

# East Dunbartonshire Council

## Annual report on the 2012/13 audit



Prepared for Members of East Dunbartonshire Council and the Controller of Audit  
November 2013

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

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# Key messages

## 2012/13 Key Facts

### Introduction

This report summarises the findings from our 2012/13 financial audit of East Dunbartonshire Council. As part of the audit we assessed the key financial and strategic risks faced by the council. We audited the financial statements and reviewed the council's financial position and aspects of governance.

The report also summarises the findings from our targeted Best Value audit work. The council's 2013-16 assurance and improvement plan<sup>1</sup> highlighted some areas of scrutiny risk and uncertainties in: performance information and management; asset management; workforce management; and procurement. These are important factors in supporting continuous improvement.

This report therefore provides an overall picture of the progress which the council has achieved in managing its resources and the challenges it faces in future.

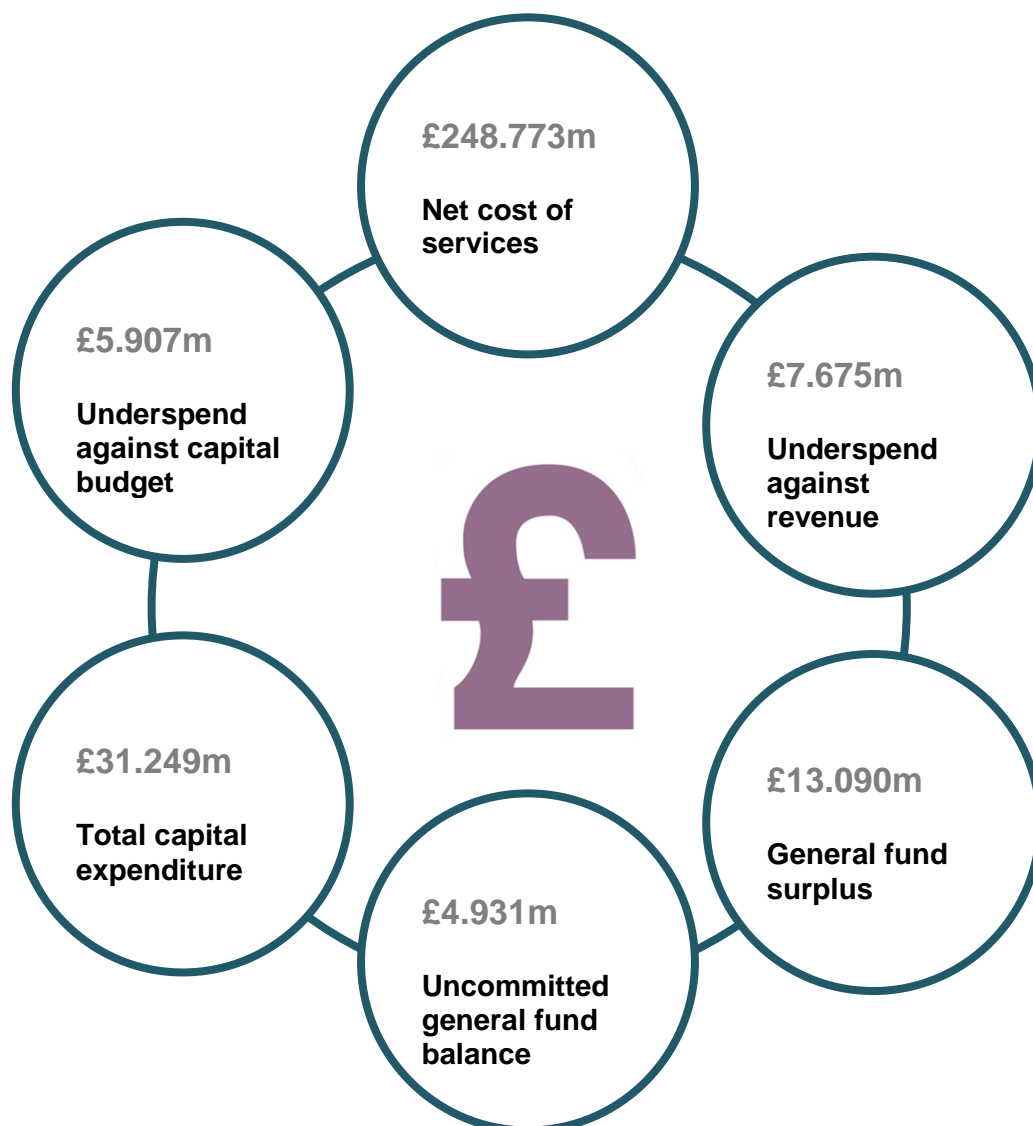
### Financial statements

We have given an unqualified opinion on the financial statements of the council and its group for 2012/13. In our opinion they give a true and fair view of the financial transactions for the year to 31 March 2013 and the financial position at that date.

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<sup>1</sup> For each council in Scotland, a shared risk assessment is carried out by a local area network made up of the main local government audit and inspection agencies. This results in an assurance and improvement plan (AIP) which sets out planned scrutiny activity over the next three years.

## Financial results



## Use of resources

The council reported favourable financial results in 2012/13. Spending was contained within budgets. The general fund, which accounts for most of the council's business activity, recorded an in year surplus of £2.091 million. Despite this, the council's uncommitted general fund balance of £4.931 million remains low in comparison to many other Scottish councils.

The council faces financial challenges from 2014/15 and plans to achieve savings through efficiencies in procurement and charging, coupled with the implementation of new organisational planning arrangements and its transformation programme. The current organisational delivery model was approved by the council in February 2013 and builds on the previous approach. Within that, the transformation programme sets out how organisational change, efficiencies and improvements will be achieved. However, key elements of the transformation programme such as internal shared services and locality based service delivery are scheduled for implementation from late 2013 onwards. Consequently, most of the potential benefits are yet to be realised.

The council has refined its approach to asset management to reflect strategic priorities and financial constraints. However, recent and significant changes to projects forming part of the capital programme mean that the council is reviewing its capital plans and related financing. A new corporate asset management plan will be considered by the council in December 2013. The council has also recently reassessed the quality of information provided to elected members to assist their consideration of asset-related matters e.g. the purchase and disposal of land and buildings. It is taking steps to ensure better information on options, costs and risks is available to elected members to support debate, scrutiny and decision-making.

The council needs to modernise its procurement practice to maximise value for money and to make efficiency savings. Its procurement capability assessment score has deteriorated and is now the lowest of all Scottish councils. While there are plans to make the improvements required within 12 months, the council faces significant challenges in achieving this due to the structural and cultural change needed.

As part its response to budget pressures, the council plans to further reduce its workforce by 250 posts by 2017. It is managing this through the workforce strategy element of its transformation programme. The pace of changes to the workforce is substantial and the council needs to ensure it engages effectively with all stakeholders on its proposals. It also needs to carefully manage inter-related changes in its financial position and service delivery through, for example, its community hubs initiative to achieve its workforce goals.

The council made significant changes to its senior management structure as part of the budget setting process in February 2013. This is designed to reduce costs. It is, as yet, too early to assess the effect on organisational capacity and resilience.

