

Dundee City Council

Annual report on the 2010/11 audit



Prepared for the Members of Dundee City 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

2010/11

We have given an unqualified opinion on the financial statements of Dundee City Council for 2010/11. The accounts were certified by the target date of 30 September. They are now available for publication and are an essential means by which the council accounts for its stewardship of public money.

The general fund recorded a net deficit for 2011/12 of £2.7 million, therefore reducing the balance to £6.8 million as at 31 March 2011. This balance includes earmarked balances of £1.3 million and an unallocated balance of £5.4 million which the Director of Finance considers reasonable in terms of the protocol agreed by the Policy and Resources Committee in 2004.

The total cash backed reserves available to the council have been in decline over a period of time to the extent that the council now has the second lowest useable reserves in Scotland. This limits the scope to manage the financial position in the short term.

The planned capital expenditure for 2010/11 was £108.2 million, but this was reduced by £29.9 million or 27.7% during the year, principally representing slippage on capital projects.

The council's external debt at 31 March 2011 totalled £449.8 million and is forecast to increase. As interest rates rise the cost of this debt will rise and the council will need to monitor its borrowing plans closely to ensure that levels of borrowing remain prudent and affordable in the face of stringent budget cuts.

The council has introduced the Changing For The Future programme to drive forward change, deliver efficiencies and continuous improvement in the face of the budget cuts. The outcomes of the workstreams will begin to materialise in the coming years. Already benefits are being realised from:

- new working practices
- improved asset management
- improved procurement practices

As at 31 March 2011 256 staff had left the council under the voluntary severance arrangements at a cost of £2.826 million but with significant estimated savings in the years to follow (£5.513 million in 2011/12 and £6.633 million per annum thereafter).

When setting the 2011/12 budget the council identified that it needed to make savings of £39.3 million by 2013/14. A balanced budget was set for 2011/12 incorporating in year savings of £14.977 million. The 2011/12 revenue budget monitoring report (to 31 August 2011) predicts an outturn overspend of £0.044 million.

The performance indicators monitored by the corporate scorecard indicate that performance is improving in a number of key areas. Data collated for the Accounts Commission's Statutory

Performance Indicators however suggests that performance is more mixed. However, this may in part be a result of the economic climate. The council has introduced the Public Sector Improvement Framework as its primary self assessment tool and this is now achieving widespread use throughout services.

Outlook

Looking ahead it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending review indicate that significant budget reductions will be required in these years. This view was recently reinforced when the Scottish Government announced its budget plans in September 2011.

In addition, the Audit Scotland Report '*Scotland's public finances: responding to the challenges*' contained a number of vital messages for councils to consider in view of the significant financial constraints now being faced.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of Dundee City Council (the 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) and 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 we focus on the financial statements and any significant findings from our wider review of the 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 action 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 scrutiny committee 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 their attention during their 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, which may be shorter than statutory requirements, 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 foreword by the Director of Finance, annual governance statement, 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 on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of Dundee City Council and its group for 2010/11 give a true and fair view of the state of affairs of the council and its group 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. In addition the Director of Finance has confirmed that to the best of her knowledge and belief, and having made appropriate enquiries of the council's corporate management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no additional matters arising from our audit which require to be brought to the attention of members.

Annual governance statement

12. We were generally satisfied with the disclosures made in the annual governance statement and the adequacy of the process put in place by the council to obtain the necessary assurances.
13. Where an authority has group relations through which it undertakes significant activities the statement should encompass these activities. The council's statement focuses on the wider governance arrangements within Dundee City Council and for other group entities reporting is restricted to the effectiveness of their internal financial controls. As the council seeks to expand its group activities through the creation of Leisure and Culture Dundee it would be

appropriate to give consideration to extending the assurances received from group entities to cover their wider governance arrangements.

Refer Action Plan No. 1

Remuneration report

14. The Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011 introduced the requirement for a remuneration report to be included in the financial statements from 2010/11. This is a significant change to the level of disclosure required.
15. 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.

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 2010/11 Code). We are satisfied that the council prepared the 2010/11 financial statements in accordance with the 2010/11 Code.

Accounts submission

17. The Council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. The accounts were certified by the target date of 30 September 2011 and are now available for presentation to members and publication.

Presentational and monetary adjustments to the unaudited accounts

18. The council has adjusted the financial statements to reflect audit findings. A number of presentational amendments have also been made to help improve the disclosure within the financial statements.

Prior year adjustments

19. The 2010/11 financial statements have been prepared in accordance with the 2010/11 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 resulted in the net asset position of the council as at 31 March 2010 changing from £353.9 million to £463.9 million; however the accounting nature of these adjustments means that there has been no change to the useable reserves of the council.

20. The transition to full IFRS based financial statements was an onerous process and required a significant input of resources by the council. Whilst officers have responded to this challenge it would be appropriate to review the accounts preparation process with a view to ensuring a smoother and less resource intensive process in future years.

Pension costs

21. Dundee City Council is a member of the Tayside Superannuation Fund which is a multi-employer defined benefit scheme. In accordance with International Accounting Standard 19 'Retirement Benefits' the council has recognised its share of the net liabilities of the pension fund in the balance sheet. The valuation at 31 March 2011 provided by the fund's actuaries reduced the council's share of the deficit from £391.5 million last year to £225.8 million this year. The large decrease is primarily due to a change in one of the underlying financial assumptions, with future pensions' increases now linked to the consumer price index (CPI) rather than the retail price index (RPI).
22. The change in assumption is a consequence of the UK Government's announcement that CPI is to be used for the indexation of public sector pensions from April 2011, which is expected to lead to a reduction in pension costs over time. This is reflected as non-recurring income of £83.683 million in the Comprehensive Income and Expenditure Statement. Local government accounting rules mean that this is reversed in the Movement in Reserves Statement, but the council will experience the financial benefit of the change as future contribution rates are set.

Pension fund accounts presentation and disclosure

23. From 2010/11 there is a requirement for a separate annual report and financial statements to be produced for pension funds. A separate annual audit report is therefore being produced for 2010/11 which covers the specific issues relating to the Tayside Superannuation Fund. This report will be completed by the required deadline of 30 November 2011.

