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West Dunbartonshire Council

Annual audit report to the members of West Dunbartonshire Council and the Controller of Audit

Year ended 31 March 2011

5 October 2011

Contents

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About this report
This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice*.

This report is for the benefit of West Dunbartonshire Council and is made available to the Accounts Commission and Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

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Executive summary

This report concludes our appointed five year term as external auditors of the Council.

We would like to take this opportunity to thank members and employees of the Council for their cooperation and assistance over this period.

Strategic objectives and risks

The Council faces a number of key risks related to the achievement of its strategic objectives. In line with its updated medium and long term financial strategy, to achieve its financial and strategic objectives management has progressed plans for the Council to:

- establish a leisure Trust;
- undertake a partial housing stock transfer to local registered social landlords; and
- raise capital through an income securitisation project.

The Council has also recently taken the decision not to participate further in the Clyde Valley shared services project as members did not believe this currently represented value for money for the Council.

Financial statements

Following approval of the financial statements of West Dunbartonshire Council by the executive director of corporate services on 30 September 2011, we issued an audit report expressing an unqualified opinion on the financial statements for the year ended 31 March 2011.

The *Code of practice on Local Authority Accounting in the United Kingdom 2010* ("the Code") for 2010-11 *was* based upon International Financial Reporting Standards (IFRS) for the first time. As part of the transition to IFRS, there was a requirement for the Council to restate the 2009-10 accounts to provide prior year comparatives on an IFRS basis. We worked with management to agree a number of presentational adjustments in order to comply with these requirements.

The quality of information provided by the finance team has been good, and improving, in line with progress in this area over prior years. In our report to those charged with governance we have, however, made recommendations to enhance the efficiency of the financial statements production process.

Use of resources

For the year ended 31 March 2011, the Council's outturn on its general fund balance was an increase of £6.5 million against the budgeted in year surplus. As a result, uncommitted reserves increased from £3.4 million (2009-10) to £4.7 million (2010-11), which represents an increase from 82% (2009-10) to 112% (2010-11) of the Council's prudential reserve target.

A revenue budget of £239.5 million has been set for 2011-12. This budget includes £6.6 million of management adjustment savings and £5.4 million of council approved savings in order to achieve a balanced budget. The approved savings are being monitored by the Strategic Finance Working Group. As at period four in 2011-12, the outgoing chief executive has indicated that additional significant savings have been identified and will be transferred to the contingency fund.

Governance and performance

The chief executive of the Council retires from his post on 31 October 2011, on completion of his five year fixed term appointment. The Council has recently appointed the incumbent executive director of corporate services as its new chief executive going forward.

The statement on internal control highlights the recent realignment of the Chief Executive's departmental structure to incorporate audit, risk and performance management and has reviewed its risk management processes during the year. The content of the statement is consistent with our understanding of the Council.

Internal audit's annual report, submitted to the audit and performance review committee, confirms that "reasonable assurance can be placed upon the adequacy and effectiveness of West Dunbartonshire Council's internal control system in the year to 31 March 2011".

Overall, our testing, combined with that of internal audit, over the design and operation of controls over significant risk points confirms that controls are generally designed appropriately and operating effectively, with no significant control weaknesses identified.

Headlines

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice*. This specifies a number of objectives for our audit.

This report summarises our work for the year ended 31 March 2011.

We wish to record our appreciation of the continued co-operation and assistance extended to us by Council staff during the course of our work.