## Governance and accountability

During the audit we identified certain control areas where procedures require to be strengthened. These relate to internal control processes and year end closedown procedures for a number of the council's key financial systems. The council needs to develop these procedures further during 2013/14 to ensure that accurate financial management is clearly and timeously demonstrated. It is concerning that we reported issues with the same financial systems in last year's annual audit report.

The council monitors and manages its activity through a system of strategic service committees. Scrutiny functions are discharged by the audit and risk management sub-committee as well as three scrutiny panels that monitor the performance of council services. In June 2013, the council agreed revised arrangements for the functioning of scrutiny panels to align with changes to its organisational structure. We will continue to monitor the effectiveness of these arrangements.

As part of these changes, in June 2013 the leader of the opposition was appointed as convener of the audit and risk management sub-committee. This followed a 13 month period where there were no nominations from opposition members to chair the sub-committee. This is a positive development in governance arrangements and brings the council into line with recommended good practice.

## Performance information

The council monitors and reports a broad range of performance information. However there is scope for this information to be clearer, better targeted and more robust. The council is improving the methods for reporting information to elected members and other stakeholders and recognises the need to focus more clearly on using performance information to support improvement.

## Outlook

Scotland's public bodies will continue to face increasing demand and cost pressures for the foreseeable future. East Dunbartonshire and other councils will have to make increasingly difficult decisions to deliver its priorities and balance budgets in future years. This is reflected in the council's 2013/14 budget which includes savings plans totalling £1.8 million.

Looking further ahead, the council has projected the need for cumulative revenue budget savings of approximately £20 million over the four year period from 2014/15 to 2017/18. The council's uncommitted reserves may be required to meet future one-off costs and cannot be relied upon to cover budget shortfalls. The council aims to achieve recurring savings through its transformation programme to address future funding gaps.

Alongside its financial plans, the council has plans in place to manage its workforce, assets and procurement. It is too early to assess the full effectiveness of the council's wide-ranging improvement programme. The scale of the challenge it faces is substantial, and the council needs to ensure it has the right level of staff skills and capacity to support improvement.

In addition to the challenges of managing resources and service improvements, there is also the public reform agenda, particularly welfare reform, which is resulting in the biggest change in the UK welfare system in 60 years. There are early indications that welfare reform is leading to increased rent arrears while research groups such as the Rowntree Foundation are warning of increasing poverty and homelessness amongst the poorer sections of society.

The co-operation and assistance given to us by officers during the audit is gratefully acknowledged.

# Introduction

1. This report is the summary of our findings from the 2012/13 audit of East Dunbartonshire Council and the targeted Best Value audit work identified in the council's assurance and improvement plan. 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 from the audit work. 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 work. 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. Elected 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 elected members and the Controller of Audit and should form a key part of discussions with the audit committee, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. Reports should be available to the 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 the Commission provides a briefing based on the report to the Public Audit Committee and the Local Government and Regeneration Committee of the Scottish Parliament.
6. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The council is also responsible for securing Best Value.<sup>2</sup> The auditor is responsible for auditing and expressing an opinion on the financial statements and for assessing progress against the council's Best Value responsibilities. 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.

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<sup>2</sup> As defined in the Local Government in Scotland Act 2003



7. The local area network (LAN) of scrutiny partners for the council, conducted a shared risk assessment (SRA) in November 2012, and produced an assurance and improvement plan (AIP) covering the period 2013 to 2016. This was published on Audit Scotland's website and was submitted to the council on 2 May 2013 for information and consideration by elected members.
8. The AIP identified four corporate areas to be subject to targeted Best Value audit work:
  - Performance information and management;
  - Asset management;
  - Workforce management; and
  - Procurement.
9. The targeted Best Value audit work was carried out in July and August 2013. The conclusions from the targeted Best Value audit work are included in this annual audit report to provide an overall picture of the progress the council has achieved in managing its resources and the challenges it faces in future.

# Financial statements

10. 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.
11. 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.
12. Auditors review and report on, as appropriate, other information published with the financial statements, including the annual governance statement and the remuneration report. 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

13. We have given an unqualified opinion that the financial statements of East Dunbartonshire Council for 2012/13 give a true and fair view of the state of affairs of the council and its group as at 31 March 2013 and of the income and expenditure for the year then ended.

## Legality

14. Through our planned audit work we consider the legality of the council's financial transactions. In addition the director of finance and shared services has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's corporate management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

## Going concern and group accounts

15. The council has prepared the financial statements on the assumption that both the council and its group can continue to operate as a going concern in future.
16. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations. For the purpose of consolidation and incorporation within the group accounts the council has two subsidiary organisations (Mugdock Country Park Joint Management Committee and East Dunbartonshire Leisure and Culture Trust Ltd) and five associates (Strathclyde Police Joint Board, Strathclyde Fire and Rescue Joint Board, Strathclyde Partnership for Transport, Strathclyde Concessionary Travel Scheme Joint Committee, and Dunbartonshire and Argyll and Bute Valuation Joint Board).

17. The overall effect of inclusion of all of the council's subsidiaries and associates on the group balance sheet is to reduce both reserves and net assets by £196.560 million. The group balance sheet as at 31 March 2013 discloses net assets of £127.836 million (2011/12 £190.831 million).
18. Police and Fire functions transferred to the Scottish Police Authority and the Scottish Fire and Rescue Service on 1 April 2013. The group balance sheet position will improve, in future years, as the council will no longer be required to accrue the pension liabilities of police and fire into its group accounts. By way of illustration, the group balance sheet as at 31 March 2013, without the inclusion of the Strathclyde police and fire financial statements, would disclose an excess of assets over liabilities of £332.334 million.

### Statement on the System of Internal Financial Control

19. As part of our annual audit we review the disclosures made in the Statement on the System of Internal Financial Control (SSIFC), included in the financial statements, and the process for obtaining sufficient assurances to inform the content of the statement. We are satisfied that the disclosures in the SSIFC comply with The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.
20. The SSIFC refers in outline to a number of areas where improvements are being progressed:
  - implementation of an action plan to address weaknesses in stock count controls
  - the development of additional key controls to support the reconciliation of operational systems to the financial ledger
  - integration of human resources and payroll systems to address the risks associated with separate systems and the reconciliation of underlying information.
21. The CIPFA publication *Delivering Good Governance in Local Government* recommends a structure to help local authorities develop and maintain a local code of governance and discharge accountability for the proper conduct of public business. It recommends the publication of an annual governance statement to make the adopted practice open and explicit. The council included an annual governance statement and SSIFC in last year's financial statements. However, following a review by the audit and risk manager it was concluded that the council's processes did not meet the requirements of an annual governance statement and therefore the statement was not included in the 2012/13 financial statements. The council should consider taking measures to reinstate an annual governance statement in 2013/14.

### Remuneration report

22. We are satisfied that the remuneration report has been prepared in accordance with the relevant legislation. The disclosures within the 2012/13 financial statements include all eligible remuneration for the relevant council officers and elected members under a number of categories including pension benefits.

## Accounting issues

23. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code). Overall we are satisfied that the council prepared the 2012/13 financial statements in accordance with the 2012/13 Code.