Whole of government accounts

24. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council did not submit a validated consolidation pack to the Scottish Government until 4 October, sometime after the deadline of 29 July. It was not therefore possible to complete the audit by the deadline of 30 September. The council should review its arrangements to ensure that the L-pack is submitted in line with Scottish Government Guidance.

Refer Action Plan No. 2

Dundee Energy Recycling Limited

25. Dundee Energy Recycling Limited (DERL), a group company, was established to construct and operate a Waste Energy Plant. The plant was taken over from the construction contractor on 31 March 2000. Since that date there has been a divergence of accounting policy regarding the plant, property and equipment which results in the assets being accounted for

by both the council and DERL in their individual financial statements. This necessitates an adjustment in the group accounts to eliminate double counting.

26. The determination of the appropriate accounting treatment is not a clear cut matter and our discussions with the council's officers on this matter have been on-going for some time without resolution. In our view it is unusual that the assets are accounted for on different bases and are recognised in both balance sheets.

Operating lease disclosures

27. The council has not provided the full disclosure requirements in respect of its role as lessor in a number of operating leases for properties. Officers in the finance section have agreed to liaise more closely with staff in the city development department to ensure that the necessary information is available in future years.

Provision for future contract losses

28. The council has made provision (£355k) for future contract losses by Dundee Contract Services. Whilst we were able to satisfy ourselves that the provision is appropriate the work required to verify the sums involved was complicated by the absence of comprehensive and clear working papers.

Outlook

29. In April 2010 a new regulatory incentive known as the Carbon Reduction Commitment Scheme (CRC) was officially introduced by the UK Government. The CRC is intended to have a significant impact on reducing UK carbon dioxide (CO₂) emissions by encouraging energy efficiency in large public and private sector organisations. The council is required to purchase allowances for all of the CO₂ emitted from its non-domestic properties. The requirement to purchase these allowances creates an incentive for the council to reduce its carbon footprint, including initiatives such as the use of photovoltaic cells to provide power to council buildings.
30. 2010/11 is the CRC's "footprint year" and no allowances need to be purchased. The council reported its emissions for this footprint year to be 38,083 tonnes of CO₂. 2011/12 will be the first year that participants will be liable to purchase CRC carbon allowances. The allowances for emissions in 2011/12 will be available for purchase from the government some time between April 2012 and July 2012. Using the footprint year's emissions figure and a cost of £12 per tonne as an example the cost to the council of its CO₂ emissions will be £0.457 million. It is intended that the scheme will run indefinitely, therefore budgetary provision will require to be made for the annual purchase of carbon allowances.

Audit appointment for 2011/12

31. Audit appointments are made by the Auditor General or 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. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the auditor for the Council will be KPMG

LLP. As this is the last year of our audit appointment, we would like to acknowledge the good working relationship that existed during our current appointment term with the Council and thank officers and members for their assistance during the last five years. We will be meeting with the incoming external auditors, KPMG LLP, as part of a managed changeover process.

Financial position

32. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
33. 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.
34. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

35. In 2010/11 Dundee City Council spent £578 million on the provision of public services resulting in net surplus on the provision of services of £36.624 million. The budget for 2010/11 was based on a Band D council tax of £1,211 with a planned contribution of £0.757 million from the general fund.

Budgetary control

36. The movement in reserves statement shows an actual reduction of £2.742 million on the general fund balance over the year against a final budgeted deficit after in year revisions of £1.711 million. A net overspend on the provision of council services arose due to a number of over and underspends within departmental budgets. Significant overspends were incurred by Social Work (£2.514 million) and City Development (£2.392 million). Underspends by Waste Management (£0.697 million), Central Support Departments (£0.953 million) and Other Housing (£0,776 Million) helped to reduce the overall impact.

Financial position

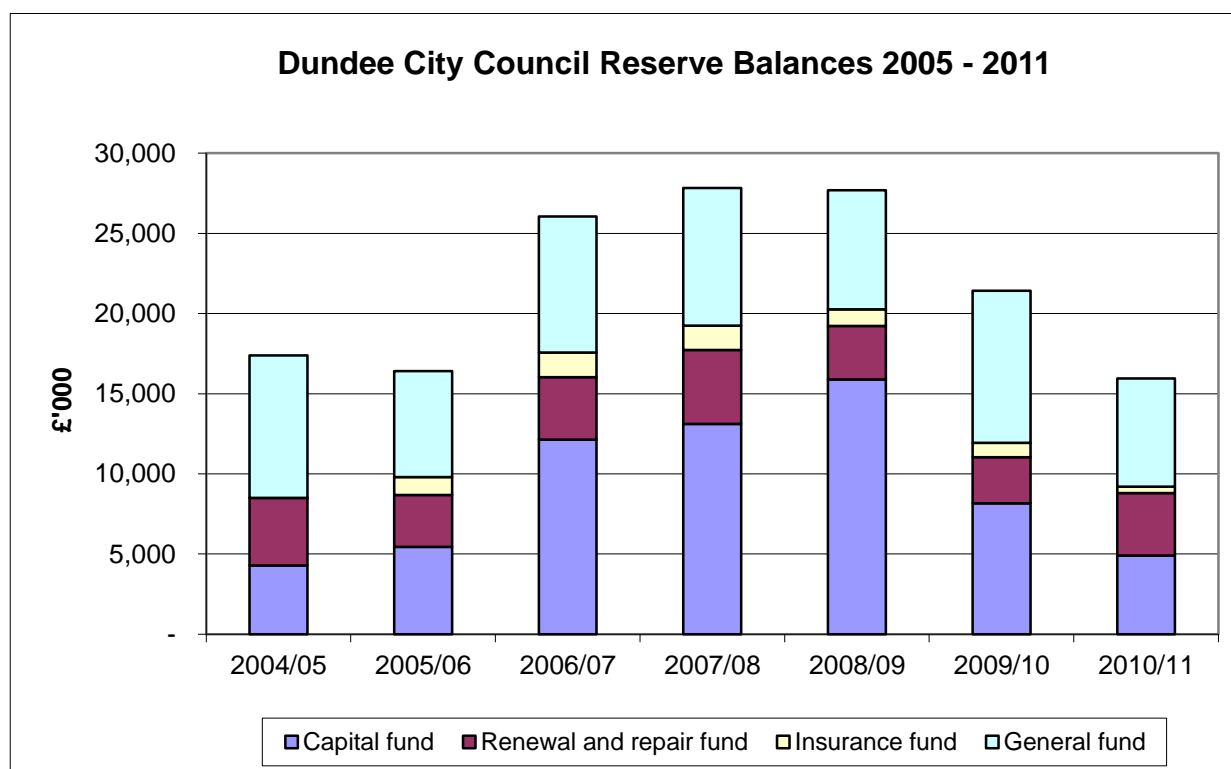
37. Exhibit 1 shows the balance in the council's funds at 31 March 2010 compared to the previous year. The funds include capital fund which may be used to defray capital expenditure or repay loan principal and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets. At 31 March 2011, the council had total cash backed funds of £16 million a reduction of £5 million on the previous year.