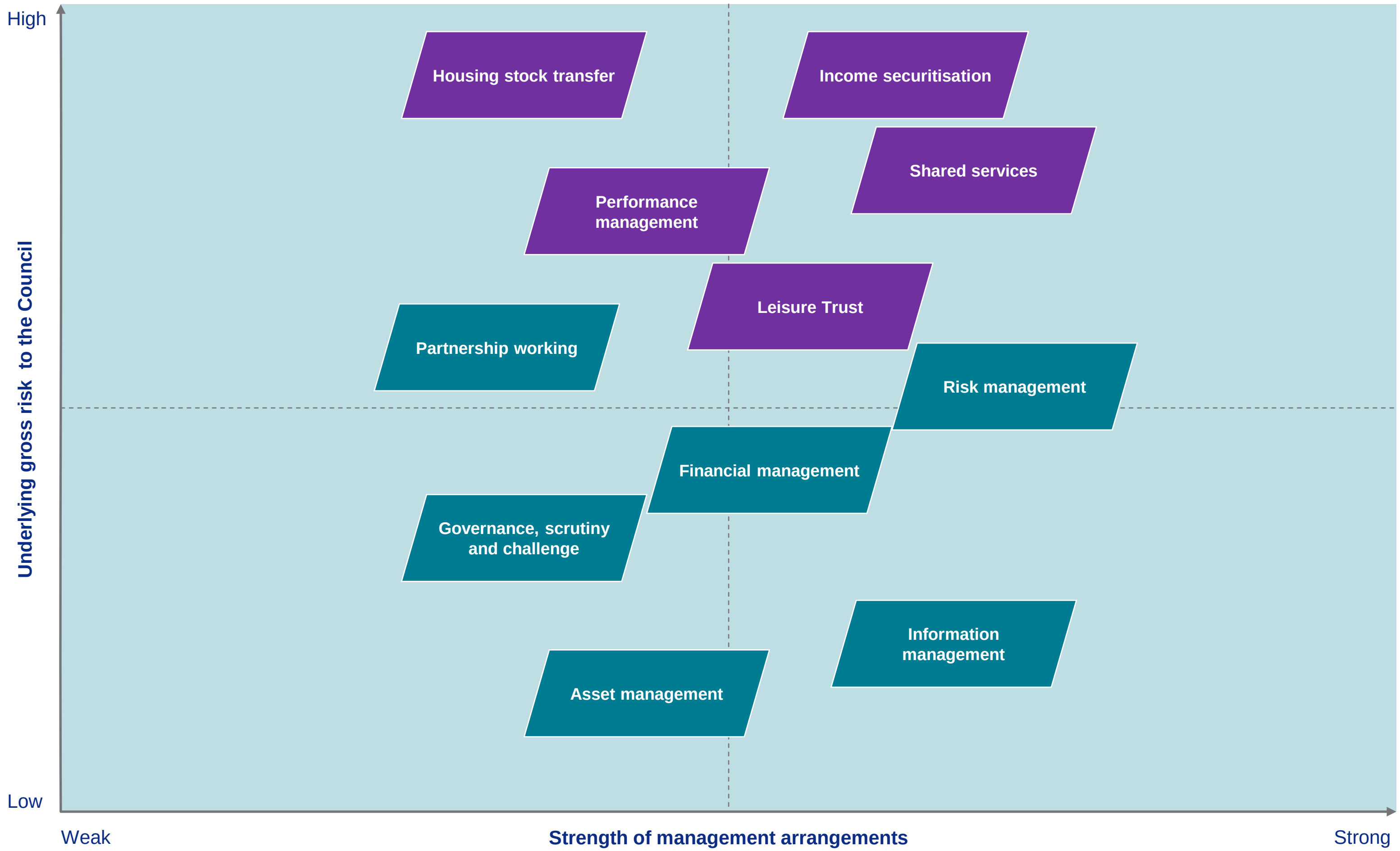
The action plan in appendix one includes two recommendations, none of which are considered to be 'high' risk.

Strategic objectives and risks	
The Council faces a number of key risks including: shared services, income securisation, leisure Trust and housing stock transfer.	Page 4
Financial statements	
We have issued an unqualified audit opinion in respect of the 2010-11 financial statements.	-
A number of technical accounting matters were considered during the audit process; and we have made a number of recommendations for improvement within our report to management.	Page 7
Use of resources	
The Council reported total comprehensive income of £108.8 million for the year ended 31 March 2011. This included a one-off past service credit of £53.8 million as a result of the change in inflation assumption from RPI to CPI for pension liabilities, plus actuarial gains of £50.6 million. Overall, the Council's net pension liability reduced by £101.3 million.	Page 11
Uncommitted general reserves increased by £1.3 million to £4.7 million. This is in excess of the Council's target level of £4.2 million.	Page 12
The Council has achieved the statutory target of generating revenues not less than expenditure over a rolling three year period for its significant trading operations.	Page 13
The Council has identified the continuing need for significant levels of savings in respect of future years.	Page 15
We assessed management's response to Audit Scotland's national reports for reports issued during the year, including targeted follow-up of reports on procurement and waste management.	Page 16
Governance and performance	
There have been no significant changes and the statement on internal control continues to confirm the existence of a framework of internal control.	Page 17
Internal audit completed their plan and did not report any significant risks or recommendations.	Page 17
Arrangements to prevent and detect fraud are embedded in internal controls, including processes to comply with requirements in respect of the National Fraud Initiative.	Page 18
Internal audits scrutiny of performance reporting ensures that, so far as practical, the performance information published is accurate and complete.	Page 19

Summary of arrangements

Competing risks and pressures continue to present new and recurring challenges.

The diagram summarises the potential underlying risks to achievement of strategic objectives, compared to the strength of management arrangements to mitigate these risks. The following pages summarises those areas where we believe that significant risks are inadequately managed, together with those where management arrangements are likely to mitigate or eliminate these risks to a greater or lesser extent.



Assessment of significant risks

The Council has withdrawn from the Clyde Valley Shared services project. Management should investigate alternative forms of shared services to gain operational efficiencies.

Significant risks remain in respect of the achievement of the Scottish Housing Quality Standard. The Council is progressing its plans for partial housing stock transfer.

The income securitisation will lead to a significant amount of capital being raised. Key steps in the process still need to be carried out.

