Perth & Kinross Council

Annual report on the 2011/12 audit

AUDIT SCOTLAND

Prepared for Perth & Kinross Council and the Controller of Audit

October 2012

Contents

Key messages

2011/12 audit findings

In 2011/12 we audited the financial statements and looked at aspects of governance and performance within Perth & Kinross Council (the Council). This report sets out our main findings.

We have given an unqualified opinion on the financial statements of Perth & Kinross Council and its group for 2011/12.

In line with good practice, the Council included an annual governance statement, covering both the group and the single entity accounts. Whilst we are satisfied with the disclosures made, improvements would be achieved by making the actions to be taken SMARTer and by ensuring members have an opportunity to discuss the statement before the accounts are signed.

The general fund balance increased by £5.406 million to £37.502 million as at 31 March 2012. This balance includes earmarked commitments of £23.539 million, £0.8 million of which is housing revenue account balances, giving an unallocated general fund balance of £13.963 million which is within the boundary of 2%-5% of net revenue budget held to address unexpected or unforeseen events.

The Council has a strong track record in delivering efficiency savings over the last five financial years but recognises that continuing delivery of efficiencies will be more challenging in future years given the reduction in staff numbers. It is, however, in a relatively strong financial position going forward through the efficiencies achieved to date.

Planned capital expenditure for 2011/12 was £46.392 million and covered general fund, housing revenue and PPP projects. Overall capital expenditure was underspent by £10.888 million (23.5%) as a result of slippage and rephasing of capital projects.

Following the May 2012 elections the Council is now led by a minority SNP Administration. The new Council is reviewing its political decision-making structure to ensure it remains fit for purpose. The current structure will remain in place until the end of 2012.

The Council's transformation programme to redesign services and achieve efficiencies continued at a steady pace during the year. The programme contains a large number of projects across all Council services and is underpinned by a medium term financial plan which is subject to on-going review.

The Council has a robust approach to performance management and monitors a large number of local performance indicators which covers the wider community planning partnership area. These, along with the statutory performance indicators, are reported in the annual performance report. In 2011/12 only one area reported a decrease in performance, two delivered positive progress and the remaining 13 local outcome areas maintained their performance. When considered in the light of reducing funding across the public sector this performance outcome is viewed as positive.

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. Whilst the Council is in a relatively strong financial position to deal with the challenges, it is recognised that the level of efficiencies previously achieved will not be available in future years given reductions in staffing and the Council must ensure it remains vigilant in its financial management to ensure it continues to deliver sustainable services.

The treatment of Tayside Contracts Joint Committee as a joint arrangement in the group accounts needs to be clarified as it is unclear whether this currently complies in full with international financial accounting requirements. The constituent councils also need to review the minute of agreement for this Joint Committee to ensure it is operating as intended.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of Perth & Kinross Council (the Council). The nature and scope of the audit were outlined in the Annual Audit Plan presented to the Audit Sub-Committee on 27 March 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the 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 members and the Controller of Audit and should form a key part of discussions with audit committees, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. Reports should be available to 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 Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

6. The management of Perth & Kinross Council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. 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. The co-operation and assistance given to us by members and officers of the Council is gratefully acknowledged.

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 explanatory foreword, 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 Perth & Kinross Council for 2011/12 give a true and fair view of the state of the affairs of the Council and its group as at 31 March 2012 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 Head of Finance has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the Executive Officer Team and Corporate Management Group, the financial transactions of the Council were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Annual governance statement

12. In accordance with good practice the Council has included an annual governance statement in the 2011/12 financial statements which covers both the single entity and the group accounts. Whilst we are satisfied with the disclosures made in the statement, improvements could be made by:
    - developing a system to update the officer responsible for compiling the statement when actions have been completed and controls improved
    - including clearer links within the statement to improvements made in the year to reflect previous year actions points that have been completed

- making the actions to be taken SMARTer especially when the control improvement is expected to span more than one year.

Refer Action Plan No. 1

13. We noted that the 2011/12 AGS was not been discussed and approved at either a Council or audit sub-committee meeting. Members therefore did not have an opportunity to discuss the AGS before the final accounts were signed.

Refer Action Plan No. 2

Remuneration report

14. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2011/12 financial statements include all eligible remuneration for the relevant council officers and elected members.

Accounting issues

15. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011 Code). We are satisfied that the Council prepared the 2011/12 financial statements in accordance with the 2011 Code.

Accounts submission

16. The Council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. A comprehensive working papers package was also made available to auditors. With only a few exceptions the working papers provided were of a very high standard and this enabled us to conclude the audit and certify the financial statements by the target date of 28 September 2012. The financial statements were presented to members on 3 October 2012.

Presentational and monetary adjustments to the unaudited accounts

17. A number of adjustments have been made to the 2011/12 unaudited financial statements in accordance with normal audit practice. The net effect of these was to reduce the net cost of services by £0.998 million. There was a corresponding increase in other comprehensive income and expenditure. A number of other presentational amendments have also been made to improve the disclosures within the financial statements. These adjustments had no impact on the general fund balance of the Council.

Prior year adjustments

18. A new section has been added to the Code that requires authorities to account for tangible heritage assets in accordance with FRS 30 Heritage assets. Heritage assets are those that are intended to be preserved in trust for future generations and are held and maintained principally for their contribution to knowledge and culture. Heritage assets include historical

buildings, archaeological sites, scientific equipment of historical importance, civic regalia, museum and gallery collections and works of art.

19. As this is a change in accounting policy, the previous year's figures have been restated in accordance with IAS 8. The Council identified £0.6 million of assets within community assets that were re-categorised as heritage assets and re-valued to £5.4 million. The Council also recognised a further £4.9 million of heritage assets that were not previously recognised in the balance sheet. The net effect on the opening balance sheet for 2011/12 was an increase of £9.7 million in non current assets and in the revaluation reserve. The revised accounting policy for heritage assets and the restated balance sheet for previous years are detailed in the Council's financial statements.

Pension costs

20. The Council is a member of Tayside Superannuation Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 'Employee Benefits' the Council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation at 31 March 2012 provided by the scheme's actuaries increased the Council's share of the deficit from £130.073 million last year to £199.722 million this year. The large increase is due to changes in actuarial assumptions such as salary increases, mortality levels and rates of inflation. Actuarial assumptions in general were lower this year with the result that scheme liabilities increased.

21. Actuarial figures included in the accounts are based on data provided by the Council during the year which is then projected by the actuary using a number of assumptions and rates, for example, demographic assumptions, estimated investment returns, estimated liabilities, price and salary increases, to calculate the required contribution rates to meet future liabilities. We are not aware of the Council undertaking any confirmation that the assumptions applied are appropriate to local circumstances. We would highlight that actuarial reports are only advisory and the Council should confirm it is satisfied with the assumptions/rates used in these reports.

Refer Action Plan No. 3

Group accounts

22. The Council's group accounts incorporate the results of a number of subsidiary, associate, and joint arrangement bodies and managed funds. Services provided by Tayside Contracts Joint Committee are shared by Perth & Kinross Council, Dundee City Council and Angus Council. Although formal arrangements are set out in a Minute of Agreement, Tayside Contract's working practices differ from these, which has led to different interpretations of the accounting treatment permitted by the Code of Practice on Local Authority Accounting across the respective councils. The current approach is for the Council to take its share of the joint committee's surplus or deficit into the single entity accounts with its share of the assets and liabilities for the joint committee being reflected in the group accounts. Whilst this approach has been acceptable in previous year, changes to accounting practices since the adoption of international financial reporting standards means further clarity is required.

23. In our *Report to those charged with governance* we highlighted that existing accounting practice would be accepted for 2011/12 but the Council should refer the matter to the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) for more clarity in the future on the accounting requirements for this joint committee. The Council, along with partner authorities, should also review and revise the Minute of Agreement to ensure it reflects the actual operation and governance of Tayside Contracts.

Refer Action Plan No. 4

24. The group's balance sheet as at 31 March 2012 discloses an excess of liabilities over assets of £101.354 million due to the accrual of pension liabilities for associate bodies in accordance with International Accounting Standard 19 (Employee Benefits). The Explanatory Foreword by the Head of Finance on page 7 of the accounts stated that it was appropriate to adopt a 'going concern' basis for the preparation of the financial statements as the Council expect future local government finance settlements and the Council's budget process will provide sufficient resources to finance these future liabilities. In addition future actuarial valuations of the pension fund will consider the appropriate employer's rate to meet the funds' commitments. We therefore concurred with the view that adoption of a going concern basis was appropriate.

Common Good Fund

25. The Kinross Common Good has been in debt to the Council over several years and as at 31 March 2012 the outstanding balance was £0.017 million. Common Good funds do not have powers to borrow and in our view this is therefore technically a breach of statute. Officers have advised auditors that the outstanding balance will be repaid from the sale of Kinross Town Hall. As the balance is clearly trivial, and the amount is immaterial to the accounts as a whole we did not draw attention to this in our auditor's report.

Refer Action Plan No. 5

26. Local Authority (Scotland) Accounts Advisory Committee (LASAAC) guidance on Common Good funds recommended a Common Good asset register should be in place by 31 March 2009. In 2010/11 the external auditors reported that whilst the Council had not completed its review of Common Good assets by that date the review of titles and asset registers was progressing and exceeded the minimum that Audit Scotland had noted as acceptable.

27. During 2011/12 it was determined that the cost of continuing with the review of common good assets could outweigh the benefits and that confirmation of whether an asset related to common good would be done at the point of sale or revaluation. Given the work by the Council to date we are satisfied that the proposed approach is a reasonable method of providing assurance as to ownership and benefits arising from common good assets.