Exhibit 1: Reserves

Description	31 March 2010	31 March 2011
	£ million	£ million
General Fund	9.5	6.8
Capital Fund	8.1	4.9
Repair and Renewal Fund	2.9	3.9
Insurance Fund	0.9	0.4
Total	21.4	16.0

Source: Dundee City Council 2010/11 Audited Financial Statements

The general fund recorded a net deficit of £2.7 million for 2010/11 resulting in a year end balance of £6.8 million which equates to 2% of the council's net expenditure. Of this balance £1.3 million has been earmarked for existing expenditure commitments (£0.5 million), the devolved school management balances held by individual schools (£0.3 million) and car parking (£0.5 million).

Exhibit 2: Cash backed reserves

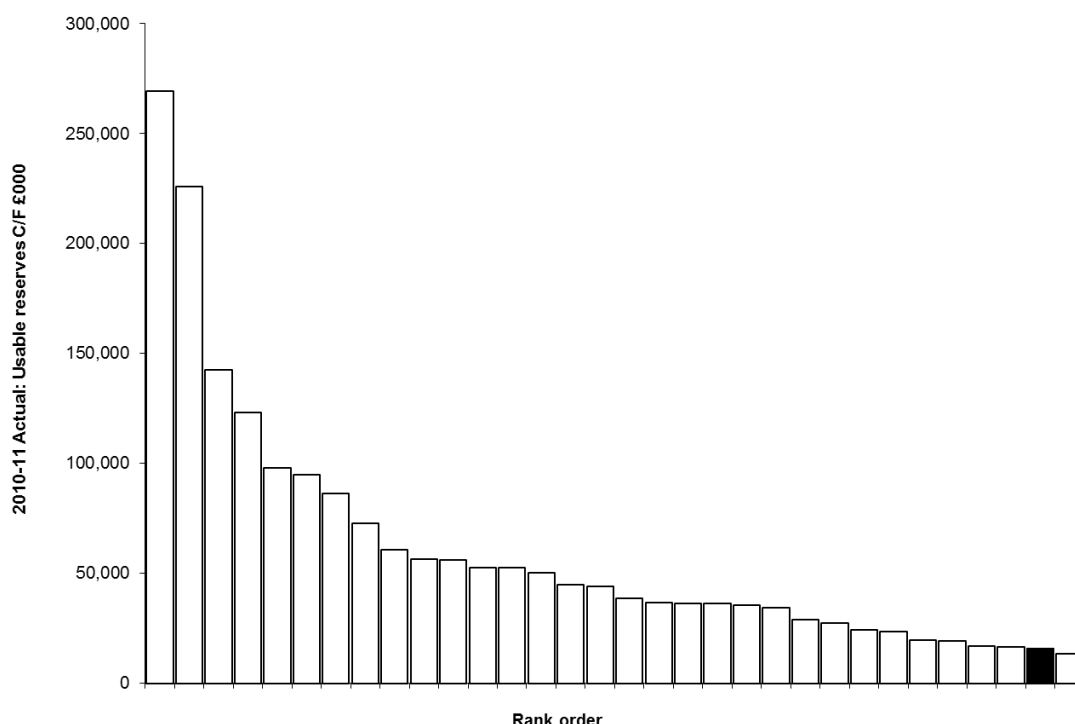
Source: Audited Financial Statements

38. Exhibit 2 shows the make up of the council's cash backed reserves since 2004/05. Increasing financial pressure on the public sector has meant that the council has had to manage its overall financial position tightly over this period. (The reduction in the capital fund is largely

due to the planned use of this fund to help finance the Dundee House project.). Data collected by Audit Scotland shows that the council has the lowest level of useable reserves of the city authorities and the second lowest of all Scottish local authorities. (exhibit 3)

39. The impact of public expenditure cuts is placing local authorities under increasing financial pressure. Reserve levels provide some scope to manage the financial position in the short term. However, as reserve levels fall the opportunity to use the balances to manage any significant reductions in income or recurring expenditure become more limited.

Exhibit 3: Total useable reserves carried forward



Source: Audit Scotland data returns 2010/11 Audited Financial Statements

40. A suite of financial indicators has been developed in consultation with the CIPFA Directors of Finance working group. 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. In future years the Director of Finance is to consider reporting these indicators as part of the financial statements.
41. For 2010/11 Audit Scotland is compiling the financial indicators, and they may be published in the Local Government Overview report for 2010/11. However they are not yet available to include with this report, as they are based on the audited financial statements for all councils. The indicators will be issued to the council separately for consideration.

Capital investment and performance 2010/11

42. The 2010/11 financial statements detail capital expenditure of £81.995 million, split between the housing programme and the general services programme. The housing programme includes areas such as new house building, external upgrading, energy efficiency and meeting the Scottish Housing Quality Standard. The general services programme includes investments on improving primary and secondary schools, leisure facilities and the Waterfornt project.
43. The planned capital expenditure for 2010/11 was originally £108.200 million but this projection reduced by £29.945 million (27.7%) to £78.255 million by 31 January, representing slippage on capital projects, the majority of which reflects deferred starting dates within the schools refurbishment programme.