Shared services	The Clyde Valley Community Planning Partnership (CVCPP) is composed of all local authorities and community planning partners in the Clyde Valley area. The CVCPP commissioned an independent review of Joint Working and shared service opportunities early in 2009 lead by Sir John Arbuthnott. The review sets out a framework for joint working and shared services. Ten work streams were identified and assessed as having the greatest potential to deliver efficiencies. An outline business case was developed by the CVCPP and the Council agreed in January 2011 to continue to take part in the further development of detailed business cases in four specific areas.	In August 2011 the Council agreed to withdraw from the shared services project as it was considered that the proposal did not represent Best Value for the Council. Management believe that it can continue to achieve efficiency savings internally to meet its future budget gap. Management believe efficiencies can be gained by looking at 'best in class' performers in other authorities to consider what the Council can do differently.
	■ In our view significant risks still exist to achieving required future efficiency savings. While actions have been identified to meet these savings requirements, further work is required to bring these to fruition.	
Housing stock transfer	In April 2009, the Scottish Government provided approval of the Council's Scottish Housing Quality Standard (SHQS) standard delivery plan which assumed that 45% of the housing stock would be transferred to alternative social landlords. Management has progressed the housing stock transfer project during the year. In October 2010 the Housing, Environment and Economic Development (HEED) committee approved four stock transfer package areas. Subsequently, the Council received six expressions of interest from registered social landlords (RSL's). In June 2011, the HEED committee approved the transfer price of the packages and has invited RSL's to submit their business plan proposals. The committee also approved a delay to the ballot to allow RSL's and tenants further time to prepare and discuss the plans. A tenant vote on the stock transfer is now expected later in 2012.	We previously reported that there is a risk that tenants vote against the housing stock transfer (either in one transfer area, a number of transfer areas, or in full). It is important that the Council has alternative plans it can put in place to ensure delivery of the SHQS by the deadline date. These alternative plans will involve the investment required for the Council to bring the housing stock to standard being funded through increases in rent charges to tenants. Management have noted that they are aware of this risk and have been considering plans in the event that the ballot is not approved. The stock transfer is included and being monitored as part of the Assurance and Improvement Plan (AIP).
	■ In our view significant risks exist, and continuing work is required to ensure that sufficient actions have been identified which are likely to mitigate these risks.	

Assessment of significant risks (continued)

Leisure Trust	During the year the Council has progressed plans to establish a Leisure Trust in West Dunbartonshire. Outline plans were discussed in March 2010 and in October 2010 the operating model was approved in addition to initial set-up cost of £130,000. The approved model with involve the transfer of the Council's three leisure centres and community facilities, excluding libraries, to the Trust. It is expected that savings of £615,000 per annun will be realised through a reduction in non-domestic rates and VAT cost.	Management expects that the Leisure Trust will be established in April 2012. In recent years a number of authorities have implemented leisure trust models. Our experience of this sector notes that the anticipated savings may not be fully realised, at least initially.
	■ In our view risks still exist to achievement of the expected budgeted savings, and management should continue to ensure that the costs involved in operating the Trust are fully considered and closely monitored.	
Income securitisation	The Council has been developing an income securitisation project over the last year. In January 2011 the Council noted the initial details of the proposal and approved the preparation of a detailed business case. This involves the creation of a limited liability partnership owned by Council that will borrow against the future income from the Council's non-operational estate. Management expected that up to £35.1 million could be raised and would be repaid over 25 years. Annual rental income of £2.7 million would be removed from the Council's general fund and so any projects to be funded by the capital raised must aim to improve services, provide better value for money and reduce longer term revenue costs. A further report was presented to Council on 29 June 2011. This provided detail on 13 projects identified as meeting the required criteria. At this meeting, Council agreed that detailed business cases on these projects should be brought back to Council by the end of 2011. Council did agree to move forward as quickly as possible on one project in respect of an energy / wind turbine. Funding for this project was to come from the Council's separate modernisation fund.	Management has developed outlines business cases for several investment projects to utilise the funding from this project. These projects have been scrutinised based on an agreed assessment criteria and Council has approved the progress of projects to detailed business cases. Management is also in the process of tendering for a partner to fund the project. Key decisions will need to be taken prior to commencing the project including: creating the limited liability partnership; appointing financial partner and approving the investment projects.
	■ In our view significant risks exist, but actions have been identified which are likely to address these risks.	

Financial statements preparation and audit process

2010-11 was the first year the Council was required to prepare accounts in accordance with International Financial Reporting Standards.

A number of technical accounting matters arose in relation to conversion to IFRS and accounting for retirement benefits which have had a significant impact on the financial position at 31 March 2011.

Technical accounting issues

Conversion to IFRS

The 2010-11 accounts have been prepared in accordance with the *Code of practice on Local Authority Accounting in the United Kingdom 2010 ("the Code")* which is based upon International Financial Reporting Standards (IFRS). As part of the transition to IFRS, there was a requirement for the Council to restate the 2009-10 accounts to provide prior year comparatives on an IFRS basis.

- Management had considered our recommendations in respect of IFRS conversion from our report dated 15 April 2011.
- We reviewed the accounting policies prepared by management and suggested a number of enhancements. We also recommended revisions to the layout, presentation and disclosures in the accounts to ensure compliance with the Code.