Whole of Government Accounts

28. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. Local Authorities (and central government bodies) are requirement to provide information for the preparation of WGA. Returns based on unaudited

accounts are submitted to Scottish Government by the end of July and the final audited return was due for submitted by 5 October this year.

29. The WGA return is not given the same level of priority as the annual accounts. It was signed as completed by the Council on the 31 August and submitted for audit on 4 September. Whilst the audited return was submitted by 5 October, a number of changes were required both for misclassifications in the completion of the WGA return and for adjustments identified during the annual accounts work.

Refer Action Plan No. 6

Outlook

Equal pay and single status

30. Within the financial statements the Council identified a contingent liability for claims under the Equal Pay Act 1970 which may be lodged against the Council at a future date by current and former employees. Equal pay claims relate to cases being pursued through the Employment Tribunal process and the risk of potential new claims in the future. By implementing a local Single Status Agreement from 1 August 2007 the Council has sought to address issues of pay equality. The Council has provided £0.763 million for equal pay claims in the 2011/12 financial statements where it is likely that payment will be made. In addition the Council has earmarked £1.507 million for settling potential equal pay liabilities and £0.419 million for Single Status as at 31 March 2012. The Council's reserves strategy also draws attention to the fact that there is a real risk that the cost to the Council of settling equal pay liabilities could be in excess of the levels earmarked and that funding solutions will be developed each year as part of the Revenue Budget process if future equal pay liabilities arise. We will monitor the position as part of our 2012/13 audit.

Financial position

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

32. 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.

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

Financial results

34. In 2011/12, Perth & Kinross Council received income of £472.296 million and spent £491.703 million on the provision of public services, resulting in an accounting deficit of £19.407 million. There are two main areas of accounting adjustments that are made to translate the accounting surplus to the statutory or general fund position. The main adjustments are to ensure that capital investment is accounted for as it is financed rather than when fixed assets are consumed, and that retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as future benefits are earned. The impact of these adjustments resulted in the general fund balances increasing by £5.4 million during 2011/12.

Budgetary control

35. The actual outturn net service expenditure across the Council was £347.797 million, an underspend of £6.347 million against the budgeted net service expenditure. Savings and efficiencies were actively pursued across the Council during the year (estimated savings required in the three years to March 2014 were £22 million as at February 2011). While reports indicate an overspend in some service areas all Council services achieved an overall underspend against budget in 2011/12.

36. Education Services underspent by £3.135 million largely through an underspend on the devolved school management budgets by head teachers, lower than budgeted staff costs including training and development and delivering planned savings within supplies and services. Social Work Services achieved an underspend of £1.152 million, primarily due to staff savings, underspends on residential placements, changes to contracts and early delivery of savings. The Environment Service achieved an overall underspend of £0.297 million despite the roads and transport budget being overspent by £0.667 million largely due to higher

winter maintenance costs. This, along with shortfalls in planning income was offset by workforce savings, underspends on waste disposal and additional income from other sources.

37. The budget for 2011/12 was based on band D council tax of £1,158 and the updated budget assumed a £2 million contribution from general fund balances. The result of the underspends highlighted above was that rather than a contribution being required from the general fund the Council was able to increase the general fund by £5.4 million.

Financial position

38. The Scottish Government expected all public bodies to deliver efficiency savings of 3% in 2011/12. The Council exceeded this expectation by delivered £12.9 million which equated to 3.8% of its revenue budget. The Annual Efficiency Statement 2011/12 shows that these savings were achieved through cost effective measures in a number of key areas including asset management, procurement, workforce planning, shared services, and streamlining bureaucracy.

39. The most significant of these savings have been achieved through workforce management including reductions in management, administration and support, redesigning of services and reduced staff sickness absence which totalled nearly £9 million.

40. The Council has a strong track record in delivering efficiency savings with £33.4 million, which have largely been re-invested to support service delivery, being identified in the previous five financial years. By re-investing the efficiencies achieved the Council has managed to maintain service delivery. The Council recognises that this level of efficiencies will not be available in future years given the reduction in staff numbers, however it is in a relatively strong financial position going forward through the efficiencies achieved to date.

41. A suite of financial indicators has been developed for councils. The indicators will assist in evaluating a council's financial sustainability and the affordability of financial plans and could be used to compare financial performance across comparator councils. The indicators also demonstrate the effectiveness of the financial management arrangements. The Head of Finance had incorporated the indicators in the Explanatory Foreword to the annual accounts. These show that the Council can evidence effective financial management of its budget and collection of in-year council tax debt, is maintaining uncommitted reserves in line with its agreed strategy and is managing capital within the constraints of the prudential code.

42. Exhibit 1 shows the balances in the Council’s funds and reserves at 31 March 2012 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing assets. The Council's funds and reserves at 31 March 2012 totalled £53.394 million, an increase of £8.714 million on the previous year (see also appendix C which shows graphically the movements in reserves across Scottish authorities. Most authorities increased reserve levels in 2011/12).

43. The Housing Revenue Account is an earmarked balance within the general fund. A further £22.739 million has been earmarked in the general fund for various commitments and projects

including, the devolved school management scheme, car parking, equal pay and single status, community safety and wellbeing projects, investments in improvement funds and in learning programmes. This gives the Council an unallocated general fund balance of £13.963 million. This is approximately 4.1% of the Council's net revenue budget for 2012/13 and is within the range of 2%-5% the Council has deemed it requires to hold to cover unexpected or unplanned events.

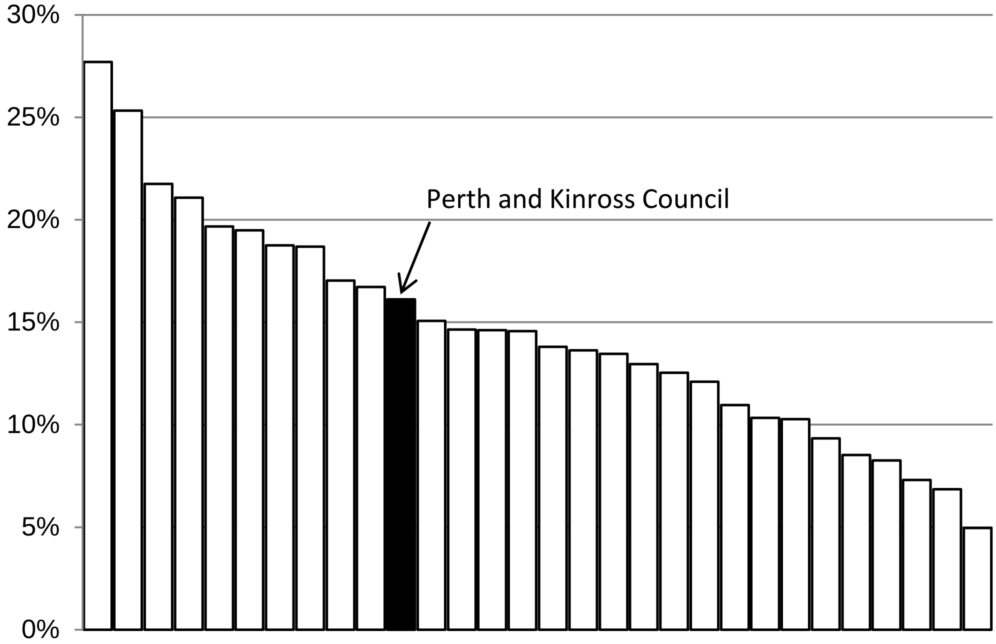
Exhibit 1: Usable Reserves

Description	31 March 2012 £ million	31 March 2011 £ million	Movement
General Fund	36.702	31.293	5.409
Housing Revenue Account	0.800	0.803	(0.003)
Total General Fund	**37.502**	**32.096**	**5.406**
Capital Fund	10.372	8.257	2.115
Renewal and Repair Fund	0.517	0.543	(0.026)
Insurance Fund	1.083	0.933	0.150
Capital Receipts Reserve	2.905	2.680	0.225
Capital Grants Unapplied	1.015	0.171	0.846
Total Funds and Reserves	***53.394***	***44.680***	***8.714***

Source: Perth & Kinross Council 2011/12 financial statements

44. Exhibit 2 shows the total usable reserves as a proportion of net revenue spend across Scotland based on unaudited figures. The median level of total usable reserves nationally was approximately 15% of net revenue spend. However, this includes capital reserves over which there is some restriction on use. The comparison of total usable reserves held by local authorities split between capital and revenue is also shown in Appendix C.