Exhibit 4: Sources of finance for gross capital expenditure 2006/2011

	2006/07	2007/08	2008/09	2009/10	2010/11
	£M	£M	£M	£M	£M
Borrowing	28.4	15.1	23.3	41.0	52.5
Fixed Asset Disposal	14.0	14.8	4.8	9.5	5.3
Government Grants	15.9	20.0	20.0	20.1	23.0
Revenue	3.1	1.4	(2.7)	0.7	1.0
Other	.0.3	0.3	0.7	0.1	0.2
	61.7	51.6	46.1	71.4	82.0

Source: Audited Financial Statements

44. The trend in capital investment and sources of funds is reflected in exhibit 4 which shows the continuing decline in the funds from disposal of fixed assets due to the current economic climate and trend towards increased borrowing as funds from other sources decline. Government finance has remained stable over the last few years but the availability of future finance from this source is uncertain in the light of cuts to the Scottish Government's budget. The council will face some challenging decisions in order to ensure that future borrowings remain affordable and sustainable in the face of substantial cuts to expenditure and the planned programme of capital projects.

Treasury management

45. As at 31 March 2011, the council held cash and temporary investments totalling £6.2 million (£0.6 million 31 March 2010). The continuing fragility of the economic climate means that interest rates remain low - the council received £0.4 million in investment income this year

compared to £0.8 million last year and £3.4 million in 2008/09. Although a recovery in interest rate levels is predicted this is in the medium rather than the short term and heavily dependent on the rate and strength of recovery in the economy.

46. As at 31 March 2011 the council's borrowing totalled £449.8 million an increase of £34.2 million from the prior year total borrowing of £415.7 million. Of the increase, £36.1 million related to new borrowing; this was offset by a reduction of £2.2 million in the PPP debt outstanding. The council has more than 90% of its debt at fixed rates on loans which will require to be repaid or replaced in future years. As interest rates recover the cost of debt is likely to rise and the council will need to monitor debt levels closely to ensure that they remain prudent and affordable in the face of stringent budget cuts.

Refer Action Plan No. 3

Financial planning to support priority setting and cost reductions

47. The council has built on the progress made in previous years in delivering savings. In setting the 2011 budget the council agreed to freeze its council tax whilst finding savings of £14.977 million to meet known spending pressures and planned growth. Revenue monitoring statements for the period to 31 August currently anticipate and overspend of £0.044 million on the revenue budget, with the Housing Revenue Account set to break even.
48. The *Changing for the Future* strategy is beginning to deliver savings as the outcomes of workstreams are identified and implemented. The council's Annual Performance Report 2011 highlights that the council delivered efficiencies of £4.518 million in 2010/11 with a further £14.977 million identified in setting the 2011/12 budget.

Asset management

49. The council's approach to asset management in previous years has been reactive and has lacked a corporate approach. Whilst this has delivered benefits, particularly through the recent review of office accommodation and the subsequent move to Dundee House, there are greater benefits to be achieved through proactive management of the asset base.
50. The council's Corporate Asset Management Strategy 2011-2015 was approved in March 2011. This strategy aims, through a better planned alignment of assets with service demand, to achieve the best possible match of assets with the council's service delivery strategies. It will guide the acquisition, use and disposal of assets to make the most of their service delivery potential and manage the related risks and costs over their entire life. The Corporate Asset Management Strategy is a key component in the delivery of the Changing For The Future Programme and the council should seek to ensure that it is fully in place by the October 2011 target.

Refer Action Plan No. 4

Procurement

51. 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 the PCA have been completed. In 2010 the council's overall score was 33% which is rated as conformant and represents a marked improvement on the prior year score of 23% (non-conformant) and is above the Scottish average. Exhibit 5 details the year on year improvement in each of the PCA themes.

Exhibit 5: PCA results - individual themes

Procurement Theme	2009 Actual (%)	2010 Actual (%)	Scottish Local Authorities Average 2010 (%)
Leadership & Governance	33	43	38
Strategy & Objectives	38	50	43
Defining the Supply Need	7	20	23
Commodity/Project Strategies & Collaborative Procurement	31	41	32
Contract & Supplier Management	13	11	17
Key Purchasing Processes & Themes	21	39	36
People	22	24	38
Performance Measurement	17	20	21
Overall	23	33	32

Source: Scottish Government Procurement Capability Assessments

52. During 2010/11 we undertook a review to assess the council's progress in addressing the findings of Audit Scotland's Report "*Improving public sector purchasing*" (July 2009). Our review highlighted that the council was continuing to make progress through initiatives like the Tayside Procurement Consortium (TPC) and the move towards centralised control over procurement.
53. We also identified some areas where further scope existed for improvement. In particular we noted that systems have not been developed to monitor and report savings achieved

compared to planned savings, and to monitor the actual timescales against planned time scales for procurement projects. We also noted that there was no documented action plan to facilitate delivery of the TPC procurement strategy in the council. The findings have been discussed with officers and an action plan agreed.

Refer Action Plan No.5

Workforce reduction

54. In February 2010 the Policy and Resources Committee approved the introduction of a Voluntary Early Retirement scheme for teaching staff to deliver budget savings, assist in the reduction of excess staffing numbers in schools and facilitate restructuring of the workforce. In-year savings of £300,000 were achieved from the departure of 90 teachers, 8 of whom were not replaced.
55. In April 2010 the council decided to introduce a similar Voluntary Early Retirement/Voluntary Redundancy scheme for non-teaching staff approved to support the delivery of efficiencies and the introduction of improved working practices and restructuring of services.
56. At 31 March 2011 256 staff had had applications approved at a net cost in 2010/11 of £2.826 million. Estimated costs savings arising for future years as a result of these redundancies are £5.513 million in 2011/12 and £6.633 million from 2012/13 onwards.
57. The council has approved the extension of both schemes into 2011/12 with the non-teaching staff scheme being targeted towards initiatives arising from the Changing for the Future programme.

Changing for the future

58. In August 2010 the council launched its Changing For The Future programme. The programme aimed to transform the council and the way it delivers services through taking forward a programme of 33 work streams. In addition to the outcomes highlighted above under the headings procurement and workforce reduction the programme has resulted in some key changes including:
 - the phased implementation of a new streamlined organisational structure
 - the introduction of an "arm's length" Scottish Charitable Incorporated Organisation (Leisure and Culture Dundee)
 - the introduction of new working practices such as hot desking and flexible working
 - improved usage of council premises at Dudhope Castle and Claverhouse (shared with NHS Tayside) and the move to a new headquarters at Dundee House.