Retirement benefit assumptions

The UK government announced on 8 July 2010 that they would in future use the consumer prices index ("CPI") in place of the retail prices index ("RPI") as the index for determining pension increases for public sector pension schemes. We understand that this will affect minimum required increases, applying to both current and future pension payments.

- We considered the Local Authority Accounting Panel (LAAP) bulletin (number 89) which set a presumption that the change in inflation measure would be accounted for as a change in benefit with respect to local government pension schemes.
- We are satisfied with management's assessment that scheme members expected inflationary increases to be in line with RPI and therefore that the change be accounted for as a change in benefits in the comprehensive income and expenditure statement.
- The statement of comprehensive income and expenditure includes a credit of £53.8 million in respect of the change in pension benefits from RPI to CPI.

Financial statements preparation and audit process (continued)

Management anticipated risks around property, plant and equipment; audit adjustments were required and matters were concluded in a timely manner.

Recommendations have been separately reported to management in our ISA260 report.

Areas of HIGH audit risk

Area	Value (£'000) 2010	Value (£'000) 2011	KPMG comment
Property, plant and equipment	714,945	738,288	Management obtained a valuation of properties on a rolling basis in addition to newly acquired assets and assets where there was an indication of a change in value. Revaluation of operational properties resulted in a net upward revaluation of £14 million. There were also impairments identified by management of £9.6 million. The Council has £13.1 million of surplus assets at the year end. These are defined by the Code as assets that are surplus to service needs but are not being held for investment purposes or held for sale. ■ We met with management and the internal valuer to discuss the valuation process, methodology and significant changes in the valuation of specific properties in conjunction with input from Audit Scotland and KPMG's internal valuation experts. ■ We considered the internal valuer's approach to the valuation of assets measured at depreciated historic cost basis and their assumptions and are satisfied with the valuation basis adopted in the financial statements. ■ We considered the classification of these assets through discussions with finance and estates staff in addition to the valuation basis of these properties and are satisfied with their classification and valuation. ■ Adjustments were made that increased the revaluation reserve by £1.1 million and recognised additional impairment to the statement of comprehensive income of £1.2 million. There was no impact on the general fund balance. ■ Financial statement disclosures in this respect are complete and accurate. ■ We included a recommendation in our ISA260 report that finance and estates staff consider the changing requirements of the Code when preparing valuations, to ensure that these remain appropriate.

Financial statements preparation and audit process (continued)

Management anticipated risks around the remuneration report; audit adjustments were required and matters were concluded in a timely manner.

Areas of HIGH audit risk			
	Value (£'000)		
Area	2010	2011	KPMG comment
Remuneration report	n/a	n/a	The *Local Authority Accounts (Scotland) Amendment Regulations 2011* require the Council to provide a remuneration report as part of its annual accounts for the first time. Under the regulations councils are required to disclose the remuneration and pension benefits for senior councillors and senior employees of the Council and its subsidiary bodies, together with details of the Council's remuneration policy or the role it has in determining such a policy. ■ We considered the requirements of the regulations in addition to guidance provided by LAAP bulletin (number 88). We discussed enhancement to the presentation of the report in addition to the inclusion of details on exit packages provided. ■ We are satisfied that the contents of the remuneration report meet the Regulations' requirements.

Financial statements preparation and audit process (continued)

Systems and controls

Preparation of the financial statements

- Unaudited accounts and supporting documentation were provided on 30 June 2011 which was in line with the agreed timetable.
- We worked closely with management to obtain relevant supporting documentation and explanations which were provided in a timely manner, though there is some scope for further information to be available in advance of year end audit fieldwork.
- Following discussions in advance of the year end audit, the majority of information was made available electronically and the format, structure and detail of information provided was good.
- Narrative statements were provided at the same time as the unaudited accounts and were complete and consistent with our understanding of the Council. This allowed the unaudited accounts to be made available for public inspection, in line with statutory requirements.
- A number of audit adjustments were made to the unaudited accounts. The total impact on the year end general fund balance was to increase these balances by £1.8 million. Management has earmarked this increased balance for anticipated expenditure in 2011-12. In addition, there were a number of changes to the presentation of the accounts in order to comply with the requirement of IFRS. There is scope for enhancement of the year end accounts production process by ensuring that that the unaudited account incorporate all guidance and working papers clearly support the accounts.
- Overall, management's approach to preparing the accounts is considered to be efficient, although we have made recommendations in our report to those charged with governance to further enhance the process.

Financial position

Financial position – general fund

The Council's general services budget was approved by members in January 2010 at £249.2 million, to be financed by income from council services, including the budgeted surplus on the Council's trading operations, with the balance met by revenue support grant, non-domestic rates and council tax. The actual general services position is monitored throughout the year in order to manage any significant under / over spends by departments.

The surplus on provision of services arose due to the £53.8 million past service credit in respect of the change from RPI to CPI. The surplus includes actuarial gains on the pension scheme of £50.6 million contributed to the other comprehensive income.