Exhibit 2: Total Usable reserves carried forward as a proportion of net revenue spend



Source: Audit Scotland. Local Government in Scotland Analytical Review 2012 (excl. Shetland and Orkney)

Capital investment and performance 2011/12

45. The Council's general service capital spend for 2011/12 was £28.374 million against the original budget of £41.525 million (£37.962 million from Council and balance from external contributions), representing an underspend of £9.588 million (25%). The Council operates a rolling 5 year capital budget which is continually updated and approved by the Strategic Policy and Resources Committee on a quarterly basis. The changes approved by the Committee since the original budget occurred across a variety of projects, the most significant being:

- a review of vehicle replacement requirements by Services resulting in a £2.93 million reduction to the plan
- a detailed review of Information Systems and Technology (IST) reducing current year budget by £1.46 million
- delays in obtaining planning permission at Western Edge Kinross has resulted in £1.95 million of the works slipping from the current year to 2012/13. Further to this savings arising from the tender for this project of £0.5 million contributed to a total reduction in the 2011/12 project budget of £2.56 million during the year
- difficulties in identifying suitable accommodation for the Development of Day Care Services for Older People and finalising programme specifications for the Joint Equipment Loans Service (JELS) Facility Service Enhancement have resulted in delays in commencing the works programmes. Therefore, these projects have been rephased to 2012/13 (£1.1 million)

- as a result of continuing fund-raising in respect of the Redevelopment of Perth Theatre project (£1 million), the Council has deferred this project until 2012/13
- works proposed at Blairgowrie High School (£1.16 million) were brought forward into the 2011/12 budget
- the review of office accommodation for Face-to-Face Services in Blairgowrie led to £0.47 million being moved to the 2016/17 budget
- accelerating £1.31 million of the budget for the Crieff Primary School project to 2011/12 to facilitate the land purchase in the current year and undertake archaeological investigations on the site. Rephasing of Dunning Primary School programme led to a reduction of £0.725 million in the 2011/12 budget
- other projects where budget has slipped into the 2012/13 budget include Community Greenspace programmes (£1.155 million), North Perth Recycling Centre (£0.495 million), Expansion Friarton Depot – Welfare Accommodation (£0.65 million), Abernethy Primary School Upgrade (£0.38 million) and Invergowrie Primary School Upgrade project (£0.27 million)

46. The housing capital programme includes areas such as new house building, external upgrading, energy efficiency and meeting the Scottish housing quality standard. Actual spend in 2011/12 was £8.44 million against an initial budget of £11.89 million (final approved budget £9.06 million), which resulted in an underspend of £3.45 million against the original budget. The budget adjustments approved by the Committee following the setting of the original budget occurred across a variety of projects, the most significant being the rephasing of expenditure into the 2012/13 budget for Central Heating and Rewiring Work (£0.99 million), the energy efficiency projects (£0.81 million) and the erection of affordable flats in Pitlochry (£0.64 million).

47. There are clearly explanations for the movements within the general fund and housing revenue capital programmes, however, it is not always clear why further projects have not been brought forward given the significant underspend in the year. By bringing capital investments forward the Council could improve both its own service delivery and accelerate/contribute to the achievement of objective 3 of the corporate plan for a prosperous, sustainable and inclusive economy.

Refer Action Plan no 7

48. Exhibit 3 shows the sources of finance for capital expenditure in 2011/12. The main movements in the capital funding during the year were:

- a movement of £2.276 million into the 2012/13 budget pending confirmation of the terms and conditions of the Scottish Futures Trust grant for Invergowrie Primary School
- an increase of £1.1 million funding available to the Council due to the transfer to Tayside and Central Scotland Transport Partnership (TACTRAN) being delayed until 2012/13
- a reduction in expected capital receipts of £0.75 million since the original budget. The capital receipts of £2.952 million below mainly arose from the sale of council houses and other operational property.

Exhibit 3: Sources of finance

Description	31 March 2012 £ million	31 March 2011 £ million
Capital Receipts	2.952	3.781
Government Grants and Contributions to fund Capital	15.383	8.519
Revenue Contributions	7.219	7.638
Loans Fund	14.887	14.271
Total	***40.441***	***34.209***

Source: Perth & Kinross Council 2011/12 financial statements

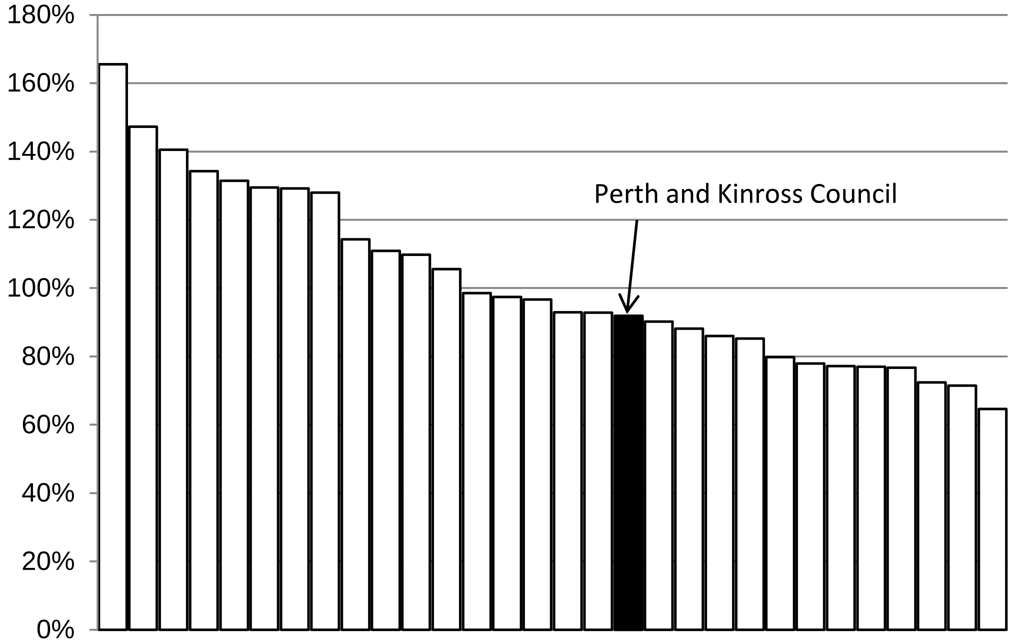
49. The capital expenditure during the year was £46.392 million. This included the general fund and housing capital spend and a further £9.578 million on assets held under the Council's Public Private Partnership arrangements. This resulted in an increase of £5.951 million in the Council's Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

Treasury management

50. High levels of debt may reduce a council's flexibility going forward as revenue resource has to be to set-a-side to service that debt. The Council has traditionally favoured a low risk approach to borrowing by seeking to balance short and longer term interest rate risks and refinancing costs. Whilst there was no restructuring of Council debt in the year, £5.2 million of loans were repaid and £15 million new loans were taken out to take advantage of favourable interest rates and to smooth the maturity profile. The average interest rate on the Council's loan fund for the year was marginally up from 3.67% to 3.7% in 2011/12.

51. Exhibit 4 shows that the Council's net external debt as a proportion of net revenue spend is broadly in line with comparators (based on unaudited figures). Throughout the year the debt position fluctuates at the margins with changes in levels of reserves and working capital, e.g. higher levels of reserves will be invested internally or externally reducing the net debt position.

Exhibit 4: External debt as a proportion of net revenue spend



Source: Audit Scotland. Local Government in Scotland Analytical Review 2012 (excl. Shetland and Orkney)

52. During 2011/12 the Council had a limit of £15 million to be invested with the UK "semi-nationalised" banks. The balance held at 31 March 2012 with the Royal Bank of Scotland was just in excess of this limit due to interest received on 30 March. The lending limit was increased to £20 million in April 2012.

53. The Council has also received £1 million repayment in relation to its deposit in the Icelandic bank Glitnir, £0.826 million of which was received prior to the financial year end. The balance has been paid in Icelandic Krona and due to currency restrictions remains in Iceland. Whilst interest will be payable on this foreign deposit, the Council is monitoring the position closely with a view to transferring the funds back to the United Kingdom.

Financial planning to support priority setting and cost reductions

54. The UK economy remains in a fragile state and this will continue to have a significant impact on public sector spending for a number of years. In addition, the Welfare Reform Bill will undoubtedly have an impact on councils and their partners albeit the level of this impact is not yet clear.

55. The Council has incorporated any known cost increases or anticipated loss of income, for example through capital receipts, planning fees or changes in interest rate, in its 2012/13 budget.

56. In recent years services have been successful in delivering efficiency savings and the Council's transformation programme. This is covered in more detail at paragraphs 109 to 111. The Council has been successful in releasing efficiency savings which have been re-invested in service delivery as highlighted at paragraphs 38 to 40. The actions taken to date have put the Council in a good position to deal with financial pressures and maintain service delivery.

Asset management

57. A Corporate Asset Management Strategy and Plan is in place which includes a common methodology for managing an asset from acquisition to disposal. During the year the Council's Corporate Asset Management Group continued to develop the corporate approach to assets under five individual asset strands, property, roads, ICT, greenspace and vehicles.

58. A review of how asset management is delivered across the Council was completed during the year and resulted in a new Corporate Asset Management Team being established which will not only continue the work of the previous group but will be tasked with more actively and effectively engaging with external and internal stakeholders.

59. As part of the Customer First and Service Needs and Property Issues (SNAPI) initiatives the Council reviewed service delivery arrangements in a number of the rural towns. As a result services will now be delivered from community campuses and rural libraries where this is appropriate. This arrangement has already been implemented in Aberfeldy and Kinross with the Breadalbane and Loch Leven campus libraries being the first point of contact for customers. Employees in these areas work from the Integrated Team Base at the campus.

Workforce redesign

60. Following the development of the Council's 'Our People Strategy 2010-2015' a period of engagement to identify current and future staffing issues as part of service re-design and transformation was undertaken (see paragraphs 109 to 111).

61. The most significant cost to the Council is payroll and in the last two years the size and cost of the workforce has reduced with 118 staff leaving the Council in 2010/11 and a further 31 in 2011/12 through a number of workforce planning measures including a voluntary severance scheme. The overall cost of these exit packages was £4.271 million (refer also to paragraph 39 for details of efficiency savings).

62. A long term programme of activity to support and develop the workforce taking into account the Council's strategic direction has been developed. Recent initiatives include: developing capacity in services to be proactive and positive about health and attendance which reduces sickness absence; advising managers on management reviews; restructures and redesigning services to deliver savings and better quality services whilst avoiding redundancies as far as possible; and implementing new employee relations policies.