## Accounts submission

24. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2013. A good quality working papers package was made available to our audit team prior to this date. However a number of year end reconciliations of key financial systems within revenues and benefits were not provided until the end of August 2013. Despite this we were able us to conclude the audit and certify the financial statements prior to the target date of 30 September 2013. The financial statements are now available for presentation to elected members and publication.

## Presentational and monetary adjustments to the unaudited accounts

25. A small number of presentational and monetary adjustments were identified within the unaudited financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements. As is normal practice the effect of the monetary adjustments was included in our *ISA 260 - Report to those charged with governance on the 2012/13 audit* submitted to the audit and risk management sub-committee on 23 September 2013. As a result there were no unadjusted misstatements requiring to be brought to the attention of the audit and risk management sub-committee.

## Pension costs

26. East Dunbartonshire Council is a member of Strathclyde Pension Fund which is a multi employer defined benefit scheme. In accordance with pension accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation as at 31 March 2013 provided by the scheme's actuaries increased the council's share of the deficit from £85.1 million last year to £108.7 million this year.
27. It is important to note however that this additional liability does not have any immediate impact on the council's financing requirements. The council will continue to make annual contributions to the Pension Fund, through employer contributions, in accordance with triennial valuations carried out by the actuaries.

## Equal pay

28. At 31 March 2013, the council had a provision of £3.9 million in respect of 461 outstanding equal pay compensation claims. This included a number of duplicate and triplicate claims the validity of which has still to be assessed. We have been advised that the council is not likely to be in a position to settle any cases for some time, therefore the source information for estimating the likely value of claims is limited at present. Overall we have taken the view that

the council's approach, given the limited information available to it at this point, is not unreasonable. The council is continuing to work towards reaching settlement with employees, and thereby to refine its estimates of the likely liabilities.

29. The council acknowledges that it remains possible that further equal pay claims may be lodged by employees, but has not created an additional provision due to the uncertainty around future claims and tribunal outcomes. The council has disclosed an unquantified contingent liability in the financial statements in respect of future unknown equal pay claims.

## Reconciliations and internal control processes

30. During the course of the audit we identified a number of issues in relation to the council's internal control processes and year end closedown procedures. These had also been highlighted in the prior year. These include:
- The non domestic rates, council tax, cash imprests and debtors systems have not been reconciled to the financial ledger on a regular and timely basis throughout the year. Year end reconciliations were not provided until the end of August and these included unidentified variances totalling £0.031 million;
  - Issues were identified in relation to the accuracy and completeness of stock records completed for the year-end stock take;
  - The council made overpayments of approximately £0.1 million to care homes for providing personal care. To a degree, the payment pattern for these transactions, which involves payment in advance, is susceptible to overpayment as residents' situations may change suddenly. The council was already aware of the overpayments that arose, is pursuing recovery, and is considering its arrangements going forward.
31. These issues have arisen mainly due to staff absences but also because of limitations in the council's current systems. The council took measures to address the control issues to ensure the accuracy of the reported values in the financial statements. We have received assurances from the Director of Finance and Shared Services that procedures will be improved in 2013/14. The council should undertake this action as a priority.

**Refer to Action Point No. 1**

## Council tax rebanding

32. Towards the end of the audit an emerging issue was brought to our attention by council staff. This relates to the potential rebanding of around 1,000 houses within the council's area. A number of successful appeals indicate that the financial implications for the council are potentially significant. Given the council's relatively low level of uncommitted reserves, meeting the costs of the rebanding could have a significant impact on the delivery of council services. The council has disclosed a contingent liability in the financial statements for the council tax rebanding and disclosed it as an event after the balance sheet date. Dunbartonshire and Argyll and Bute Valuation Joint Board is planning to conduct a survey of the affected properties to assess the appropriateness of their banding.

## Annual leave accrual

33. The council has reflected a material prior year adjustment to the financial statements of £3.978 million. This arises because in 2011/12 the council calculated its annual leave accrual in relation to teachers based on the revised pay and conditions set at the Scottish Negotiating Committee for Teachers in May 2011. However due to difficulties in implementing the proposed changes to teachers' pay and conditions, the council has reverted back to the previous basis for calculating the accrual. The current annual leave calculation reflects the actual teachers' working pattern in the council area. The council plans to revisit the basis of the annual leave accrual once the difficulties in implementing the proposed changes to teachers' pay and conditions have been resolved.

## Asset decommissioning costs

34. In April 2013, Scottish Coal Company Limited which operated a number of open cast mine sites across Scotland, went into liquidation. On 11 July 2013, the Court of Session in Edinburgh ruled that the liquidated company could abandon the sites and therefore was not liable for the cost of restoring these sites to their original condition. As a result of this ruling, potential costs may eventually fall to the relevant public sector bodies including Scottish Environmental Protection Agency, Scottish Natural Heritage, East Ayrshire Council and South Lanarkshire Council. The estimated cost of restoration of the sites at September 2013 was £161 million.
35. East Dunbartonshire Council has several landfill sites located within the local area, none of which it operates. Based on the Court of Session ruling the council could be liable for the costs of restoring these sites to their original condition. The council believes that this risk is mitigated by conditions attached to the operation of the sites. For this reason it does not believe they have a requirement to make provision for asset decommissioning costs.

## Whole of government accounts

36. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidation pack to support its 2012/13 WGA return to the Scottish Government prior to the deadline of 30 August 2013. This has now been audited and the audited return submitted.

## Outlook

37. A full audit is required from 2013/14 of all registered charities where the local authority is the sole trustee irrespective of the size of the charity. This is due to the interaction of section 106 of the Local Government (Scotland) Act 1973 with the Charities Regulations. In 2013/14 we will require to audit and report on eight charities.
38. The Assistant Auditor General (AAG) wrote out to Local Government Directors of Finance in June 2013 advising them of these new arrangements and the Accounts Commission's

decision to appoint the auditor of each council as the auditor of its relevant charities. This is likely to result in an increase in audit costs and will form part of the fee discussions as part of the 2013/14 audit planning process.

39. Also, the AAG has indicated that councils that have not made any progress in reducing the number of registered charities using the reorganisation provisions of the charities legislation might want to consider doing so in order to reduce the number of separate audits required. Furthermore, the AAG also suggested that councils might also like to consider whether they can use the connected charities provisions in the regulations to reduce the number of separate reports and accounts required to be submitted to OSCR.
40. A consultation exercise is currently underway in terms of the Local Authority Accounts (Scotland) Regulations. It is likely that for 2013/14 local authorities, if they do not already do so, will require an audit committee or similar to approve the accounts of charities by 30 September 2014.
41. The Scottish Government has been carrying out a consultation on the amendment of the Local Authority Accounts (Scotland) Regulations 1985, to be effective from 2013/14. Possible changes could affect the period of public notice for accounts, signing and consideration of audited accounts, and their publication. We will liaise with the council as and when these developments emerge.

# Use of resources

42. The Local Government in Scotland Act 2003 placed a statutory duty of Best Value on local authorities. Also, local authorities are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based. This year we co-ordinated our financial audit and targeted Best Value audit work to give an overall view on the council's progress in managing its resources and the challenges it faces.