Partnership working

59. The Dundee Partnership brings the council together with key local partners including Scottish Enterprise, NHS Tayside and Tayside Police as well as local academic institutions and representatives of the business, voluntary and community sectors to deliver community planning objectives and support the economic and physical regeneration of Dundee.

60. The Community Plan has been published as the Single Outcome Agreement 2009-2012 and the Single Outcome Agreement Delivery Plan 2010-12 ensuring that local aspirations are clearly linked to national outcomes.
61. The partnership publishes performance information through an annual report for detailing progress towards delivering desired outcomes. In the 2009/10 report the partnership also highlighted the progress made in addressing issues arising from the Accounts Commission's Best Value 2 report on Dundee City Council (published March 2010). These include the inclusion of elected members from the council and board members from other primary community planning partners on the Partnership Management Group, streamlining of the Fairer Scotland Fund into a 3 year area based programme to continue to tackle inequality and deprivation and a new co-ordinated model for community engagement and impact assessment of local community planning partnerships.

Outlook

2011/12 budget

62. The council, like all public sector organisations, faces a very challenging financial climate. The council has identified that it needs to make £39.3 million in savings in the period 2011 - 2014. £14.977 million of savings were subsequently identified and agreed in setting the 2011/12 budget. To achieve that will require strategic planning and the implementation of sustainable measures to balance the budget including rigorous monitoring.
63. When setting the 2011/12 budget the council identified savings of £14.977 million the bulk of which (£4.088 million) will be delivered from the education budget. On 10 February, the council set a balanced budget of £356.824 million net expenditure whilst maintaining the council tax levels at those of the prior year.

2011/12 budget reporting

64. The 2011/12 revenue monitoring report (to 31 August 2011) shows a projected overspend of £0.044 million on the general fund budget and a break-even position on the housing revenue account.
65. A detailed analysis, however, shows that across departments performance against budget is variable with some overspends, in particular, Social Work (£1.961 million) and City Development (£0.223 million) being offset by significant underspends such as Finance Revenues (£0.250 million), capital financing costs/interest on revenue balances £0.800 million and additional Council Tax income (£0.800 million).

Financial forecasts beyond 2011/12

66. Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years. The council will need to look ahead to 2012/13 onwards with the

focus on an outcome based approach to service delivery. Continuing to deliver public services with a reducing budget will be a significant challenge for the council.

Refer Action Plan No. 6

Governance and accountability

67. 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.
68. 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.
69. 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
70. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

71. Effective scrutiny is pivotal to good performance, with a significant role for elected members to scrutinise performance, hold management to account and support the modernisation agenda. The Council has nine standing committees with oversight for, City Development, Development Management, Education, Social Work and Health, Environment, Housing, Licensing, Policy and Resources and Scrutiny. With the exception of the Licensing and Scrutiny committees which have eight members, all members sit on all committees.
72. The Policy and Resources Committee is the pivotal committee with responsibility for the development, implementation and monitoring of corporate policies and plans, including the council's role in Community Planning. It is also responsible for setting the Council Tax and consideration of the annual and three year revenue and capital budgets and monitoring and review of revenue and capital expenditure during the year.
73. The Scrutiny Committee's responsibilities include an annual review of the council's corporate governance arrangements; scrutinising, reviewing and examining reports and action plans relating to service delivery and corporate policy; the examination and review of external inspection reports, and the consideration of internal and external audit reports.

74. The Best Value 2 report highlighted that member scrutiny of decision making and performance needed to improve. The council has responded to this through a single Scrutiny Committee. There remains scope for further improvement and the Scrutiny Committee would benefit from an annual work plan to ensure that it has adequate scope to consider all aspects of its remit.

Internal control

75. 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.
76. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect to ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
77. As part of our work, we took assurance from key controls within the council's financial systems. The results of our review of key controls were reported to the Scrutiny Committee in October 2011. In general we found the level of internal control to be adequate. Some minor weaknesses were identified and these were taken into account in our approach to the audit of the financial statements. Areas where improvements in control could be made have been highlighted to officers and action plan agreed.

ICT data handling and security

78. As part of our audit work we conducted an overview of the council's arrangements for the creation of its new data centre in Dundee House. Our work included a review of the project documentation, a visit to the new data centre and a meeting with key project staff. At the time of our visit on 5 May 2011, the data centre had yet to be handed over to the council.
79. The new data centre is a core element of the council's long term plan to increase the resilience and efficiency of its information systems. The completion of a second modern data centre should greatly reduce the risk that physical damage disrupts core information systems, representing a strategic asset for the council. The data centre project is an independent component of the Dundee House programme and was on track at the time of our audit and was professionally managed by the council with an appropriate level of outside support. We would draw attention to two risks
80. Although council officers are experienced in project management, the project team were unable to provide us with a comprehensive document setting out the scope, objectives, methodology and timings of the data centre project. Furthermore, no written memorandum of the objectives and procedures for testing was available during the audit. While we recognise that preparing documentation takes time, the council needs to consider the benefits of having robust, well-maintained documentation in place. For example:

- using checklists to ensure that all hardware tests are complete helps to ensure consistency of approach and demonstrate work done to management
- developing and reviewing test plans can improve testing by ensuring appropriate test coverage
- written test plans and the recording of test results can assist the correction of any faults encountered
- detailing the planned infrastructure set-up within the data centre could, in the long term, save time in locating software or cables.

In addition, formal review of plans and results can improve the quality of the work performed.

81. The business aim of the new data centre is to improve resilience. Regular updates to the council's computer service disaster recovery plan were suspended while project work was in progress, and with the completion of the new data centre, the current plan will become out-of-date. Documented plans are essential to respond appropriately to incidents, both at the high level of responsibility and management, and at the detailed level of technical counter-measures and procedures. Major changes to ICT infrastructure should always result in a review of affected business continuity plans.
82. The findings identified have been discussed with officers and an action plan agreed.