63. The Council's annual employee survey was carried out in September 2011. This focused on 17 key questions asking employees about their satisfaction in terms of a range of issues around their employment and also included an open comment box where employees could offer any other feedback. The overall response rate for the 2011 survey was good at 55% (53% 2010) and overall employee satisfaction rates were over 75% (70% 2010).

Improvement actions from the survey are implemented by Services and key areas are monitored through team plans.

Partnership working

64. Partnership working is integral to the provision of high quality public services that deliver better outcomes for the local community. The Council has a lead role in ensuring the success of the Community Planning Partnership and during the year it has established a series of development workshops and a conference for senior managers from across the partnership to shape the local response to public sector reform demands.

65. The Council's Annual Performance Report highlighted that the governance arrangements of the Community Planning structure continue to be embedded which will enable further development of local partnership working between the public, voluntary and private sectors to deliver the commitments of the Single Outcome Agreement (SOA) for Perth and Kinross and public sector reform.

66. The Council has a strong track record of partnership working and has continued to develop this during the year with a number of new and on-going projects/partnerships with other organisations including:

- development of a health & transport framework which will inform and guide partnership activity on promoting active travel (refer also to paragraph 132)
- continuing participation in the More Choices More Changes Strategic Partnership aimed at reducing the proportion of young people not in education, employment or training in Scotland
- Continuing participation in the Tayside Procurement Consortium
- A new multi-agency employability initiative opened in Perth called "The Hub" which is an all age drop-in employability advice and support centre.
- The introduction of various initiatives to support health and wellbeing such as the Coupar Angus Coffee Group which supports local women diagnosed with a severe and enduring mental illness
- the ‘Lets Dance Project’ of weekly creative dance sessions for adults including those with learning and physical disabilities. This project is run in partnership with Capability Scotland and Scottish Dance Theatre.

67. Perth and Kinross was one of five local authorities to receive a Creative Scotland Creative Place award and will receive £0.12 million in 2012/13 to develop one of the five Place Partnership projects across Scotland. In partnership with The Gannochy Trust, this project aims to maximise accessibility of cultural assets to strengthen communities’ sense of identity.

68. The Council is also a pathfinder for the development of local scrutiny arrangements for the new national police and fire services. A joint working group has been established involving elected members and officers from the Council, fire and police services. The group has assisted in the development of the initial police and fire local plans for 2013/14. The group is

also expected to recommend a preferred model to meet the legislative requirements for the scrutiny of these local plans as part of the Council's reviews of its decision making processes.

Outlook

2012/13 budget

69. In February 2012 the Council agreed a general fund budget for 2012/13 of £338.474 million. This was an increase of £5.148 million (1.5%) on the 2011/12 budget of £333.326 million. Normally the Council would also have agreed provisional budgets for a further two years at the same time however, with local council elections in May 2012 only a one year budget was agreed and the provisional budget for 2013/14 agreed by Council in February 2011 was rolled forward for the new Council to consider.

70. A number of amendments have been made to the 2012/13 budget in the intervening period resulting in an increase in net expenditure of £1.814 million. This includes additional funding of £1.5 million and the associated spend, adjustments required following the financial statements audit (£1.161 million) and approval of further expenditure to facilitate the delivery of affordable housing (net £0.653 million). In September 2012, officers reported a projected underspend on the 2012/13 services budget of £2.653 million (0.89%). This was achieved through proactive workforce planning and early delivery of savings. We will continue to monitor the position in relation to delivery of the 2012/13 budget throughout the year.

Governance and accountability

71. 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.

72. 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.

73. 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

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

Corporate governance

Processes and committees

75. The Council's current political decision-making structure is structured around the themes of its Community Plan and includes nine committees supported by a number of sub-committees. Following the May 2012 election the Council has decided to review its political management arrangements to ensure they remain fit for purpose and allow decisions to be taken efficiently and effectively. The current structures will remain in place until the end of the calendar year and the Modernising Governance Member/Officer Working Group has been tasked with considering options for models of decision-making structures. A final report with recommendations for a structure to be implemented with effect from January 2013 is expected to be taken to the December 2012 Council meeting. We will review the new arrangements as part of our 2012/13 audit.

76. The current Audit Sub-Committee reports to the Scrutiny Committee. We noted that the Audit Sub-Committees role and remit which has been in place since 2007 requires an annual review to be undertaken on the effectiveness of the Sub-Committee. No such review was undertaken during 2011/12, however we expect this will be addressed as part of the overall review of political arrangements.

Senior management

77. The Depute Chief Executive retired in July 2012 and a restructuring of the senior management team was introduced with the new structure including two Depute Chief Executive posts. In July 2012 the Head of Finance, the Council's Chief Financial Officer returned from a year's career break. During his period of absence this statutory role had been appropriately filled and throughout the period the Council was able to demonstrate compliance with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

Internal control

78. 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.

79. As part of our work, we took assurance from key controls within the Council's financial systems. We reviewed thirteen key systems and reported the results to the Audit Sub-Committee in September 2012. Overall we found the key controls within the main financial systems were operating satisfactorily and agreed an action plan with officers to address risk areas identified during our review.

80. Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to place assurance on the work of internal audit wherever possible however, during 2011/12 this was limited to only a few controls across four of the key financial systems. The Chief Internal Auditor has confirmed that, within the scope of the internal audit plan, more emphasis will be placed on reviewing the key financial controls.

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

Computer services review

82. As part of our planned audit work, we carried out a computer services review. This review covered seven key areas of information management and technology delivery, including strategic use of information technology and information asset protection. The findings from this work were reported to the Audit Sub-Committee in September 2012. Overall we found that the service is generally well run and agreed an action plan with officers to address risks areas identified during our review.

83. The IT Service was restructured in the first half of 2012 and a Corporate IT Manager was appointed as a result. The new structure in which roles and responsibilities have been reviewed and clarified will need some time to bed in. Further clarification of the relationship

between the IT Service and information system related tasks carried out by other Services, as well as implementation of the ITIL (Information Technology Infrastructure Library) working practices are being progressed.

84. Information security is an area of continuing challenge and competing demands. One of the challenges is to raise security awareness amongst all staff about good information handling practices. This can range from how to use secure connections and secure email facilities where required, locking computer screens when leaving one's desk and not leaving sensitive information where others can access them.

85. The Council's business continuity planning framework is well developed. There are also partnership arrangements in place which detail the specific IT service delivery requirements of the Services which the IT Service is undertaking and measuring. Continued budget pressures, especially capital budgets, however, may impact on the Council's ability to keep up to date with technological innovations.

Prevention and detection of fraud and irregularities

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

87. The Council has appropriate arrangements in place to help prevent and detect fraud and irregularity. These arrangements include, for example, an anti-fraud and corruption strategy, a whistle blowing policy and codes of conduct for elected members and staff. Overall we concluded that arrangements for the prevention and detection of fraud and other irregularities were generally satisfactory.

88. We are required to have arrangements in place to be notified of all frauds over £5,000 and to submit reports to Audit Scotland. One fraud was reported during 2011/12 other than those identified through the National Fraud Initiative (NFI) and fraud specific to Housing and Council Tax benefit. We noted that this fraud had not arisen due to weaknesses in internal controls and there was no financial loss suffered by the Council as a result.

NFI in Scotland

89. Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise started in October 2010 and was reported upon in May 2012. The next round of NFI began in June 2012, and expands the range of data sets and bodies.

90. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate via a secure web application. Bodies investigate these and record appropriate outcomes based on their investigations.

91. Previous NFI data matches have given assurance that the Council's internal control systems are operating effectively with only a relatively small amount (£0.016 million) of fraud or overpayments being identified. As part of the 2012/13 round the Council has completed the NFI self-appraisal checklist and Internal Audit is currently liaising with Audit Scotland, and relevant contacts within Services on 2012/2013 requirements.

Housing and council tax benefits performance audit

92. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Our specialist team assessed the Council in November 2008 and a follow up review was done in July 2011. The follow up report which was issued in October 2011 recognised the significant changes experienced by the benefits service since the previous risk assessment. This included a service restructure in 2009, the implementation of an electronic workflow system in July 2010, a 7% increase in its benefits caseload and a loss of experienced staff. Against this backdrop the report highlighted that the backlog of benefit processing work that had been accruing for a year had led to a significant decline in the speed of processing for new claims and changes in circumstances. Despite the backlog the service had been proactive in trying to reduce error and maximise subsidy and its performance in recovering overpayments and achieving sanctions for those who commit benefit fraud had continuously improved.

93. The Council agreed actions to address the matters raised in the follow up report and in January 2012 provided us with updated performance information, details of the benefits backlog position and an updated action plan to address remaining risks. This showed an improved position with regards to the speed of processing new claims and change of circumstances. In addition, the backlog clearance plan and associated monitoring activity had led to significant improvements. The actions taken by the Council are expected to continue to improve the housing and council tax benefits service and as a result, no further scrutiny is required at this stage. Progress on the Council's action plan will be reviewed during our next round of risk assessments within the next eighteen to twenty four months.

94. The previous external auditor identified a number of errors in the Housing and Council Tax Benefit Subsidy in 2009/10 and 2010/11 and a provision of £0.9 million has been included in the Council's accounts for errors identified. One issue raised is awaiting resolution by the Department of Work and Pensions (DWP) and the contingent liabilities note in the accounts identifies this potential liability. We are currently in the process of auditing the 2011/12 Housing and Council Tax Benefit Subsidy which is due to be completed by the November 2012 deadline.

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

95. 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.