## Financial results

43. In 2012/13, as recorded in the comprehensive income and expenditure statement, the council spent £310.732 million on the provision of public services and had an accounting deficit of £28.680 million. However, this includes certain elements of income and expenditure that are accounted for to comply with the Code of Practice on Local Authority Accounting, which are then adjusted to show their impact on statutory council reserves. These adjustments resulted in an increase in the general fund balance of £2.091 million.

## Budgetary control

44. The council reported net service expenditure of £235.201 million in 2012/13, representing a total underspend of £7.634 million (3.1 per cent) against service budgets.
45. Key factors contributing to the overall underspend were as follows:
- Education reported an underspend of £2.344 million which resulted from savings in staffing budgets and lower than expected payments to private providers for after school care. The remaining £0.634 million related to underspends across a number of budget headings which will be carried forward to 2013/14.
  - The Roads and neighbourhood underspend was £1.353 million. This was due to the service receiving additional income from recharges for work carried out on capital projects. A number of capital projects not in the original programme of works were undertaken in the last three months of the financial year resulting in unanticipated income for the service.
  - An underspend of £3.802 million was reported for miscellaneous services and joint boards due to unspent contingency budget and the return of £0.830 million of Police and Fire Board reserves to constituent councils.
46. The Housing Revenue Account (HRA) reported an in year surplus of £0.071 million. This resulted from additional income from a scheme to retain income generated from a reduction in council tax discount on long term empty properties and second homes. The income will be earmarked for affordable housing. The closing surplus for the HRA was £1.554 million, with £0.588 million earmarked, leaving a contingency balance of £0.966 million.



## Financial position

47. The general fund, which accounts for most of the council's business activity, recorded a net surplus for 2012/13 of £2.091 million, increasing the general fund balance to £13.090 million as at 31 March 2013. This balance is made up of earmarked commitments of £8.159 million leaving an uncommitted surplus of £4.931 million, which has increased from £3.043 million in 2011/12. This maintains the council's prudential reserve of £2.500 million, meeting its target level, and leaves a contingency reserve of £2.431 million to assist with budget pressure in 2013/14.
48. Earmarked balances, which reflect commitments to fund a range of future projects, represent 62.3 per cent (2011/12: 72.3 per cent) of the general fund. The balances of reserves held by the council are discussed by members as part of the regular budget monitoring processes. The use of balances for earmarked purposes has been agreed with members.
49. Exhibit 1 shows the balances in the council's funds at 31 March 2013 compared to the previous year. The council's funds at 31 March 2013 totalled £30.918 million, a reduction of £1.990 million on the previous year. The overall decrease in reserves was due to £4.061 million of the capital fund being utilised for capital and revenue expenditure in 2012/13 (including £2.061 million to meet one off costs associated with the council's transformation programme). Other reserves are in effect the council's renewal and repair fund, which is a statutory fund established to provide for infrastructure investment.

### Exhibit 1: Usable reserves

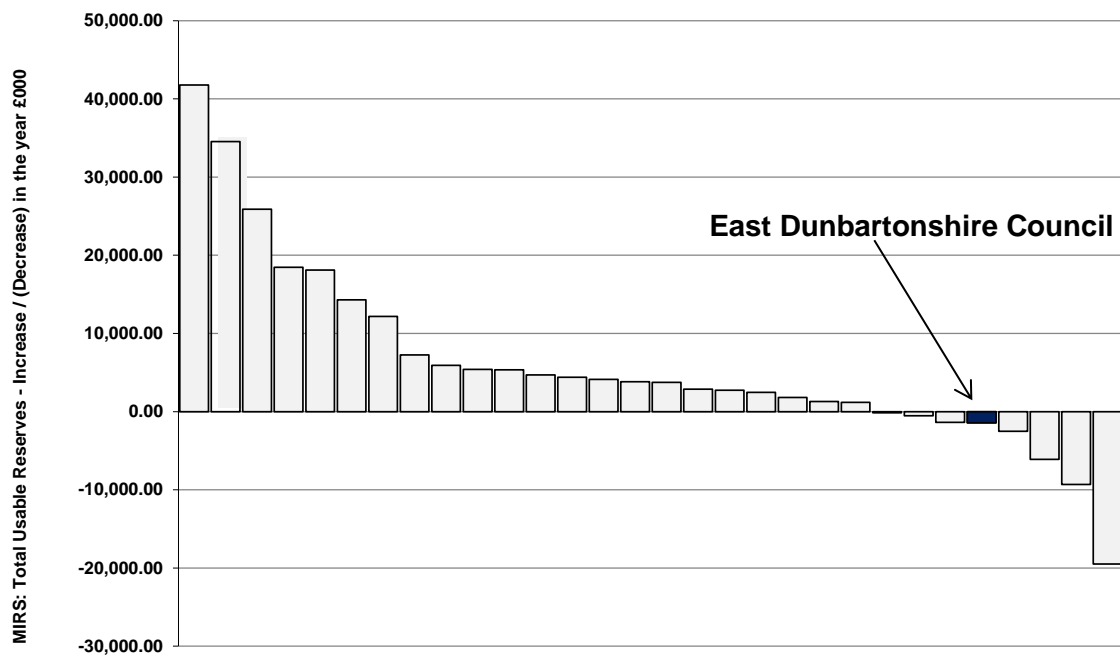
Description	31 March 2012	31 March 2013
	£ million	£ million
General Fund	10.999	13.090
Housing Revenue Account	1.483	1.554
Capital Receipts Reserve and Capital Fund	19.423	15.362
Other Reserves	0.283	0.912
<b>Total Usable Reserves</b>	<b>32.188</b>	<b>30.918</b>

Source: East Dunbartonshire Council 2012/13 financial statements

50. There are a number of key financial ratios which can be considered as measures of the financial health of the council. Some of these ratios are presented in chart form below, showing where the council lies in relation to other councils in Scotland.
51. The overall reduction in total usable reserves in 2012/13 is not consistent with the picture across the majority of Scottish councils, as shown by Exhibit 2 below. East Dunbartonshire Council's usable reserves have decreased by 4.1 per cent on the previous year, whereas most Scottish local authorities have reported an increase in usable reserves in their unaudited

accounts. As explained in paragraph 49 this is due to a decrease in the balance of the capital receipts reserve and capital fund.