Prevention and detection of fraud and irregularities

83. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
84. 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, a whistle blowing policy, codes of conduct for elected members and staff. There were no referrals to the Standards Commission during 2010/11 in respect of members of Dundee City Council.

NFI in Scotland

85. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud.
86. The current round of the NFI is being carried out under new powers approved by Scottish Ministers in terms of the Public Finance and Accountability (Scotland) Act 2000 (as amended) and which came into force from 20 December 2010. These provide for greater collaboration with other UK agencies to detect "cross border" fraud, extend the range of public sector bodies involved, and allow data matching to be used in the detection of other crimes in addition to fraud.

87. The council has made steady progress in investigating data matches highlighted in the 2010/11 data matching exercise and is on target to complete the work by the 31 May 2012 deadline.
88. Audit Scotland's report '*The National Fraud Initiative in Scotland - making an impact*' (May 2010) highlights that much of the information used in the last NFI round (2008/09) was collected before the economic recession really took hold. An economic downturn is commonly linked to a heightened risk of fraud and irregularity and public bodies should remain vigilant.

Standards of conduct and arrangements for the prevention/detection of bribery and corruption

89. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in Dundee City Council are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Roles and relationships

90. During 2010/11 the council reviewed its organisational structure and reduced the number of departments from ten to six. In addition there have been a number of changes in key officer roles with the retirements of the Assistant Chief Executive, Director of Education and the Heads of Waste Management and Environmental Health and Trading Standards. The new structure is being phased in and will be fully in place by 1 April 2012.
91. The Scottish Government issued a revised Councillors' Code of Conduct in December 2010. The principal changes included clarification of the rules on registration and declaration of interests, and the new decision-making procedures for planning applications. The council should ensure that the existing Code of Conduct has been appropriately amended and members briefed as to the impact of the changes on their responsibilities.

Refer Action Plan No.7

Best Value, use of resources and performance

92. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value. .
93. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
94. As part of their statutory responsibilities, the Auditor General and 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.
95. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments
96. 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.
97. This section includes a commentary on the Best Value/ performance management arrangements within the council. We also note any headline performance outcomes/ measures used by the council and any comment on any relevant national reports.

Management arrangements

Best Value

98. Best Value 2 is the next phase of Best Value audit. It uses a more proportionate and risk based approach, founded on a shared risk assessment process involving other inspectorates. It is more focussed on impact and outcomes and designed to provide a more rounded view of partnership working in a local area and the difference it is making.
99. Dundee City Council was chosen as one of five pathfinder sites for the BV2 audits and the findings of the audit were reported in March 2010. A number of recommendations were made and an improvement action plan agreed to address the areas raised.

100. In March 2011 the Chief Executive and the Leader of the Administration wrote to the Accounts Commission to provide an update on progress towards the implementation of the agreed improvements. A number of key changes were highlighted, including:
- follow-up reports by HMIE on child protection and by the Scottish Housing Regulator had been positive
 - a new Integrated Children's Services/Getting It Right For Every Child framework has been launched
 - a business plan is in place for the Adult Support and Protection Committee and partnership development is taking place
 - the Curriculum for Excellence is being delivered in consultation with all relevant partners
 - a Corporate Improvement Programme has been agreed and a Corporate Improvement Team established
 - elected member (and partner board member) representation on the Dundee Partnership has been agreed and implemented
 - the lead role for the Single Outcome Agreement outcomes has been allocated the strategic theme groups and performance reporting arrangements have been agreed
 - the process of carrying out Public Sector Improvement Framework self assessments is underway
 - improvements have been made to the Online Plan and Performance Monitoring databases which will enhance future progress reports to members
 - meetings are taking place with partners to explore the potential for shared services
 - options for alternative service delivery models are being considered
 - equality impact assessments are being carried out and published.
101. In all it was identified that progress was being made and that of the 45 actions in the plan 23 had been completed, 17 were on schedule, 5 were behind schedule and 1 had been superseded.
102. The Changing For The Future programme with its 33 workstreams seeks to drive change in response to the current economic climate and takes on many of the themes from the improvement plan and is critical to the council's future ability to deliver Best Value. Elected members should take a keen interest in the progress of this programme, monitoring it on a regular basis to ensure that all workstreams remain on target and that the desired outcomes are realised.

Refer Action Plan No. 8

Self evaluation arrangements

103. The council adopted the Public Sector Improvement Framework (PSIF) as its primary means of self evaluation in 2009. The PSIF is a corporate tool for self-assessment and is used in all services to evaluate and challenge performance and improvement through reporting to the Policy and resources Committee.

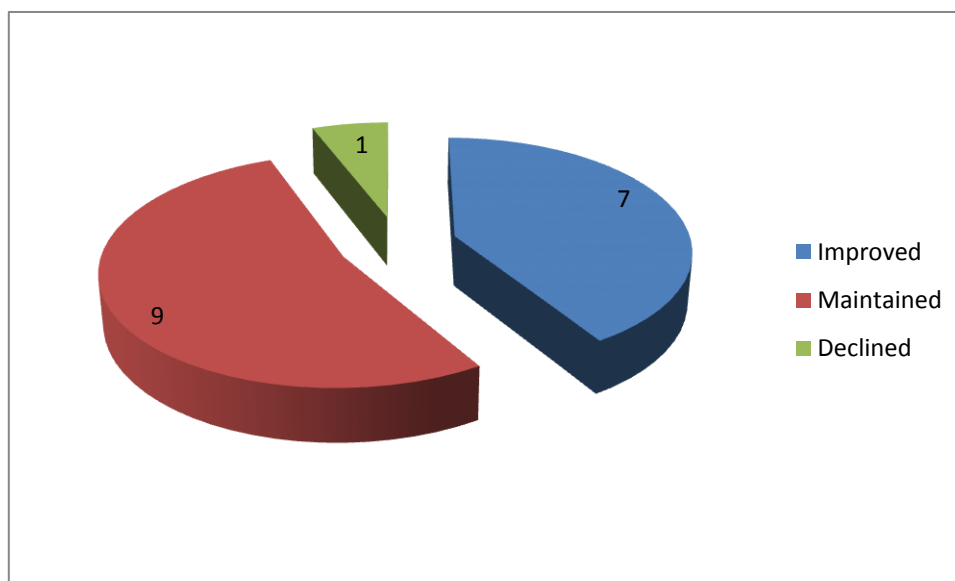
104. Some service departments supplement this activity by using other professional frameworks such as the Care Inspectorate (formerly SCSWIS) self-assessment in Social Work services, How Good Is My Council (HGIMC) in Community Services.