96. The Bribery Act 2010 became effective on 1st July 2011. Section 7 of the Act introduces an offence by "commercial organisations" if they fail to prevent bribery. Councils fall under the definition of commercial organisations and Perth & Kinross Council has not yet carried out a risk assessment to determine whether additional procedures are required to comply with this Act. Other than this we have concluded that the arrangements in the Council are appropriate and we are not aware of any other specific issues that we need to identify in this report

Refer Action Plan No. 8

Complaints Handling Procedures

97. In March 2012, the Scottish Public Services Ombudsman published a model complaints handling procedure (CHP) for the local government sector which aims to simplify and improve complaints handling through a standardised system for complaints across all local authorities. All local authorities are required to adopt the model CHP as soon as possible and to provide the Ombudsman with a compliant model CHP by 14 September 2012.

98. At the end of August 2012, the Council sent a *Complaints Implementation Plan* outlining the actions to be taken to ensure a new complaints procedure was in place for 1 April 2013. This included actions in relation to documenting procedures, training staff and reporting requirements. Officers are awaiting comments from the Ombudsman on the framework submitted.

Outlook

99. The Welfare Reform Act 2012 received royal assent in March 2012. The Act provides for the introduction of a 'Universal Credit' to replace a range of existing means-tested benefits and tax credits for people of working age, starting from 2013. Councils will face challenges in understanding and acting upon welfare reform changes, and communicating these accurately and effectively to local residents. The introduction of Universal Credit will also have a significant impact on councils' strategies and plans in areas such as housing, asset management, finance, ICT and customer service. Councils will be challenged during this period of change to maintain service delivery and performance around housing benefit claims.

100. As part of our work on the 2012/13 audit, we will consider the Council's preparedness for introduction of these changes, and how it is developing and taking forward its strategies and plans to address the risks arising from these changes.

Best Value, use of resources and performance

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

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

103. 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.

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

105. 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.

106. 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 comment on any relevant national reports and the body's response to these.

Management arrangements

Best Value

107. The 2008 Best Value Review highlighted that the Council demonstrated a strong commitment to best value and continuous improvement and that the Council and its partners shared a clear and ambitious vision and were committed to the Perth and Kinross single outcome agreement (SOA). The Council has continued to demonstrate this commitment.

108. In the period since the Best Value report was published external auditors have carried out follow -up reviews of the BVIP and the previous auditor reported in 2010/11 that some of the agreed actions had already been completed and the remaining actions had been absorbed into the Corporate Plan where the actions are more outcome focussed (such as educational attainment) or into Business Management and Improvement Plans (BMIPs) where the actions are more operationally specific. Progress in delivering these agreed actions is now monitored as an integral part of the wider monitoring of the Corporate Plan, Corporate Improvement Plan and Business Management and Improvement Plans.

109. In 2010 the Council embarked on a challenging transformation programme *Securing the Future - Towards 2015 and Beyond,* the three key strands of which were:

- efficiencies in service delivery
- service re-design and,
- a targeted reduction programme considering the actual services to be delivered.

110. The programme details a large number of projects at a corporate and service level. To date a significant number of projects have been completed, including:

- Strategic Best Value Review of Human Resources
- Redesign of Early Years
- The Environment Service - Corporate Health & Safety review
- The Environment Service - Waste Services review and
- Reshaping Community Care management Team.

111. A number of projects are on-going and whilst some have been delayed or put on hold the Council is effectively managing progress. The programme is underpinned by the Medium Term Financial Plan which will be subject to on-going review. The plan for the three years to 2011/14 was approved in November 2010 (updated in December 2011) and included corporate savings targets of £37.976 million, designed to help the Council to maintain and improve service delivery with reduced levels of funding and resources. Following the announcement of the Local Government Finance Settlement 2011/12 the savings target was revised in February 2011 to £22.710 million.

Performance management

112. The Council displays a robust approach to performance management and has a Performance, Planning & Risk Group which meets monthly. This group comprises the Corporate Strategic Planning and Improvement Team and a network of performance managers from all services. In addition to the regular monthly meetings of this group an annual meeting is held with a wider group of employees involved in the collection of performance information to discuss any changes in performance information required internally and any changes to the Accounts Commission Direction. The meetings ensure that systems are in place to facilitate the collection of performance information. The Corporate Strategic Planning and Improvement Team also has a role to play in auditing local procedures.

113. The Council's annual performance report for 2011/12 was published in June 2012. This report provides an update on progress against the Single Outcome Agreement (SOA) and national outcomes and includes both statutory and local performance indicators. The report includes performance information relating to the wider community planning partnership area, which includes Tayside Police, NHS Tayside, Tayside Fire & Rescue Service, Perth College, TACTRAN (Tayside and Central Scotland Transport Partnership) and PKAVS (Perth & Kinross Association of Voluntary Service).

Community/user engagement

114. The Council publishes extensive performance information on their public facing website, which also includes an evidence portal. The portal is a hyperlinked directory of information, reports, plans, awards and other documents which has been structured around the key areas - Improving Outcomes, Organised to Deliver, Strategic Leadership and Council Services. There is also an electronic feedback survey available for users.

115. Engagement and consultations with the wider community are carried out in specific areas, for example, on the local development plans. 'The Big Listen', was an engagement activity which will inform developments within the Council's cultural services and was held for six weeks during autumn of 2011. The results of 'The Big Listen' engagement have been reported to the Education & Children's Services Management Team. However, due to the elections and proposed committee changes, the report has not yet been discussed by members. 'The Big Listen 2' is expected to take place in autumn 2013.

Overview of performance in 2011/12

Perth & Kinross Council performance measurement outcomes

116. Performance measures are grouped under 15 local outcome areas ranging from Economy to Health and Public Services, each aligned to the SOA's national outcomes. For 2011/12 only one area, Infrastructure and Transport, has seen a decrease in performance, while two areas, equality and health, have delivered positive progress in performance. Against the backdrop of the economic recession, the Council has been able to maintain its previous performance in all other local outcome areas. When considered in the light of reducing funding across the public sector this performance outcome is positive. We note that the Council is currently developing an approach to a combined SOA and Community Plan as well as revising the Corporate Plan.

Statutory performance indicators

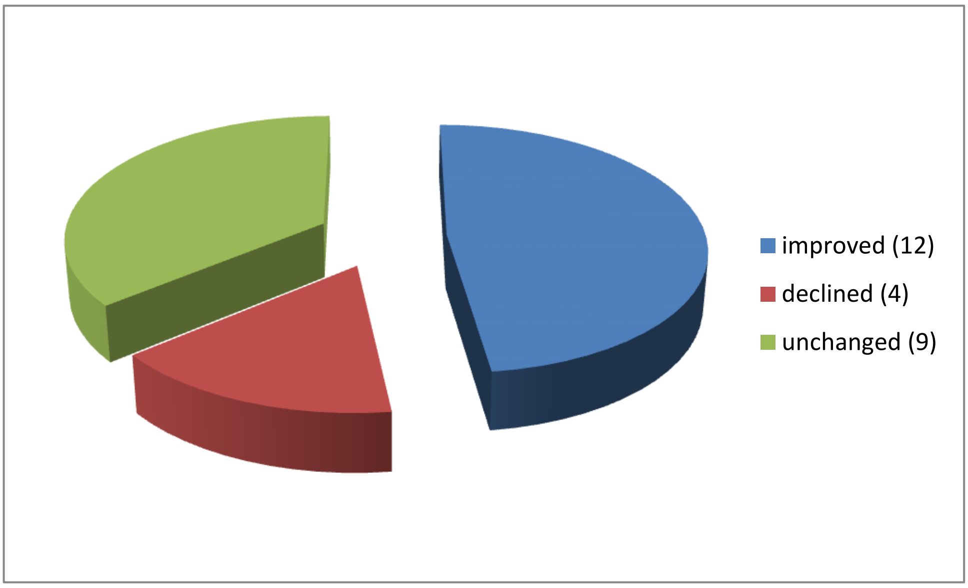
117. The Council’s Statutory Performance Indicators (SPI) are published on its website. In addition to the 25 specified SPIs for 2011/12 the Council is also required to publish local indicators which:

- demonstrate the council is securing best value
- assist stakeholders and other interested parties to compare performance both over time and between councils as appropriate.

118. The Council has identified a large number of local indicators covering a wide range of activities such as the average cost per kilowatt hour of fuel, management and maintenance costs per council house per annum and the cost of museums per visit/usage. Both local indicators and SPIs are included in the Annual Performance Report.

119. As shown in Exhibit 5 below, the majority of the specified 2011/12 SPIs have either been maintained or improved. The four indicators that declined relate to home care, museum attendance, response repairs and arrears management. The decline in the overall home care indicator is due to the lagging effect in changes to the home care policy and the decline in museum attendance is due to the closure of the Perth Museum for part of the year. Despite reporting a decline in response repairs within target deadlines, the Council continues to perform above the Scottish national average in this area. The current economic climate and associated impact on wages is seen as a contributing factor in the increase in rent arrears.

Exhibit 5: Improvements demonstrated by SPIs (Total 25 indicators)



Source: Perth & Kinross Council SPI data returns

120. Improved indicators include access to sports facilities and libraries, housing quality and dealing with homelessness.

121. During our review of SPIs we noted that because of limitations within the Council's systems and databases in relation to void properties, it may not always be possible to extract the information required for SPIs retrospectively. It is therefore very important that the relevant information is gathered as close to the year-end as possible to show the correct information and that reports are retained in a portable format which can be audited at a future date.

Refer Action Plan no 9

122. We also noted that the current array of local indicators does not include any "value" indicators measuring outcomes from resource inputs. This has been recognised by officers as a development need and discussions are on-going with finance staff to determine if and how such indicators can be collected.

