future revenue settlements for Scottish Local Authorities are to be set at 2011/12 levels with no provision for budget pressures or inflationary increases. In light of this settlement the council calculated the total savings requirement over the period 2012/13 to 2014/15 as £27.050 million with an additional £8.1million of savings required for 2012/13 in order to bridge the funding gap and set a balanced budget. **There is a risk that:** Tighter financial settlements will impact on council's ability to achieve their financial plans and on the	The Council, in June 2011, agreed a budget development process which is being progressed and includes: - a medium term approach to budget setting including the identification of 3 year savings targets, - the identification and development of a range of detailed savings options for the immediate, medium and longer terms supported, where appropriate, through the creation of a Change Fund to facilitate service change and improvement, - the further development of risk/impact assessments and the business planning process to ensure that the development of the	Head of Finance & Technology	February 2012 and ongoing.

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		continued delivery of front line services.	Council's budgets supports the delivery of corporate objectives.		
4	127	**Workforce Planning** The council has strengthened its approach to workforce management, and is focused on developing workforce planning information as part of the business planning process. **There is a risk that:** The council may not make informed decisions on the future of its workforce and fails to adequately plan ahead for future service requirements.	Improved workforce planning information to be included in refreshed business plans in 2012/13.	Head of Organisational Development & Human Resources	April 2012
5	133 to 136	**Asset Management** There has been limited improvement over the last year in the council's approach to asset management. Whilst it is evident that the council is currently analysing its service needs for assets against current levels of service provision the corporate asset management plan does yet not identify the future asset needs and corporate strategy.	A programme of area based reviews which will analyse service property needs against current levels of provision - Strategic Needs and Property Investment (SNAPI). The further development of the Council's Property Management Investment Systems to better support Member decisions on the future of the Council's assets in	Director of Community & Customer Services Director Chief Executive Service	Already commenced 3 year rolling programme. Milestones will be reported to Committee. April 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		Developments are however currently in progress to agree a council vision and review current service needs against current provision. **There is a risk that:** Current improvement plans are not delivered and the planning and management of the council's asset portfolio remains poor.	conjunction with the implementation by the Improvement Service of a national property information and management system for Elected Members (ISSYS). The provision of a £1 million fund for planned preventative maintenance works. The development of a long term Council vision for its asset portfolio. A review of professional and technical services	 Director Chief Executive Service Director Chief Executive Service Director Chief Executive Service	 To be spent by end of March 2012 September 2012 September 2012
6	137 and 154	**Maintenance Backlog within Property and Roads** The council needs to provide significant investment into its roads network and property. There are significant backlogs in its roads maintenance programme (£116.3million) and property repairs (£99.9million). At current investment levels the roads network will continue to deteriorate	In addition to the additional capital investment in Strategic Roads and the recent additional investment in planned preventative maintenance for property and roads infrastructure, the maintenance investment needs for both property and the roads network will be assessed as part of the development of the Capital Investment Strategy.	Director Chief Executive Services / Head of Finance & Technology.	February 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		and there is no long term financial strategy to deal with its property repairs backlog. **There is a risk that:** The council does not address the significant investment needed in the necessary repairs to its roads network and properties.			
7	157	**Best Value Improvement Agenda** The council has made good progress over the last year in improving its corporate arrangements for best value and has successfully developed the frameworks and processes to support the council going forward. However it is recognised that while this is strong start, the improvement agenda has not yet been fully delivered and there is a need, now more than ever, for strong political leadership and joint member working for the benefit of Dumfries and Galloway. **There is a risk that:** Significant budget cuts and pressures on services along with the up and coming May 2012 local government	A review of the operation of the Leadership Panel. The implementation of improvements to the operation of the Member/ Officer Working Groups, following upon the review by the Scrutiny Committee.	Director of Chief Executive Service	Mid July 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		could result in a lack of focus on implementing the corporate improvements and the good progress to date is not continued.			