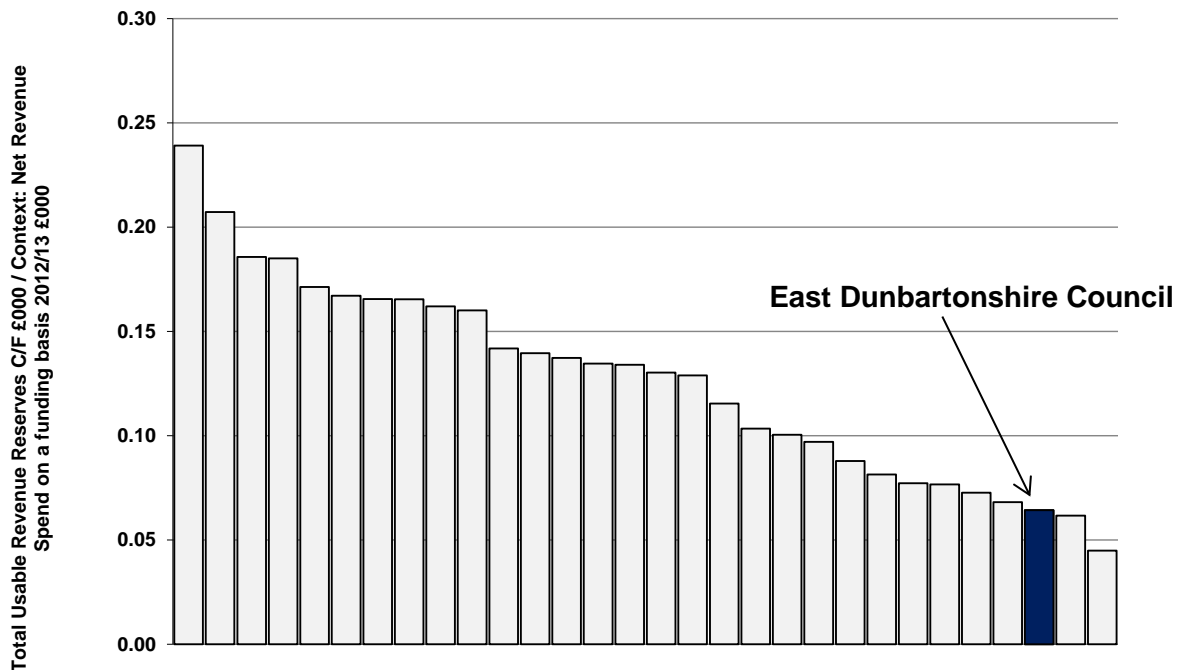
**Exhibit 2: Movement in total usable reserves including earmarked, uncommitted and capital funds**



Source: Local Government, Unaudited Financial Statements

52. Exhibit 3 below presents the council's usable revenue reserves position in relation to net revenue spend for the year in comparison to other Scottish councils. The graph shows that the council continues to maintain a low level of revenue reserves compared with other Scottish councils despite recording a general fund surplus in 2012/13. The council acknowledges this and is taking measures to retain the uncommitted general fund balance at its current level. Despite this there remains a risk to financial sustainability of the council from holding such a low level of reserves, particularly given its requirement to make savings in 2013/14 and beyond and its ambitious transformation programme. In addition, there is the risk of reserves being required to cover previously unforeseen costs, such as those associated with a potential council tax rebanding (see paragraph 32).

**Refer to Action Point No. 3**

**Exhibit 3: Usable revenue reserves carried forward as a proportion of net revenue spend**

Source: Local Government, Unaudited Financial Statements

**Financial planning to support priority setting and cost reductions**

53. In August 2011, Audit Scotland published a national report entitled 'Scotland's public finances: Addressing the challenges'. This report provided an overview of the scale of the budget cuts expected to be faced by the Scottish public sector in the period 2010/11 to 2014/15, and how public bodies were beginning to respond to the challenges of reducing expenditure.
54. In 2012/13, we carried out a targeted follow-up review to assess what progress had been made since publication of the 2011 report. This work considered how the council is responding to the challenges of public sector budget constraints and its efforts to achieve financial sustainability. Our main findings are included in this section of the report.

**Financial planning**

55. The latest Medium Term Finance and Resources Strategy (MTFRS) was presented to the full council in June 2013. This outlines the council's budget strategy over a five year period to 2017/18 and highlights areas of significant risk. A range of assumptions underpin the MTFRS and it is updated annually to reflect any changes in policy and funding levels.
56. The council has an established budget setting process with widespread engagement between the corporate management team and the political parties. Stakeholder engagement and consultation is broad and includes local residents, community and voluntary sector organisations and trade unions.

## Savings

57. Savings totalling £1.814 million have been built into the council's 2013/14 budget, approved at a meeting of the full council in February 2013. The council aims to achieve savings through efficiencies in procurement and charging, coupled with the implementation of the new organisational planning arrangements and the transformation programme. The savings are designed to help the council achieve a balanced budget for 2013/14.
58. The council is forecasting a cumulative funding gap of £20 million over the four year period from 2014/15 to 2017/18. The organisational planning arrangements and the transformation programme, when implemented fully, are designed to address the funding gap. The council needs to develop more detailed plans which show the timing of the proposed savings and the specific areas in which they will be achieved. Should the funding gap widen, or if the savings plans are not fully achieved, the council faces difficult choices on how services are delivered and paid for in future.

**Refer to Action Point No. 4**

## Benchmarking

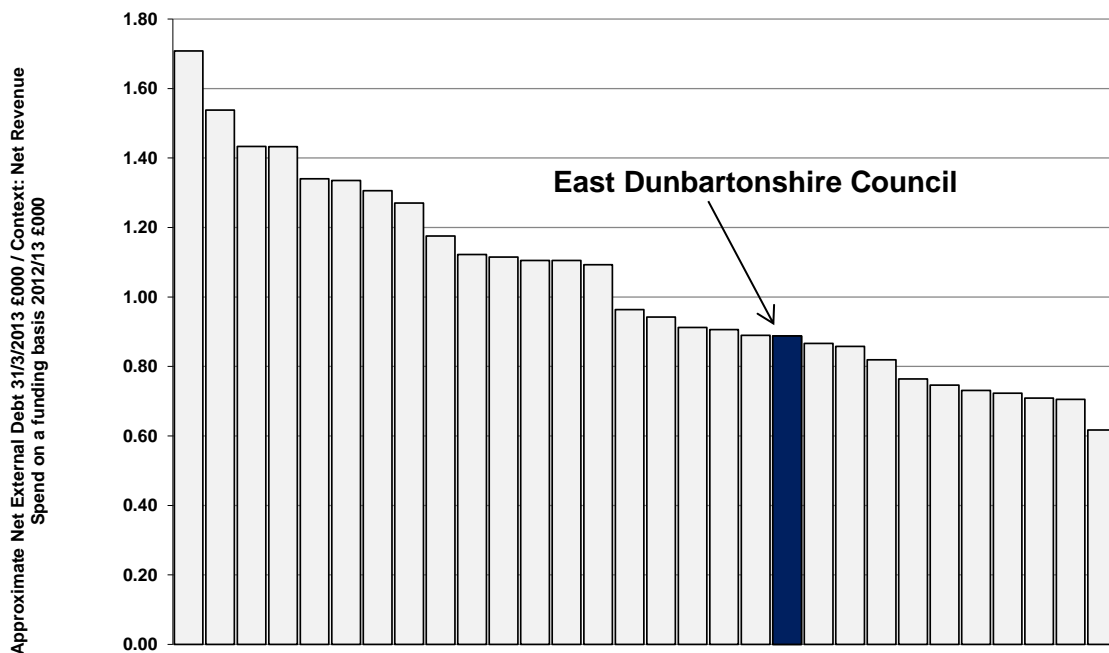
59. Through the implementation of the SOLACE benchmarking indicators, the council is improving its benchmarking of costs. During this period of increased financial restraint, it should give consideration to broadening its benchmarking activity to help identify alternative approaches for delivering savings.