National performance reports

123. 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 6. Officers maintain a record of national reports identifying the lead officer and what action has been taken to respond to the report. Whilst we note that in a number of instances these actions were reported to members there is no formal process to make members aware of all national reports of relevance to the Council.

Refer Action Plan no 10

Exhibit 6: A selection of National performance reports 2011/12

- Commissioning social care
- An overview of local government in Scotland - challenges and change in 2012
- Arm's-Length External Organisations (ALEOs): are you getting it right?
- Transport for health and social care
- The role of community planning partnerships in economic development
- Modernising the planning system
- Scotland's public finances: addressing the challenges
- Community Health Partnerships

Source: www.audit-scotland.gov.uk

Commissioning social care

124. Councils have a duty to provide social care for those who need it, whether they provide these services themselves, contract with voluntary or private organisations to provide them or give people a budget to arrange their own care. Strategic commissioning of social care is complex and challenging due to reducing budgets, changing demographics, growing demands and expectations, and moves towards care more tailored to the individual's needs. This report, issued in March 2012, highlighted that:

- Councils and NHS boards need to do much more to improve how social care services are planned, procured and delivered through better engagement with users and providers and better analysis and use of information on needs, costs, quality of services and their impact on people's quality of life.
- Councils are continuing to focus resources on people who need more intensive support, tightening eligibility criteria and increasing charges. There is a risk that people who need a small amount of support are not being offered the preventative services that might help delay or avoid their needing more costly intensive support, such as being admitted to hospital or into residential care.
- While processes are in place to monitor quality of services provided by voluntary and private sector providers, more needs to be done across Scotland to manage the risks to users when a provider goes out of business or closes for other reasons, including having contingency plans in place and monitoring effectively the financial health of voluntary and private providers.

- Users and carers need to be more involved in decisions about social care services and better evidence is needed of what difference the services make to people's quality of life.

125. The Council has been at the forefront of integrating health and social care services for a significant period of time having been part of the initial joint futures programme between 1999 and 2004. Along with Angus Council, Dundee City Council and NHS Tayside the Council have also been involved in the Tayside Integrated Resource Framework (IRF) an integrated locality resource model which aims to make the best use of health and social care resources and the assets within the area. Tayside was one of four test sites in Scotland responsible for the development of IRF for adult health and social care. The aim of the test sites was to support clinicians, care professionals and managers, working within the context of local health and social care, to achieve better outcomes for patients, service users and carers

126. The Council, in partnership with NHS Tayside, also successfully bid to the £70 million Change Fund made available in 2011/12, a Scottish Government programme which provides funding for the Health and Social Care, voluntary and private sectors to work together to develop services that will meet the challenges of a growing elderly population. Around £2.3 million has been allocated to the Perth & Kinross area from the Change Fund. The Change Fund has provided an opportunity for a Joint Commissioning approach to reduce the number of delayed discharge days for people aged over 65; reduce the number of unplanned admissions; and shift the balance of care between residential and community settings.

An overview of local government in Scotland - challenges and change in 2012

127. This March 2012 report provided the Accounts Commission's perspective on local government in Scotland and focussed on the challenges, risks and opportunities in 2012 it highlighted that:

- pressures on finances from reducing budgets and growing demands for services are substantial coupled with the statutory duty to secure best value, which requires continuous improvement while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability.
- there is a need to address the substantial backlog in maintaining buildings and roads and to secure further improvements to procurement practices.
- delivering sound governance and accountability and robust performance information and achieve better value for money and improved outcomes from existing partnerships is key.

128. The Audit Scotland report identified the top priorities for local authorities in 2012 and the Council are addressing many of these. A report to the Strategic Resources and Policy Committee in September 2012 outlined the progress made against each of the priorities. The 20 questions for new and returning Elected Members is to be included in the Elected Members Development Programme with a session on these questions to be scheduled in late autumn 2012.

Arm's-Length External Organisations (ALEOs): are you getting it right?

129. Currently, many councils use arm's-length external organisations (ALEO) to deliver a wide range of activities such as leisure services, economic development and property maintenance. In June 2011 Audit Scotland published the second report in our 'how councils work' series, focused on promoting and encouraging good practice in the way ALEOs are set up and operated. The key messages from the report were:

- Councils are increasingly using ALEOs as an alternative way of delivering services at a time of significant budget reductions.
- Where appropriate, ALEOs can offer the potential for reduced costs, new sources of income and greater flexibility. However, there may also be increased risks.
- The 'following the public pound' principles continue to provide the basis for sound governance of ALEOs.

130. In light of the good practice recommendations set out in the Audit Scotland report the Council reviewed the governance and accountability arrangements in place with Horsecross and Live Active Leisure (LAL), the two arm's length companies which deliver culture and leisure services on behalf of the Council. In September 2011 the Council agreed changes to the contractual monitoring and relationship management arrangements with these bodies, by agreeing to adopt a sole member model for each, with the Council as the sole member. Other key drivers for changing the delivery model were procurement and State Aid. Work to implement the move to sole member is progressing, with a view to having the new arrangements in place in the first half of 2013. Progress in this area is expected to be reported to Council in December 2012.

Transport for health and social care

131. The availability of transport is an essential part of making health and social care services work efficiently. Older people, those with long-term health or social care needs and people who live in remote and rural areas may need support to get to a hospital appointment or to access services such as their local day centre. This audit, the findings of which were published in August 2011, assessed the efficiency and effectiveness of transport for health and social care in Scotland. It found that:

- transport services for health and social care are fragmented and there is a lack of leadership, ownership and monitoring of the services provided. The Scottish Government, Regional Transport Partnerships, councils, NHS boards and the ambulance service are not working together effectively to deliver transport for health and social care or making best use of available resources
- data on costs, activity and quality is poor and the public sector will find it difficult to make efficient and effective use of available resources without this basic information
- there is scope to save money by better planning and management of transport for health and social care without affecting quality. Pilot projects show scope for efficiencies but these lessons have not been applied across Scotland

- reducing or removing funding from transport services can have a significant impact on people on low incomes, older people and people with on-going health and social care needs. However, the potential effect of changes to services is not often assessed or monitored and alternative provision is not always put in place.

132. A report was presented to the Housing and Community Care Senior Management Team in January 2012 where it was agreed that a short life Transport Policy Working Group would be established tasked with preparing an action plan in response to the national report. The Council's Annual Performance Report 2012 (issued September 2012) highlighted that a Health and Transport Framework has been developed, which will inform and guide partnership activity on promoting active travel to improve personal health and wellbeing, improving access to healthcare, addressing the impacts which transport has on public health and also tackling related issues identified in the August 2011 Audit Scotland Report on Transport for Health and Social Care. The Change Fund for Reshaping Older Peoples' services has also served to support work in one of the Council's more rural communities to explore the potential for both a community transport approach and shared usage of vehicles between agencies.

The role of community planning partnerships in economic development

133. Community planning is the process by which councils and other public sector bodies work together, with local communities, the business and voluntary sectors, to plan and deliver better services and to improve the lives of people who live in Scotland. All councils have established a community planning partnership (CPP) to lead and manage community planning in their area. This June 2011 report assessed whether CPPs have made a difference to local communities and highlighted that:

- CPPs have an important role in planning and coordinating improvements to local economies. Other aspects of economic development are better planned at a national or regional level. This means a more joined-up approach is needed to deliver the Scottish Government's overall purpose of achieving sustainable economic growth.
- The economic development component of Single Outcome Agreements (SOA) and local economic development strategies need to be better aligned and based on good information about local economies. They should include outcomes and indicators that enable progress to be assessed and managed. SOAs and economic development strategies should also be developed in close consultation with local businesses. While there are examples of CPPs performing well in these areas, this is not consistent across Scotland.
- CPPs have supported successful local economic developments. However, the reduction in ring-fenced funding and the current economic climate increase the need for CPPs to improve their understanding of the costs of delivering agreed outcomes and what this means for individual partners' budgets. The introduction of SOAs led to improvements in how CPPs monitor and report performance. However, partners need to share responsibility for managing performance against the SOAs.
- Existing accountability arrangements should be used to hold all statutory partners to account for their contribution to delivering SOAs. However, the tensions between

national and local priorities mean this does not always happen in practice. These tensions, and the differences in accountability, mean there are limits to the extent to which CPPs can hold partners to account for their contribution to agreed outcomes or be held to account themselves for delivery of their SOA.

134. As previously stated the Council has a strong track record in partnership working (refer paragraphs 66 and 107). In 2010/11 it developed a "How Good is our Partnership" model designed to help evaluate the effectiveness of the CPP in delivering improved local outcomes in the SOA. This was based on the Council's self evaluation tool "How Good is Our Council." Following a pilot by the Strategic Health Partnership the model has been used by The Community Safety Partnership and Children and Young People's Strategic Partnership.

Modernising the planning system

135. The planning system provides the framework for deciding how land is used, how communities take shape and how new developments look and work. It has to balance economic, environmental and community priorities and is central to achieving the Scottish Government's goal of sustainable economic growth. This report, which was published in September 2011, assessed whether recent reform and modernisation of the planning system is making it more economic, efficient and effective and found:

- the Scottish Government, key agencies and planning authorities have made progress in modernising the planning system and are working better together. However, more progress is needed to realise the full potential of modernisation
- despite modernisation and falling numbers of applications, few councils are performing well against timescales set for processing planning applications. However, time is only one indicator of performance and a more comprehensive performance measurement framework is needed. The Scottish Government and Heads of Planning Scotland are working together to develop a new framework for measuring and reporting performance
- the funding model for processing planning applications is becoming unsustainable. The gap between income and expenditure is widening, leading to greater dependence on already constrained council budgets.