As local authorities are tax-raising bodies, they are subject to specific rules as to how tax rates are to be set in relation to the income and expenses of the authority. These rules differ substantially from the proper accounting practice used in preparation of the statement of comprehensive income and expenditure account. The applicable Statutory Regulations, require that the surplus on services is adjusted through the movement in reserves in line with guidance issued by CIPFA / LASAAC.

After accounting for statutory adjustments, the result for the year increased total general fund balances by £8.3 million. Management has earmarked £7.0 million of this increase for specific purposes.

Statement of comprehensive income and expenditure	**General fund**	**Other reserves**	**Total**
	£000	£000	£000
Surplus on the provision of services	46,360	(7,164)	39,196
Other comprehensive income and expenditure	-	69,579	69,579
Total comprehensive income and expenditure	**46,360**	**62,415**	**108,775**
Adjustment required between accounting basis and funding basis	(38,880)	38,880	-
Transfers to / from capital	839	(839)	-
Result for the year	**8,319**	**100,456**	**108,775**
Reserves brought forward	6,648	219,308	225,956
Reserves carried forward	**14,967**	**319,764**	**334,731**

Financial position (continued)

A significant in year surplus against budget of £6.5 million was achieved, which included the budgeted surplus of £0.3 million. The in-year surplus against budget was achieved through continued strict expenditure control and close budget monitoring. These actions have resulted in a significant improvement in the Council's unrestricted reserves.

The level of earmarked reserves has also increased by £7.0 million. This increase is primarily from the application of £4.4 million of consent to borrow for equal pay being earmarked to the modernisation fund with expenditure of £0.6 million incurred in the year.

In addition, the Council also received £1.0 million of supporting people grant funding late in the year which was not anticipated and has been earmarked to be spent in future years.

As part of the audit process we identified that management had provided for the increased staff cost arising from single status appeals (£1.6 million). This did not meet the criteria to be accounted for as a provision under IAS 37 *provisions, contingent liabilities and contingent assets*. We also identified that the Council should recognise an amounts repayable from Strathclyde Partnership for Transport (£0.2 million) for its share of the subway modernisation contributions.

The combined effect of these audit adjustment has increased general fund balances by £1.8 million. Management has chosen to earmark these balances in full.

General fund balances	Un-earmarked balances	Earmarked balances	Total general fund
	£000	£000	£000
General fund balance at 31 March 2010	**3,376**	**3,272**	**6,648**
Budgeted surplus for the year	250	-	250
In year surplus above budget	6,290	-	6,290
Increase in provisions	(2,983)	-	(2,983)
Accelerated payments to the pension fund	(2,222)	-	(2,222)
Utilisation of earmarked balances	-	(494)	(494)
Modernisation fund	-	3,807	3,807
Supporting people	-	965	965
Increased staff costs due to single status	-	1,625	1,625
SPT subway modernisation fund contributions	-	211	211
Earmarking of other balances	-	870	870
General fund balance at 31 March 2011	**4,711**	**10,256**	**14,967**

The un-earmarked general fund balance at 31 March 2011 represents 112% of the prudential target, and demonstrates the commitment to establishing an appropriate contingency in light of challenging financial circumstances.

Financial position (continued)

Housing revenue account

The Housing Revenue Account ("HRA") reflects the statutory requirement to maintain a separate account for income and expenditure arising from the provision of council housing.

The Council's housing revenue account returned a surplus of £26,000. The un-earmarked balance on the housing revenue account fund at 31 March 2011 was £653,000. This is equal to its prudential target level.

Significant trading operations

Local authorities have a statutory target of generating revenues not less than expenditure over a rolling three year period for each significant trading operation. The summarised financial positions of the trading financial statements maintained by the Council for the three year period ended 31 March 2011 are shown below. This demonstrates that the Council achieved its statutory objective for both of its significant trading operations.

	Housing property maintenance	Grounds maintenance and street cleaning
	£000	£000
2008-09	1,211	358
2009-10	1,427	835
2010-11	1,455	1,406
3 year cumulative	**4,093**	**2,599**

Treasury management

During the year the Council repaid a naturally maturing loan of £20.0 million entering into two new loans for the same amount. Furthermore, another loan was entered into during the year exercising the consent to borrow for equal pay, £4.4 million. Due to the replacement of the previous debt the overall cost of financing the Councils debt increased from 4.95% to 5.15%. Total debt as at 31 March 2011 was £219.8 million.

Management provided the annual treasury management report to Council on 28 September 2011, incorporating the following information:

- the treasury strategy for 2010-11;
- analysis of movements in the Council's net borrowing position, which was an increase of £0.5 million over the previous year. This was principally due to the consent to borrow £4.4 million for retrospective equal pay costs being exercised, offset by an increase in investments of £3.9 million;
- commentary on the interest rate on debt held and the risk associated with borrowing; and
- the main prudential indicators and compliance with limits.

To ensure that borrowing levels are prudent, over the medium term the Council's external borrowing, net of investments, must only be used for capital purposes . The net capital financing requirement for the year was £318.9 million compared with adjusted net borrowing of £299.7 million. This includes £95 million in respect of the public private partnership schools liability.