## Treasury management

60. The council's borrowing to fund capital expenditure has increased markedly since 2010/11 (see exhibit 5). The council's total level of borrowing has also increased slightly to £133.751 million (2011/12: £131.969 million). Exhibit 4 below shows however that the council's net external debt as a proportion of net revenue spend continues to remain low relative to other Scottish local authorities.
61. The council borrowed £3 million in 2012/13 partly to fund the purchase of land for its proposed office accommodation and depot at Westerhill, albeit also in the context of its overall borrowing position. Following the decision by the council in June 2013 that the site is no longer viable, the council is looking at alternative options for relocating its back office functions and operational depot. There is likely to be a considerable delay before any alternative solution gets underway. One impact of this has been that, the council has incurred accelerated borrowing costs, although Director of Finance has also indicated that it does partially address the council's long term exposure to interest rate fluctuations. It is important that borrowing decisions are thoroughly planned, particularly given the savings the council will require to make going forward.

**Refer to Action Point No. 5**

#### Exhibit 4: Net external debt as a proportion of net revenue spend



Source: Local Government, Unaudited Financial Statements

62. The Prudential Code is a professional code of practice designed to support local authorities in taking capital investment decisions. The Code's objectives aim to ensure that, within a clear framework, the capital investment plans of local authorities are prudent and sustainable. Members receive regular reports on treasury management. These include the annual treasury management and investment strategy and a mid-year report which covers any significant changes to the strategy and updated prudential indicators. The performance against these indicators is reported to council through an annual treasury report and to the public via the financial statements. This helps the council to plan its capital investment prudently and to demonstrate to the public that it is doing so.
63. In the continuing period of economic instability interest rates on investments remain low. For this reason the council has kept investments very short term, mainly in instant access call accounts with major banks. As a result, the council has received only £0.077 million on temporary investments this year (2011/12: £0.048 million). The situation is unlikely to change in the near future.

### Capital investment and performance 2012/13

64. The 2012/13 financial statements report capital expenditure of £31.249 million split between the housing services (£10.024 million) and general fund services (£21.225 million) programmes. The final position was a £5.907 million (15.9 per cent) underspend against the council's original capital budget.

65. Slippage of £4.541 million against the general fund services programme made up the majority of the capital budget underspend. The main cause of slippage was the acquisition of the council's proposed office accommodation and depot at Westerhill not proceeding and work on establishing community hubs being delayed. This is further discussed in the Asset Management section below. These major capital projects had budgets of £3.268 million and £0.714 million respectively. The council managed to accelerate other capital projects in response to these delays to minimise overall programme slippage. As a result of the Westerhill project not proceeding £0.092 million of capital expenditure on site acquisition costs was transferred to revenue spend.
66. The council's capital receipts of £1.184 million (£4.621 million in 2011/12) were £4.893 million less than budgeted. The main reason for this considerable shortfall was the planned sales of two council buildings not being achieved. The anticipated receipts from these buildings totalled £3.7 million. The shortfall had no overall impact on the achievement of the capital programme for the year due to capital expenditure being lower than originally budgeted. It is important, however, that going forward the council is realistic about the timing and value of capital receipts as part of its new corporate asset management plan.
67. Exhibit 5 shows the sources of finance for capital expenditure for the years 2010/11 to 2012/13. The table highlights the council's reliance on government grants to help fund the capital programme. Grants totalled £9.663 million in 2012/13 which was a significant increase on the original budget and higher than the £8.927 million received in 2011/12. Increases in government grant funding cannot be relied upon to continue as the Scottish Government faces the challenges of reducing its own budget. In this context, it should be noted that the council returned funding of £1.750 million to the Scottish Futures Trust which was to contribute to the cost of the proposed development at Westerhill and community hubs, it has been confirmed that this money is being retained by the Scottish Futures Trust. The council have subsequently been successful in their application for £0.5m to fund the conversion of Bearsden Burgh Hall into a community hub.

#### Exhibit 5: Sources of finance for capital expenditure 2010/11 - 2012/13

Description	2010/11	2011/12	2012/13
	£ million	£ million	£ million
Government Grants and Other Contributions	15.374	11.115	13.957
Capital Receipts	1.292	4.621	1.184
Borrowing	7.744	15.401	16.108
<b>Total</b>	<b>24.410</b>	<b>31.137</b>	<b>31.249</b>

Source: East Dunbartonshire Council 2010/11, 2011/12 and 2012/13 financial statements

68. In February 2013, the council approved a five year capital programme for 2013/14 to 2017/18 with £143.738 million of investment. This will be principally funded by borrowing, government

grants and capital receipts. The council has also developed a longer term, ten year programme covering the period up to 2022/23.

69. In June 2013, the council approved a review of the five year capital programme. This was due to the impact of changes and delays to a number of major capital projects. The review involves updating the cost and timetables of current projects and identifying potential new commitments. Projects that have the potential to contribute to the council's single outcome agreement priorities, organisational transformation programme and medium term finance and resource strategy will be specifically identified.

## Asset management

70. The council has refined its asset planning to reflect better the current financial environment. Its current corporate asset management plan and capital investment plan, developed in 2009 and 2011 respectively, prioritise a small number of strategically important projects in support of its strategic objectives. This includes the council's own operational accommodation, the creation of community hubs to deliver frontline customer services and options for its primary schools estate.
71. The council has set out its vision for the number, type and location of its key assets, with the aim of improving access for communities, providing a more integrated working environment for staff and reducing operating costs. This includes: a joint civic centre, for elected members, its senior management team and support teams, together with office accommodation for back office support services, a centralised operational depot and a network of integrated community hubs.
72. The council has experienced recent and significant changes in projects forming part of its overall asset plans. For example, it is now reassessing its plans for the development of integrated office accommodation and an operational depot due to the significantly increased costs involved in making the preferred Westerhill site suitable for building. As a result, the council has no clear, long term plan on how to accommodate its back-office staff. Furthermore, significant delays have occurred in progressing this development which will have a negative impact on the long term savings achievable. Since vacating its former headquarters office in August 2012, back-office staff have operated from temporary accommodation which the council acknowledges is not sustainable. Implementing a longer term solution will have cost implications that the council will need to take into account in revising its asset plans.
73. Another key element of the council's overall asset plan is the development of five community hubs across its area to deliver integrated local customer services. Changes to working practices and opportunities to reduce staffing through the hubs arrangements are critical to the success of the council's wider transformation agenda. The council started the hub initiative in 2009 and aims to have a full network of five hubs in operation by 2017/18. To date, it has completed a hub in Kirkintilloch. A second hub in Lennoxton currently in the planning and assembly stage has been delayed and is expected to be completed in 2015, around two years later than planned. Setting aside the possibility of further delays in the hub

initiative, there is a risk that the initiative's contribution to the savings the council requires to make in the next three years may be lower than the council anticipates.