Overview of performance in 2010/11

Performance measurement outcomes

105. The council's performance measures are recorded in an on-line performance database which provides trend information over time and comparison with neighbouring councils. A corporate performance scorecard is reviewed by both senior officers and members quarterly. This draws on a number of statutory performance Indicators and elements of self assessment. The scorecard is seen to be an essential tool in maintaining and improving performance.
106. Exhibit 6 summarises progress in 2010/11 in the 17 indicators measured through the corporate score card and reported in the Performance Report 2011.

Exhibit 6: Corporate performance scorecard 2010/11 - direction of travel



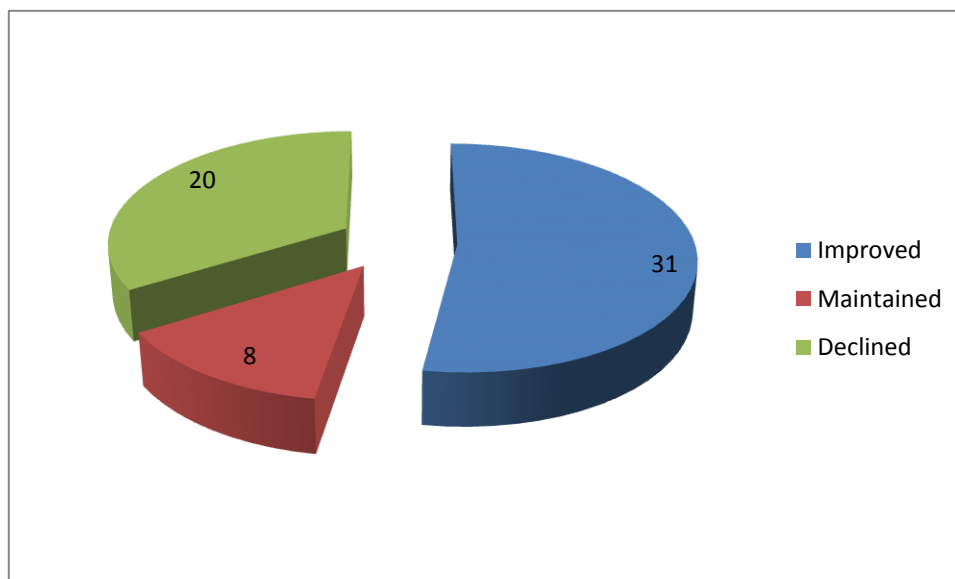
Source: Dundee City Council Performance Report 2011

107. Some of the improved measures of performance achieved in 2010/11 include:
- the percentage of planning applications dealt with within two months
 - the number of museum visits (due to the re-opening of the McManus Gallery)
 - reduced sickness absence amongst both teaching and non-teaching staff
 - the number of pupils from publicly funded schools moving into further education

Statutory performance indicators

108. In 2010/11, the Accounts Commission collated data for a total of 59 SPIs for Scottish local authorities. These indicate a more mixed picture of performance. Exhibit 7 below illustrates.

Exhibit 7: Improvements demonstrated by SPIs (Total 59 indicators)



Source: [Client] SPI data returns

109. The improved indicators include sickness absence levels, equal opportunities, processing of planning applications and housing quality. The declines were observed in housing repair response times, managing tenancy changes, letting dwellings, some aspects of rent collection and carriageway condition. In part some of the housing letting and rent collection indicators reflect the economic climate which has increased demand whilst reducing the overall ability of tenants to pay rent on time.

National performance reports

110. 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 8.

Exhibit 8: A selection of National performance reports 2010/11

- Scotland's public finances: responding to the challenges
- How councils work: an improvement series for councillors and officers - Arms-length external organisations
- The cost of public sector pensions in Scotland
- An overview of local government in Scotland 2010
- Community Health Partnerships
- Physical recreation services in local government
- Maintaining Scotland's roads: a follow-up report
- Improving civil contingencies planning - Impact report
- 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 the challenges

111. 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 budget reductions affect revenue and capital expenditure differently with the capital budget taking the largest cut in percentage terms
 - public bodies are finding it difficult to plan beyond 2011/12, as they do not have a clear view of their budgets beyond 2011/12. (The Scottish Government published detailed spending plans for years 2012/13 to 2104/15 in September 2011 which should support the preparation of future plans.)
 - 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.
112. As noted at paragraph 97 above, the Changing For The Future programme seeks to drive change in response to the current economic climate. The programme includes a range of modernisation and corporate led initiatives designed to help the council achieve its target of £39.3 million savings over the period 2011/12 to 2113/14.

Maintaining Scotland's roads: a follow-up report

113. This report examines the progress on implementing 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
 - the condition of Scotland's roads has worsened since the 2004 report despite public spending rising by around 25%. Only 63% of roads are now in an acceptable position
 - present levels of spending are insufficient to maintain Scotland's roads, even in their current condition.

114. The report also highlights that whilst there are significant benefits to be derived from neighbouring councils having a shared local road maintenance service, (e.g. through improved demand forecasting, better supply chain management, reduced maintenance costs, efficient use of labour and expanded plant and equipment), Tayside Contracts is the only existing council consortium of this nature.

Outlook

115. There are currently no plans for any best value work in Dundee City Council] over the next three years. However, the Assurance and Inspection Plan does include activity by other scrutiny bodies over the next three years including:

- SHR – Follow-up of Housing Management and Asset Management improvement (2011/12)
- Care Inspectorate – Joint inspection of services to protect children and young people (CP2), including Adoption and Fostering (2010/11).