The Council's working capital ratio at 31 March 2011 is 0.84 (2009-10: 0.60). This compares to an average ratio of 1.0 times for Scottish local authorities based on unaudited financial statements. The improvement in this ratio is due to increases in cash and cash equivalents of £8.1 million as a result of borrowing in respect of equal pay costs and the reduction in short term borrowing of £19.8 million due to the maturity of short-term borrowing.

The Council's total borrowing is 8.3 times its council tax income (2009-10: 8.0 times). This compares to an average ratio of 4.3 times for Scottish local authorities based on unaudited financial statements. While these figures include the £94.6 million liabilities (2009-10: £85.5 million) in respect of the PPP contracts added, a number of other local authorities have similar PPP liabilities and so the Council's borrowing remains high in comparison to other authorities.

Financial position (continued)

Capital position and plan

Total expenditure in support of the capital programme amounted to £36.6 million plus schools assets procured under a public private partnership (PPP) contract of £10.5 million. The last school was handed over during the year as part of the PPP. The programme was funded by capital receipts, government grants and contributions from revenue. Major capital works undertaken in year included work on the schools refurbishment programme, council housing improvements and regeneration capital works.

General fund services capital expenditure	2010-11 Budget	2010-11 Actual	2011-12 Estimate
	£000	£000	£000
Expenditure	25,617	20,778	21,890
Financed by:			
Borrowing	8,831	6,222	5,070
Capital grants	7,574	8,526	11,737
Capital receipts	9,212	6,030	5,083

Housing revenue account capital expenditure	2010-11 Budget	2010-11 Actual	2011-12 Estimate
	£000	£000	£000
Expenditure	20,592	15,796	20,766
Financed by:			
Borrowing	18,092	13,572	18,301
Capital grants	-	197	205
Capital receipts	2,500	2,027	2,260

Similarly to the previous year the general fund services capital plan saw considerable under spend against the original budget of £5.4 million (2009-10: £5.3 million under spend). This was primarily due to slippage on a number of capital projects including: Brock bowling club (£0.9 million); flood studies (£0.9 million) and parks and sporting pitches (£1.1 million).

The housing revenue account also saw a significant under spend on capital projects from the original budget of £4.8 million (2009-10: £0.5 million overspend). This was primarily due to under spends and slippage in a number of projects including: Creveul Court comprehensive area renewal (£1.7 million); re-roofing works (£1.6 million) and other major structural works (£0.8 million).

Management should consider the reasons for general slippage in capital projects and initiate plans to address the causes. It is also important that management ensure that slippage in work on the housing stock does not impact on achievement of the Scottish Housing Quality Standard deadline.

An updated housing capital investment programme for 2012-2015 was approved by the HEED committee on 7 September 2011. An updated sample stock condition survey identified 32% of stock is currently at full SHQS compliance. Capital investment in excess of £25 million is anticipated for each of 2012-13, 2013-14 and 2014-15, if the Council was to retain all of its housing stock after the stock transfer votes.

Recommendation one

Financial position (continued)

Financial planning

Short term financial planning

During August and September 2010 the Council held a series of staff and public 'budget consultation roadshows'. This allowed the Council the opportunity to inform staff and the public of its plans to meet its budget gap and gain feedback on the options being considered.

In October 2010, the Council approved savings options of £3.6 million to meet the budget gap in 2011-12. These savings options were implemented immediately and also generate savings in 2010-11. The draft 2011-12 budget forecast a budget gap of £2.5 million which included £3.6 million of savings already approved and management savings of £6.6 million.

The provisional funding allocation made to the Council for 2010-11 provided a 4.53% reduction in funding, a significantly higher reduction than expected. Part of this reduction was due to the methodology used to allocate the supporting people grant. Subsequently the Scottish Government provided additional supporting people funding of £1 million.

A revenue budget of £239.5 million for 2011-12 was agreed at the special meeting of the Council on 9 February 2011. This budget has been set on the basis that there will be no increase to the rate of council tax. The Council used an incremental approach to budgeting, starting from the 2010-11 probable outturn for the year and factoring in inflationary and pay increases. Further consultation forums were held with the public in January 2011 and the draft savings options were adjusted to reflect feedback from these events.

The approved 2011-12 budget included a further £1.9 million of council approved savings and £0.6 million of enhancements. The total savings applied to the 2011-12 budget were £12.1 million. As at period four in 2011-12, the outgoing Chief Executive has indicated that additional significant savings have been identified and will be transferred to the contingency fund.

Medium to long term financial planning

The Council's updated financial strategy was approved in August 2011. This sets out how the Council will structure and manage its financial resources in the medium to long term in line with the Council's corporate objectives. This strategy reports that the expected budget gaps for the next two years are: £7.2 million (2012-13) and £12.6 million (2013-14, cumulative).