74. The services provided through hubs will vary according to local needs, although it is not always clear how community views on these services have been balanced with the costs of assembling the buildings required to establish the hubs. The council is also consulting on other proposals that will affect its asset base, most notably around the future provision of primary schools. The outcome of this consultation and subsequent council decisions could have a potentially significant effect on its capital programme and finances.
75. The council acknowledges that known and potential changes to projects require reassessment of the overall asset plan. It intends introducing a new corporate asset management plan in December 2013 which will reflect changes in individual projects to provide a clear picture of how it aims to use, develop and dispose of assets in support of the council's service and spending priorities.
76. The council also recognised that information provided by officers to elected members to support debate, scrutiny and decision-making on assets needs to improve. This includes better information on options as well as the costs and risks for each option, especially when dealing with large, complex projects and programmes. It has recently developed new project documentation to support this.

**Refer to Action Point No. 6**

## Procurement

77. The council's procurement capability assessment (PCA) score for 2012 was 25, down from 31 in 2011<sup>3</sup>. This indicates it is only just meeting recognised basic procurement standards. It was the lowest score of any Scottish council and well below the national average of 48. East Dunbartonshire was also one of only two Scottish councils where performance deteriorated.
78. The council invited Scotland Excel to review its corporate procurement unit (CPU) in June 2013. This review highlighted that procurement processes had fallen behind practices in other councils where, for example, there is more focus on working with services and promoting a strategic approach to purchasing. The CPU provides a traditional purchasing administration function, focusing on data entry and order/invoice management, such as processing tenders and entering orders and receipts into the relevant system.
79. Associated with this, Scotland Excel reported that corporate visibility, control and analysis of core spending are severely limited. The procurement manager and advisors are Chartered Institute of Purchasing and Supply (CIPS) qualified, and therefore have the potential to make

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<sup>3</sup> The Procurement Capability Assessment (PCA) was introduced by the Scottish Government in 2009 to assist organisations to improve their structure, capability, processes and, ultimately, procurement performance. The PCA assesses a council's procurement capability against common criteria and standards. Local authorities are given a percentage score which will place them in one of four categories: non-conformance (up to 25 per cent); conformance (25 to 49 per cent); improved performance (50 to 74 per cent); and superior performance (75 per cent and above).



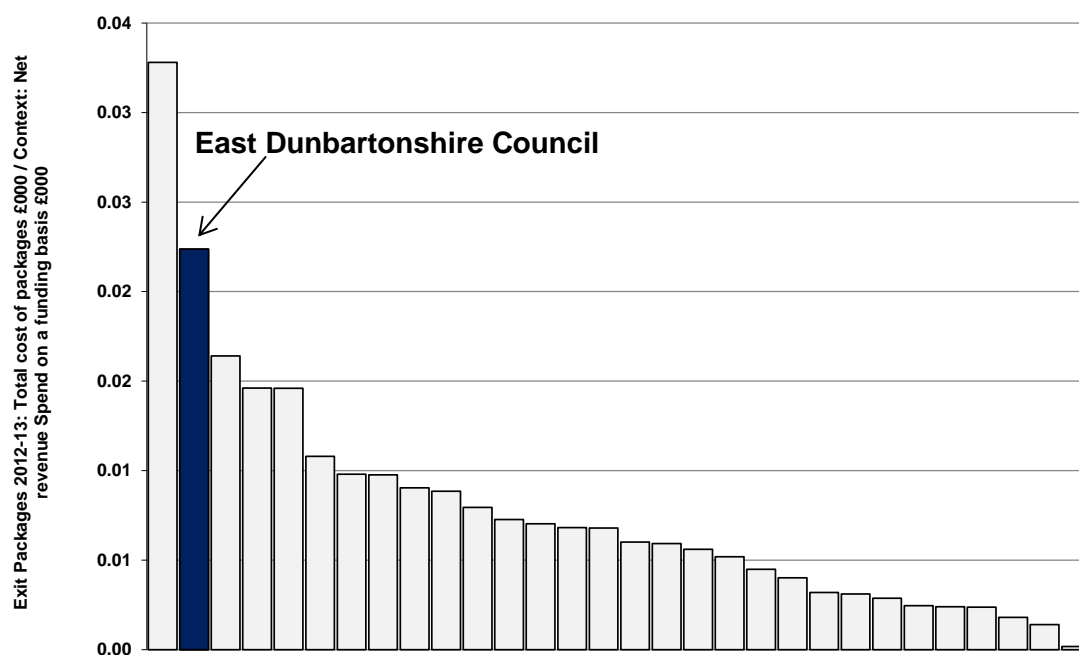
a significant contribution to improving procurement. However, current practices mean that staff were not deployed on more value added and strategic procurement activities. The council has recently increased staffing levels in its CPU, appointing a new procurement manager along with two additional administrative staff on a temporary basis pending a comprehensive review of its CPU structure. It is too early to assess the impact of additional resources in supporting improvement.

80. Scotland Excel also reported that due to the focus on administrative tasks, the CPU does not have the capacity to make use of data from the council's systems or the Scottish data hub to analyse whether procurement is operating effectively.
81. The council recognises the need to modernise its procurement function and the potential, although as yet un-quantified, savings available from better procurement. It has recently started to address this, by approving an updated corporate procurement strategy and improvement plan in June 2013 and appointing a technical expert to support implementation of an e-procurement system. The council plans to manage the necessary improvements to procurement as part of its corporate transformation agenda over the next 12 months. However, in view of the current position and the required scale of improvement the council faces significant challenges to deliver the necessary improvements within this timescale.

**Refer to Action Point No. 7**

## Workforce management

82. The council has been going through significant organisational change and restructuring in recent years. Since 2009 it has been developing its organisational delivery model, its blueprint for how the council will work in future. Proportionally, it experienced one of the largest staffing reductions of any Scottish council during this period. In March 2013, it employed 4,466 full-time equivalent staff (FTE), a reduction of 600 FTEs or 11.8 per cent since 2009.
83. With a reducing workforce it is important that the council maximises the value and contribution made by its remaining staff. At present, the council loses on average 13.8 days per member of staff to sickness absence, the second highest level of any Scottish council and well above the national average of 10.9 days. However, the council has seen positive results from its efforts to reduce sickness absence.
84. Exhibit 6 highlights the monetary cost of managing staff reductions. The exhibit shows that the council's total cost of exit packages in 2012/13 as a proportion of net revenue spend was among the highest of Scottish councils. It is expected that the cost of exit packages will remain high as the council works towards its staff reduction targets.

**Exhibit 6: Total cost of exit packages as a proportion of net revenue spend**

*Source: Local Government, Unaudited Financial Statements*

85. As part of its budget-setting process in February 2013 the council agreed a major change in its organisational structure, designed to support greater operating efficiency. At senior management level, this resulted in the creation of three additional director posts and the removal of seven heads of service posts. While this delivers the council's overriding aim of reducing costs, it is too early to assess the effect on organisational capacity and resilience.
86. The new management structure was designed, approved and implemented quickly as part of the 2013/14 budget-setting process, with limited consultation with elected members and trade unions. Also, due to the speed of implementation, senior staff were matched into director posts without role descriptions in place or formal job evaluations. The council could have done more to explain to relevant stakeholders the rationale for the approach and the benefits anticipated.
87. The council subsequently agreed a new workforce strategy in April 2013. This builds on previous strategies and plans, to produce an overarching framework aligned to its wider transformation programme. It has taken a positive approach to engaging with staff, with leadership conferences for all managers and team leaders, leadership packs to help managers and team leaders better communicate workforce changes with their staff, and a range of intranet resources and theme based workshops open to all staff. Engagement and consultation with the trade unions is working less well and should be strengthened given the degree of organisational change the council is striving to achieve.