136. The report was discussed by the Council's Planning Member Officer Working Group which regularly reviews performance. We have been advised that a new team structure was implemented in October 2011 to provide greater focus on dealing with types of application rather than being geographically based and the Council anticipates an improvement in performance as a result. Officers also agreed that determination speed was only one performance indicator and that the introduction of the new Performance Framework was welcomed.

Scotland's public finances: addressing the challenges

137. This August 2011 report provided an overview of the financial environment facing the public sector in Scotland and the cost pressures currently being faced. It outlined what the public sector is doing to respond to current and future budget reductions, and highlighted a number

of key risks and issues that the public sector needs to manage in responding to the challenges.

138. We noted that the report was distributed for consideration to the corporate management group and the Acting Head of Finance confirmed that the issues and risks identified within the report informed the preparation and consideration of the Council's Revenue and Capital Budgets and the update of the Medium Term Financial plan.

Community Health Partnerships

139. The NHS Reform (Scotland) Act 2004 required NHS boards to establish one or more Community Health Partnerships (CHPs) in their local area to bridge the gap between primary and secondary healthcare, and also between health and social care. CHPs are statutory committees or subcommittees of NHS boards, however councils also have a key role in working with their health partners to improve health and social care services. This audit, issued in June 2011, examined whether CHPs were achieving what they were set up to deliver, including their contribution to moving care from hospital settings to the community, and improving the health and quality of life of local people. It also assessed CHPs' governance and accountability arrangements and whether CHPs were using resources efficiently. In summary the report found that:

- approaches to partnership working have been incremental leading to cluttered partnership arrangements
- partnership working is challenging and requires strong shared leadership by both NHS Boards and Councils
- a more systematic joined up approach to resourcing and planning is needed to ensure that health and social care resources are used efficiently
- enhancing preventative services and moving resources across the whole system require effective joint working between NHS Boards and Councils.

140. This report was presented to the Perth & Kinross Community Health Partnership for consideration in December 2011. Officers also completed the self assessment checklist included in the national report. Overall the CPP acknowledges that more effective joint working will be achieved through the work of the Strategic Partnership between NHS Tayside and Perth & Kinross Council and the Integrated Resource Framework.

Local performance reporting

141. Audit Scotland agreed in 2010 to undertake targeted follow-up of a small number of performance audit reports each year to promote local impact and assess how far individual public bodies have improved performance as a result of selected, relevant national performance audits. *Maintaining Scotland's roads: a follow-up report* was selected for targeted follow-up in 2011/12. The aim of this work is to assess the progress made by Scottish councils in improving their management of road maintenance, focusing on road asset management planning, performance management and maximising value for money

142. *Maintaining Scotland's roads: a follow-up report* was published by the Auditor General and the Accounts Commission in February 2011. The report examined progress made by councils and Transport Scotland in implementing recommendations contained in a previous report on road maintenance published in 2004. It reviewed how the condition of the road network had changed since 2004, how much was being spent on road maintenance and how road maintenance was being managed.

143. Perth and Kinross Council is responsible for a local road network of 2,427 km with a gross replacement value of £1.9 billion before the value of its associated infrastructure is included.

144. We found that the Council is currently focussing efforts on the National Road Maintenance Review (NRMR) work and implementing associated recommendations. This national review is the Scottish Government's response to the Audit Scotland national report and is addressing recommendations relating to improving customer engagement, benchmarking, promoting opportunities for innovation, collaborative working and sharing of services together with securing the best use of finite resources. Officers advised that as the focus of work moved to NRMR this effectively deferred progress on areas of work related to the 2004 Report.

145. Against this backdrop we noted that:

- the key messages, recommendations and best practice included in the 2010 follow up report have not been considered nor any required actions taken
- the Road Asset Management was still in the process of being developed and
- whilst the backlog maintenance at the Council compares favourably with the national position it is on an upward trend.

146. We reported to the Audit Sub-Committee in September 2012 that these matters will be taken forward as part of the NRMR and development of the Council's Road Asset Management Plan and Road Maintenance Strategy.

Progress against audit risks identified in the SRA

147. The first Assurance and Improvement Plan (AIP) for Perth and Kinross Council was published in July 2010. That document set out the planned scrutiny activity for the Council for the period April 2010 to March 2013 based on a shared risk assessment undertaken by a local area network (LAN) made up of representatives of all of the main local government audit and inspection agencies.

148. The AIP has been updated twice since 2010 with the latest version being reported to the Council in June 2012. The 2011 AIP update recognised the strength of the Council's self-evaluation and performance management arrangements and its achievements in securing improved performance and better outcomes for local people. The 2012 refresh confirmed this position and there were no significant scrutiny risks identified. Whilst the LAN recognised the uncertainty faced by the Council, and all public bodies, in relation to the financial position it concluded that Perth & Kinross Council was well placed to manage the challenging financial environment.

149. Some areas of uncertainty for the LAN were identified during the 2011/12 refresh process relating to internal targets for properties being brought up to Scottish Housing Quality Standard (SHQS) standards, and increasing rent arrears. As a result the Scottish Housing Regulator (SHR) plans to review the Council's asset management, progress against SHQS and rent arrears in November 2012. A joint exercise looking at capacity improvement in relation to Community Campus' is also planned between the Council and Education Scotland.

150. There was no additional scrutiny identified by the LAN for years 2 and 3 of the AIP. The LAN will meet again towards the end of 2012 to update the SRA and determine whether any further scrutiny work is required for Perth & Kinross Council.

Outlook

151. The Accounts Commission has developed an audit approach for the audit of Community Planning Partnerships. This approach is being piloted in the autumn of 2012 and rolled out across the sector thereafter.

152. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the Scottish Government consulted on a set of 'Specific Duties' which came into force in May 2012. There are nine specific duties listed which aim to support public bodies to better perform against the 'General Duty,' including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013. We will consider progress made by the Council in implementing these requirements as part our 2012/13 audit.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	16 February 2012	27 March 2012
Shared Risk Assessment/Assurance and Improvement Plan	30 April 2012	27 June 2012 (Council meeting)
Internal controls management letter	22 August 2012	12 September 2012
Maintaining Scotland's roads - follow-up review	27 August 2012	12 September 2012
Report on financial statements to those charged with governance	20 September 2012	Delegated to CE, Head of Finance and Leader
Audit opinion on the 2011/12 financial statements	25 September 2012	3 October 2012 (Council meeting)
Audit opinion on the 2011/12 Whole of Government accounts consolidation pack	28 September 2012	N/A
Report to Members on the 2011/12 audit	31 October 2012	19 December 2012 (Council meeting)

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	12	The Council has included an annual governance statement (AGS) in the 2011/12 financial statements which covers both the single entity and the group accounts. Currently, however, the actions identified for improvement are not SMART, there is no link back to actions due from previous years and the preparing officer is not advised when planned actions have been completed and therefore are no longer relevant. ***Risk***: *Actions included in the AGS are not achievable and do not lead to improvements in controls.*	Clear references to the previous year's improvement actions will be made on the AGS. Further improvement actions will be SMART where possible. The officer responsible for each improvement action will report on progress to the officer preparing the AGS.	Head of Legal Services	April 2013
2	13	We noted that, the 2011/12 AGS was not discussed and approved at either a Council or audit sub-committee meeting. Members therefore did not have an opportunity to discuss the AGS before the final accounts were signed as required by the Code of Audit Practice 2011. ***Risk:*** *Members are unaware of weaknesses in the control environment to enable them to take appropriate action before this information is in the public arena.*	The AGS timetable will be amended to ensure that the AGS can be referred to the appropriate Committee for discussion and approval prior to signing.	Head of Legal Services	April 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	21	The Council did not confirm the assumptions made by the actuary in 2011/12 for calculating pension costs to ensure these reflect local circumstances and experience. ***Risk***: *Actuarial assumptions may not be relevant to or reflect the experience of the Council resulting in a misstatement of the financial statements*.	For 2012/13 the actuarial assumptions will be discussed with the Actuaries and reviewed.	Chief Accountant	June 2013
4	23	The Council has an interest in Tayside Contracts Joint Committee (TCJC) and this body is included in the group accounts. The current approach is for the Council to take its share of the TCJC's surplus or deficit into the single entity accounts and assets/liabilities reflected in the group accounts. Changes to accounting practices since the adoption of international financial reporting standards means further clarity is required on this approach. In addition the Minute of Agreement should be revisited to ensure actual practice complies with the constituent authorities intentions. ***Risk:*** *The treatment of TCJC in the group accounts is not appropriate and does not comply with accounting standards. In addition, the minute of agreement does not reflect the actual operation of TCJC.*	The Head of Legal Services will review the Minute of Agreement. The Head of Finance will discuss this issue with representatives of Angus and Dundee Councils and agree a way forward	Head of Legal Services Head of Finance	Dec 2012 Mar 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	25	The Kinross Common Good has been in debt to the Council over several years and as at 31 March 2012 the outstanding balance was £0.017 million. Common Good funds do not have powers to borrow and in our view this is therefore technically a breach of statute. We note that this debt will be repaid following the sale of Kinross Town Hall. ***Risk***: *The sale of the town hall does not take place and the technical breach is not resolved prior to the 2012/13 financial statements preparation*	Examine legal position and identify options for correcting this issue	Head of Legal Services Head of Finance	Dec 2012
6	29	The Council is required to submit a WGA return to the Scottish Government for incorporation in the whole of government accounts. This return is not given the same level of priority as the annual accounts. The return was submitted late to audit and a number of amendments were required as a result of the audit. ***Risk:*** *The Council's WGA information is inaccurate.*	The return will be completed on time for the 2012/13 accounts	Chief Accountant	July 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
7	47	The Council's general fund capital programme was underspend by 25% this year and housing revenue by 29%. ***Risk*** *Through lack of investment or improvement to the asset base the Council is unable to deliver efficient and effective services and contribute to a prosperous, sustainable and inclusive economy for its area.*	Heads of Performance and Resources have been commissioned by the Executive Director (The Environment Service) to review existing arrangements and develop proposals for consideration by Corporate Resources Group (CRG) and Executive Officer Group (EOT) which will address a number of issues surrounding governance, slippage, asset management, capital budget setting and procurement & contract management within General Fund and HRA capital programmes.	Head of Finance & Support Services	Mar 2013
8	96	The Bribery Act 2010 became effective on 1st July 2011 and introduced an offence by “commercial organisations” if they fail to prevent bribery. Councils fall under the definition of commercial organisations and the Council has not yet carried out a risk assessment to determine whether additional procedures are required to comply with this Act. ***Risk***: *The Council does not comply with the statutory requirement in respect of bribery and corruption.*	A risk assessment will be carried out	Solicitor	Jan 2013