The reported budget gap is based on a number of assumptions which could have a significant impact, as highlighted in the financial strategy. Some of these risks include:

- the Council funding settlement, where a 3% reduction in funding has been assumed;
- the level of funding of Joint Boards, where a 3% reduction in the Council's contribution has also been assumed;
- no further reduction to the supporting people grant;
- no savings have been quantified from the income securitisation, however, the costs have been accounted for; and
- impact of the housing stock transfer on temporary accommodation units.

Management has continued to carrying out staff and public budget roadshows as part of the future budget preparation process. Management is in the process of developing details of potential savings options to meet the future budget gap. The Strategic Finance Working Group will receive an updated budgetary position in October 2011.

Audit Scotland national reports

Audit Scotland's corporate plan 2009-12 reinforces a commitment to maximising the impact of their work. As part of this process auditors are required to provide information on how bodies respond to national performance audit reports.

Improving public sector purchasing

In 2010-11 we were required to report on the Council's response to the publication of the joint Accounts Commission / Auditor General for Scotland report, "Improving Public Sector Purchasing" published in July 2009.

Our work centred around the answers to three questions to facilitate analysis of the Council's arrangements. Overall we found that the Council has taken steps to respond to the issues highlighted in this report and engaged an independent review of the Council's procurement arrangements. Management has subsequently implemented a detailed procurement improvement plan.

Waste Management

We were also required to report on the Council's response to the publication of the report "Waste Management" published in July 2009 .

During our review we found that the Council was responding to the questions posed by the report. We noted that at the time of our discussions management were exploring new facilities to meet future waste targets and shared waste facilities with other Council's as part of the Clyde Valley review. We recommend that as a result of the withdrawal of the Council from this proposal that management revisit the findings from the report.

Recommendation two

Corporate governance and performance management arrangements

Over-arching and supporting corporate governance arrangements have changed with the establishing of the Community Health and Care Partnership. The corporate governance arrangements provide a sound framework for organisational decision-making.

Corporate governance framework	The Council operates a committee based structure with the Council supported by five committees: audit and performance review; corporate and efficient governances; education and lifelong learning; community health and care partnership committee; and housing, environment and economic development. These provide scrutiny and challenge to strategic decisions and performance. Following the establishment of the West Dunbartonshire Community Health and Care Partnership during the year the social work and health improvement committee was replaced with the community health and care partnership committee. This committee is comprised of six members of West Dunbartonshire Council and six representatives from NHS Greater Glasgow and Clyde, of which two are Board members.
Statement on system of internal financial control	The statement on internal control provides details of the purpose of the framework of internal financial control, along with an analysis of its effectiveness. Management highlights that the system of internal control is based on a framework of guidance and regular management information, financial regulations, administrative and authorisation procedures, management supervision and a system of delegation and accountability. The statement identifies that it is informed by officers throughout the Council, the audit performance and review as the scrutiny committee and by the work of internal and external audit. The statement highlights the Council has recently carried out a realignment of the Chief Executive's departmental structure to incorporate audit, risk and performance management. Management has also reviewed its risk management process and will continue to embed risk management. This is consistent with our understanding of the system of internal financial control at the Council.
Internal controls	Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively. We have raised a number of recommendations within our interim management reports to allow the Council to improve its internal controls. We do not raise any of these matters within this report, but remind management of their responsibilities to ensure audit recommendations are considered and progressed in a timely manner.
Internal audit	Our planned audit approach seeks, wherever possible, to place reliance on the work completed by internal audit to minimise duplication of effort and ensure maximum benefit from the combined audit resource. The head of internal audit provides an annual statement on the adequacy and effectiveness of the internal control system at the Council. This was submitted to the audit and performance review committee and states that "reasonable assurance can be placed upon the adequacy and effectiveness of West Dunbartonshire Council's internal control system in the year to 31 March 2011".

Corporate governance and performance management arrangements (continued)

The Council has robust governance arrangements in place which allow Strategic Plans to be linked to operational plans.

Fraud and irregularity	We evaluated the procedures and controls related to fraud to be designed and implemented effectively. During the year internal audit have spent a significant amount of time on specific investigations and have reported progress on this in accordance with the Council's business irregularity procedures. The Council continues to participate in the National Fraud Initiative ("NFI"). From the 2011 data, the Council had 2,712 matches of which 796 were 'recommended' matches. At September 2011 the Council had closed a total of 397 matches of which 338 were 'recommended' matches. The Council has a strategy in place for the investigation of matches and has set internal milestones for the progression of work in relation to matches. We considered the management's arrangements for participating in the NFI scheme and carried out testing of a sample of 'closed' recommendations to confirm that appropriate evidence was held to support the reported outcome. We are satisfied with management's arrangements and the recording of findings.
Single outcome agreement	The Single Outcome Agreement ("SOA") was approved by Council in June 2011. The SOA acts as the Council's overarching strategic plan, incorporating the former corporate development and community plans. This SOA has been structured around three new strategic priorities as: ▪ work and benefits; ▪ safe, strong and involved communities; and ▪ supporting children and families. Following the comprehensive stakeholder engagement programme undertaken throughout 2010, the Council identified 20 local outcomes for the Council, and its strategic partners to deliver over the SOA period. These have been incorporated into the SOA. Each local outcome has agreed performance indicators with targets and timescales set. All partners have commitments to using the Council's Covalent system to monitor performance towards each outcome.
Performance reporting – SPIs and KPIs	Internal audit have a rolling programme of reviewing performance indicators during the year. We have evaluated their findings and carried out additional testing over a further sample of indicators. Based on the results of our combined work we are satisfied that the Council has made such arrangements for collecting, recording and publishing performance data as are required to ensure that, so far as practical, the performance information published is accurate and complete.