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 Scrutiny Committee
Annual Audit Plan – Dundee City Council	21 April 2011	
Assurance and Improvement Plan	26 May 2011 2011	9 May 2011*1
Preparedness for the Implementation of IFRS	21 June 2011	
Corporate Governance report	30 September 2011	26 October 2011
Review of the management of redundancy and early retirement	27 October 2011	
Report on financial statements to those charged with governance	27 September 2011	
Audit opinion on the 2010/11 financial statements	30 September 2011	

*1 Policy and Resources Committee

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	27	<p>Group assurances</p> <p>As the council seeks to expand it's group activities through the creation of Leisure and Culture Dundee it would be appropriate to give consideration to extending the assurances received from group entities to cover their wider governance arrangements.</p> <p><i>Risk. The council is exposed to reputational risk or financial loss arising from inadequate governance arrangements in group entities.</i></p>	Consideration will be given, where appropriate, to extending the assurances received from group entities to cover their wider governance arrangements.	Director of Finance	30 June 2012
2	Error! Reference source not found.	<p>Whole of Government Accounts</p> <p>The council should review its arrangements to ensure that the L-pack is submitted in line with Scottish Government Guidance.</p> <p><i>Risk - The delay in submission of the L-pack impacts on the delivery of the national Whole of Government Account.</i></p>	The delays in submitting the L-pack were largely due to the complexity of the form arising from requirement to prepare IFRS transition information. This will not be an issue in future years and the L-pack is submitted in line with Scottish Government Guidance.	Director of Finance	End July 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3.	46.	<p>Borrowing</p> <p>The council has more than 90% of its debt at fixed rates on loans which will require to be repaid or replaced in future years. As interest rates recover the cost of borrowing is likely to rise and the council will need to monitor future borrowing levels closely to ensure that they remain prudent and affordable in the face of stringent budget cuts.</p> <p><i>Risk: The rising debt burden impacts on the provision of frontline services.</i></p>	<p>The Treasury Management Strategy for the Council sets limits on fixed and variable interest rate exposure and on the maturity structure of fixed rate borrowing to mitigate against interest rate risk and refinancing risk. Any future borrowing for capital requirements is evaluated for its revenue consequences as part of the annual and longer term budget planning process.</p>	Director of Finance	N/a
4.	50.	<p>Corporate Asset Management Strategy</p> <p>The Corporate Asset Management Strategy is a key component in the delivery of the Changing For The Future Programme and the council should seek to ensure that it is fully in place by the October 2011 target.</p> <p><i>Risk: The council incurs unnecessary costs through the inefficient use or holding of assets.</i></p>	<p>The Council's ownership of assets can be categorised into six keys areas :</p> <p>Buildings and Property (Lead Officer Colin Craig)</p> <p>Roads Infrastructure (Lead Officer Fergus Wilson),</p> <p>Council Housing (Lead Officer Elaine Zwirlein),</p> <p>Open Space (Lead Officer Ken Laing),</p> <p>Vehicle Fleet (Lead Officer Ken Laing),</p> <p>Information and</p>	Director of City Development	31 December 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			<p>Communications Technology (Lead Officer Ged Bell)..</p> <p>The asset plans for Council Housing and ICT have been finalised. The other asset plans are targeted to be completed by 31 December 2012.</p>		
5.	53.	<p>Procurement</p> <p>Good progress has been made in improving procurement practices but there is still scope for further improvement.</p> <p><i>Risk: The council suffers from reputational or financial loss if it fails to achieve best practice in procurement.</i></p>	<p>A corporate approach to procurement improvement has been adopted, with the procurement project forming part of the Changing for the Future programme and project management arrangements. TPC Strategy 2011-2014 approved. Cascade of strategy and objectives to be made via Procurement Implementation Team. Procurement Organisation proposals to be submitted to CFTF following detailed evaluation. Regular tracking report to be developed to monitor both planned and actual procurement savings achieved by</p>	Director of Finance	<p>Director of Finance</p> <p>May 2012</p>

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			each department. It is envisaged this new system will be deployed early 2012.		March 2012
6.	66.	<p>Financial forecasting</p> <p>The council will need to look ahead to 2013/14 onwards with the focus on an outcome based approach to service delivery. Continuing to deliver public services with a reducing budget will be a significant challenge for the council.</p> <p><i>Risk: The council fails to identify opportunities for savings or threats from increasing costs.</i></p>	The Council will continue to develop and refine its long-term Revenue Budget model in light of latest assumptions on funding levels, inflation, service costs etc. Performance management will continue to be driven by outcome considerations.	Chief Executive / Director of Finance	On-going
7.	91.	<p>Roles and relationships</p> <p>The council should ensure that the existing Code of Conduct has been appropriately amended and members briefed as to the impact of the changes on their responsibilities.</p> <p><i>Risk: The council and/or members suffer reputational loss if they fail to understand fully their responsibilities under the code.</i></p>	Draft revised Code of Practice issued to elected members. The Council is awaiting guidance from the Standards Commission, which will be incorporated into the Code of Conduct. This guidance is currently subject to consultation. The updated Code of Conduct will be issued to elected members once it becomes available, and will be included in	Depute Chief Executive	Dependant on Standards Commission

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			new Standing Orders.		
8.	102.	<p>Changing For The Future</p> <p>Elected members should take a keen interest in the progress of this programme, monitoring it on a regular basis to ensure that all workstreams remain on target and that the desired outcomes are realised.</p> <p><i>Risk: The benefits of the Changing For The Future programme are not realised in full.</i></p>	<p>Procedures are being put in place to track project through to full implementation and ensure benefits are fully realised.</p> <p>Revenue Budgets will be reduced accordingly to reflect the efficiencies identified. Regular progress reports are submitted to the CFTF Board.</p>	Chief Executive / Director of Finance	On-going

Appendix C: Financial ratios

Reserves

Uncommitted general fund reserve as a proportion of annual budgeted net expenditure

Movement in the uncommitted general fund balance

Council Tax

In-year collection rate

Ratio of council tax income to overall level of funding

Financial Management

Actual outturn net service expenditure compared to budgeted net service expenditure

Actual contribution to/from unallocated general fund balance compared to budget

Debt/Long Term Borrowing

Capital financing requirement for the current year

External debt level for the current year

Ratio of financing costs to net revenue income

Impact of capital investment on council tax and weekly rents