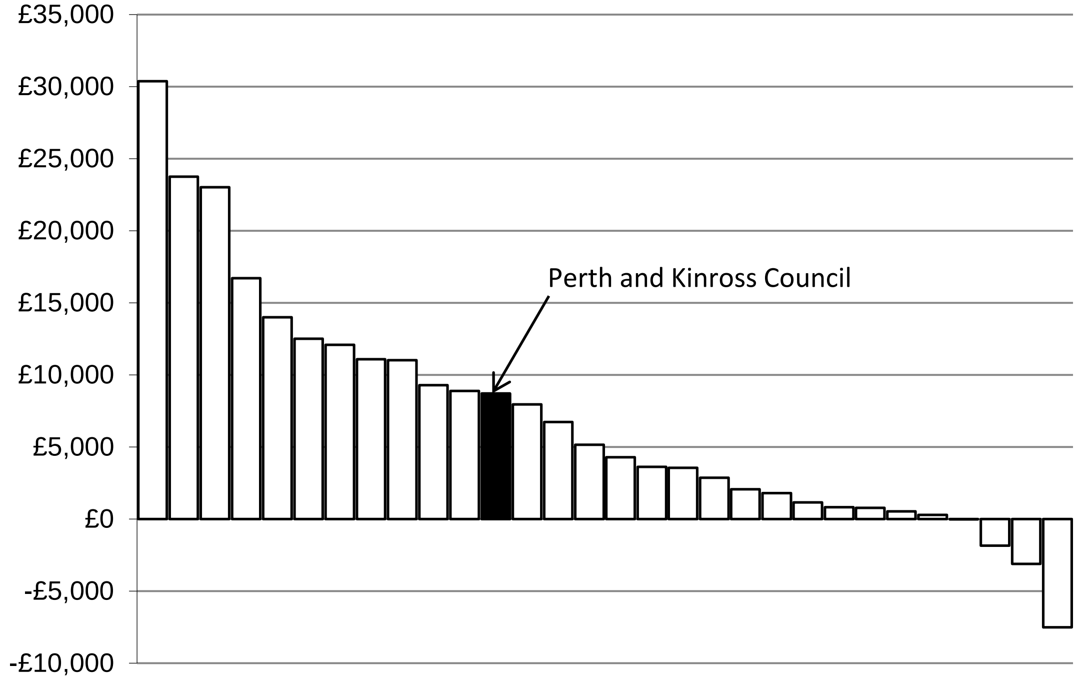
Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
9	121	Due to limitations within the Council's systems and databases in relation to void properties, it may not always be possible to extract the information required for SPIs retrospectively. It is therefore very important that the relevant information is gathered as close to the year-end as possible to show the correct information and that reports are retained in a portable format which can be audited at a future date ***Risk*** *Information to support the SPIs is not available and therefore there is no assurance that the figures are accurate*	A new report has been written to extract the information from the database. Procedures have been changed to ensure the report is run at the year end and a hard copy of the report is to be kept for audit purposes.	Housing Repairs Service Manager	Completed
10	123	Whilst we note that in a number of instances action taken by officers in relation to Audit Scotland national reports were considered by members there is no formal process to ensure members are aware of all national reports of relevance to the Council. ***Risk*** *Risks or areas of good practice identified through national performance reports are not appropriately considered and addressed by the Council.*	A report will be taken to the Strategic Policy & Resources Committee on a 6 month basis to update members	Head of Performance and Resources	Mar 13

Appendix C: graphs

The following graphs show the Council's position relative to other local authorities. These graphs are based on the unaudited information provided to Audit Scotland in June 2012.

Increase/Decrease in total Usable Reserves in 2011/12 (£000)

Comparison of movement in reserves across Scottish authorities (refer paragraph 42)

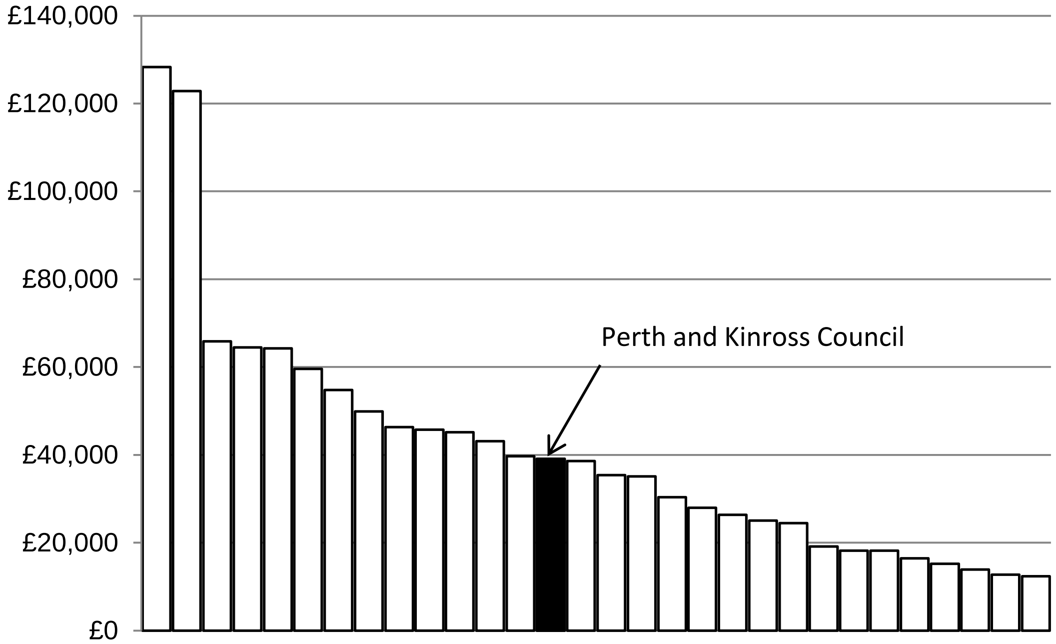


Source: Audit Scotland. Local Government in Scotland Analytical Review 2012 (excl. Shetland and Orkney)

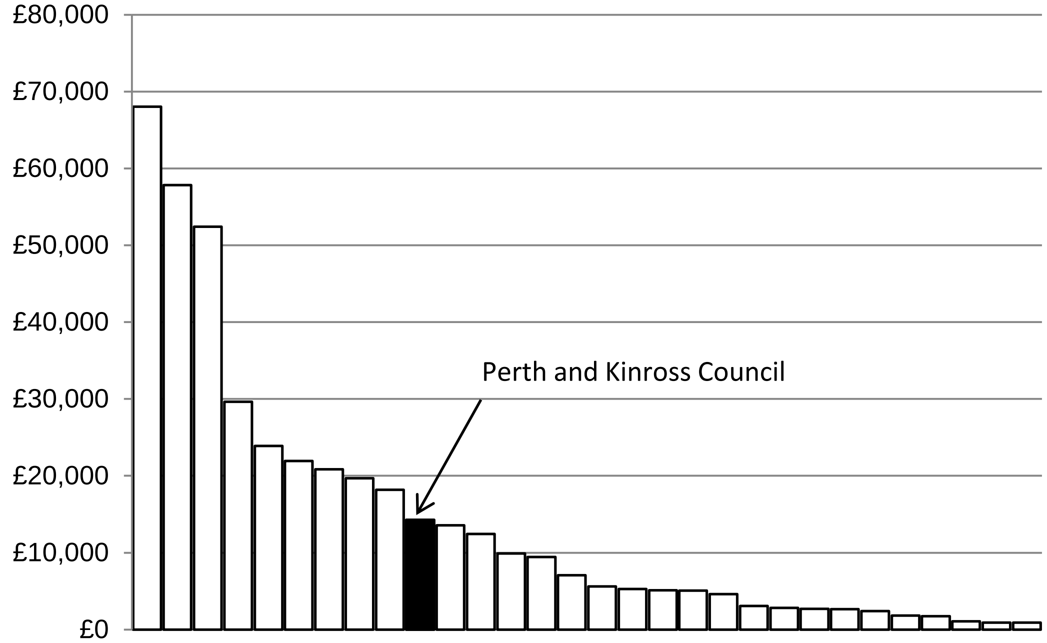
Total Usable Reserves

Comparison of total usable reserves held by local authorities split between capital and revenue (refer paragraph 44).

Usable Revenue Reserve Balances as at 31 March 2012 (£000s)



Usable Capital Reserves as at 31 March 2012 (£000s)



Source: Audit Scotland. Local Government in Scotland Analytical Review 2012 (excl. Shetland and Orkney)