Corporate governance and performance management arrangements (continued)

Internal audits scrutiny of performance reporting ensures that, so far as practical, the performance information published is accurate and complete.

Corporate / service planning – links to improvement plans	The first Assurance and Improvement Plan (“AIP”) for West Dunbartonshire Council was published in July 2010, setting out the planned scrutiny activity for the council for the period April 2010 to March 2013 based on a scrutiny risk assessment undertaken by a local area network (LAN) made up of representatives of all of the main local government audit and inspection agencies. The LAN reconvened in January 2011, to update the AIP, revise the risk assessments and consider the level of scrutiny required for the council over the three year period 2011-14. Within the updated AIP, two of the three significant risks identified in the original AIP were reduced to areas of uncertainty, reflecting progress made by the Council in addressing key areas of concern while acknowledging that the impact of improvement activity remained to be demonstrated fully. The remaining significant risk is in respect of outcomes relating to regenerating and growing the local economy. The Council has created its own assurance and improvement plan scorecard report, to enable it to monitor progress against the areas identified in the AIP as being either of `significant risk’ or an `area of uncertainty’. While the focus of the scorecard is on the priority areas, the executive directors of each department are responsible for ensuring that actions are identified within their service plans to address all areas of the AIP. From 2011-12, the Council has confirmed with Audit Scotland that it is acceptable to amalgamate its existing Best Value Improvement Plan into the AIP scorecard report, with performance indicators monitored and linked to Council priorities. These are monitored using the Councils’ Covalent system and progress reports from this system are provided to the audit and performance review committee. Progress on the Best Value Improvement Plan for 2010-11 was reported to Council on 23 February 2011, detailing work undertaken in respect of the four best value work streams: strategic leadership, competitiveness, organisational culture, and community engagement. Of the fourteen actions being monitored, 12 were reported as green meaning that they are either completed or on schedule with two reported as amber, meaning that progress on these should be checked.
Housing inspection improvement plan	The housing department continues to report progress against the housing inspection improvement plan agreed with the Scottish Housing Regulator in June 2010 following the 2009 inspection of the housing management service. This remains an area of focus for the HEED committee. Progress to 7 September 2011 was reported as good with 28 actions completed and only two actions reported as overdue. These relate to the implementation of the new allocations policy, which is now expected to complete by December 2011, and the delivery of a joint tenancy sustainment strategy for all social landlords in West Dunbartonshire. Management have reported that they are currently undertaking a wider review of progress in September 2011 to inform future improvement activity.

Appendix

Appendix one – action plan

The action plan summarises specific recommendations, together with related risks and management's responses.

- **High risk** issues are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.
- **Moderate risk** issues have an important effect on internal controls, but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately, but the weakness remains in the system.
- **Low risk** issues would, if corrected, improve the internal control in general, but are not vital to the overall system. These are generally issues of best practice that we feel would be of benefit to you if introduced.

Ref	Issue and risk	Recommendation and risk	Management response
1	Both the general services and housing revenue account saw significant underspends of £5.4 million and £4.8 million respectively, on capital expenditure against budget in year. These underspends relate primarily to slippage and under spends in various capital projects.	Management should consider the reasons for general slippage in capital projects and initiate plans to address the causes. It is also important the management ensure that slippage in housing stock works do not impact on achievement of the Scottish Housing Quality Standard deadline. **Moderate risk**	The Council is currently reviewing the capital monitoring process with a report to Corporate and Efficient Governance Committee on the recommended approach going forward. **Officer Responsible:** Finance Manager **Target Date:** 31 March 2012 Arrangements are currently being introduced to minimise slippage in housing capital works through establishing 3 year framework contracts for key activities. This will provide the opportunity to optimise spend and value for money through more effective procurement arrangements and as a consequence accelerates capital spend to support the achievement of SHQS targets. **Officer Responsible:** Head of Housing **Target Date:** 31 March 2012
2	We considered the Council's response to Audit Scotland's waste management report. We noted that at the time of our discussions that management were exploring new facilities to meet future waste targets and shared waste facilities with other Council's as part of the Clyde Valley review.	We recommend that as a result of the withdrawal of the Council from this proposal that management revisit the findings from the report. **Low risk**	The Council will continue to review its options for the delivery of waste management services, including reviewing the findings from the audit report. **Officer Responsible:** Head of Neighbourhood Services **Target Date:** 31 March 2012

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