88. Despite its relatively large staffing reductions to date, the council aims to reduce its workforce by a further 250 posts by 2017. It plans to achieve this by rationalising and streamlining support functions, such as service-based administration and HR functions, and through better use of technology.
89. In order to achieve its workforce reductions and deliver its transformation programme, the council needs to establish its network of community hubs for service delivery, invest in new technology to support new ways of working and invest in training and development for staff redeployed through service transformation. However, completion of its community hub programme is still some years away and the investment required for these and for new technology and training may be at risk because of changes in the council's overall financial position.

**Refer to Action Point No. 8**

## Outlook

### 2013/14 budget and beyond

90. In setting its 2013/14 budget the council agreed to freeze its council tax. The council approved budget for 2013/14 of £231.1 million is 2.6% less than that set for 2012/13 (£237.223 million). This decrease relates to the fact that Police and Fire joint boards are excluded from 2013/14 onwards. The council has identified savings plans of £1.8 million to balance the budget in 2013/14.
91. Looking further ahead, the council has projected that cumulative revenue budget savings of approximately £20 million will be required over the four year period from 2014/15 to 2017/18. The council's uncommitted general fund balance of £4.9 million is low in comparison to many other Scottish local authorities. The council's uncommitted reserves may be required to meet future one-off costs and cannot be relied upon to cover budget shortfalls.
92. The council will need to achieve recurring savings through its transformation programme to address future funding gaps. However, the investment required to achieve the transformation programme may be at risk because of changes in the council's overall financial position. The transformation programme is challenging and the inter-relationships between finances, workforce and assets will need to be managed carefully if the council is to achieve its overall aims.
93. It is clear that the outlook for public spending remains challenging for the foreseeable future. At the same time the demand for public services is rising as the economy feels the effects of uncertainties in the world's financial markets, questions about the sustainability of the eurozone and Scotland's changing population demographic. Continuing to deliver vital public services with a reducing budget will remain a significant challenge for the council.

# Governance and accountability

94. 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.
95. 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, in monitoring these arrangements.
96. 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.
97. In this part of the report we comment on key areas of governance.

## Corporate governance

### Processes and committees

98. East Dunbartonshire Council monitors and manages the activity of the council via a system of strategic service committees. Scrutiny functions are discharged by the audit and risk management sub-committee, as well as three scrutiny panels that monitor the performance of council services. These arrangements are intended to integrate political and service structures to allow a better focus on priorities, improve member involvement in scrutiny and drive improvement.
99. In June 2013, the council agreed revised arrangements for the functioning of scrutiny panels to align with changes to its organisational structure. We will continue to monitor the effectiveness of these arrangements.
100. The policy and resources committee is also a key part of the council's governance framework. Its remit covers strategic policy making within the prescribed resources outlined in the budget. Operationally it covers a variety of topics across all services and all functions of the Chief Executive and the Director of Governance and Regulation.
101. In June 2013, the leader of the opposition was appointed as convener of the audit and risk management sub-committee, a position previously occupied by a member of the administration. This followed a 13 month period where there were no nominations from

opposition members to chair the sub-committee. This is a positive development in governance arrangements and brings the council into line with recommended good practice.

## Internal control

102. 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. The extent of this work is informed by their assessment of risk and the activities of internal audit.
103. Our 2011/12 *Review of Internal Control Systems Report* highlighted a number of weaknesses in the Council's key control processes. Of the 21 action points raised in 2011/12, 11 were reported again in 2012/13. In addition, three new overarching control issues were raised.
104. We reviewed the high level controls in a number of the council's financial systems. Our work covered several systems including general ledger, treasury management, council tax and non domestic rates. The findings from this work were reported to management in June 2013 and an action plan of improvements agreed.
105. A number of areas for improvement within the accounting and internal control systems were identified during the audit. These could adversely affect the council's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. See paragraphs 30 and 31 for further details.
106. Also, the *Review of Internal Financial Controls* report presented by the audit and risk manager to the audit and risk management sub-committee identified a number of weaknesses where controls were not operating as expected. However, the report noted that audit testing confirmed that the internal control systems are generally adequate.

## Internal audit

107. A key element of our work on internal controls is the extent of reliance that we place on the work of internal audit in terms of International Standards on Auditing 610 (Considering the work of internal audit). The findings from our review of internal audit were reported in February 2013 and we concluded that the internal audit service operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government and has sound documentation standards and reporting procedures in place.
108. We placed formal reliance on aspects of the work of internal audit in several areas, for the purposes of our financial statement audit responsibilities, including payroll, trade receivables, trade payables, cash receipting and housing rents. This not only avoided duplication of effort but also enabled us to focus on other areas of risk.

## Public Services Network

109. The council exchanges data with many other public bodies and in so doing makes use of Cabinet Office sponsored arrangements to share electronic data with other public sector bodies. For example, the council shares benefit information with the Department of Work and

Pensions while social work and education departments exchange information with the police, criminal justice partnership and children's' hearings.

110. The Government Secure Intranet (GSI) is the mechanism that allows the council to share data and services. The council must re-apply annually to the Cabinet Office to be allowed to connect to the government secure network. This year the government is replacing GSI with the Public Services Network (PSN).
111. From November 2012 all applicants have to apply to connect to PSN which means complying with the stricter PSN code of connection. The new code of connection is challenging and uncompromising about security measures and aims to provide a substantial level of trust between organisations.
112. The council's initial application was not successful and it continues to work with Cabinet Officer assessors to progress the transition to PSN. As there is a risk of interruption to the existing data-sharing arrangements, we suggest that the council considers business continuity and the reversion to paper transfer for a period.

**Refer to Action Point No. 9**

## Prevention and detection of fraud and irregularities

113. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
114. The council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements are detailed in the council's anti-fraud and anti-corruption strategy. This document sets out how council members and employees are expected to behave; arrangements for preventing fraud and corruption; arrangements for detecting and investigating fraud and corruption, and provides details of relevant training available. The strategy also includes as appendices the council's fraud response plan, whistleblowing policy, prosecution policy, and benefit and prosecution policy.
115. Overall, we have concluded that the council's arrangements are adequate in relation to the prevention and detection of fraud and irregularities, although it should be noted that no system can eliminate the risk of fraud entirely. We also note that work has commenced to update relevant policies.

## NFI in Scotland

116. East Dunbartonshire Council participates in the National Fraud Initiative (NFI). The NFI uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
117. NFI allows public bodies to investigate these matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess

the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

118. These exercises are undertaken every two years with the most recent findings reported in May 2012. The current round of NFI commenced in June 2012, and will look to expand the range of data sets and bodies reporting in full in May 2014.
119. As at 8 October 2013, 3,910 matched items were provided to the Council with 642 of these classified as "recommended filter matches". Seven cases of fraud worth £0.031 million have been identified. Of these seven cases, one individual has been prosecuted and one has been cautioned. The others have repayment plans in place with no further action taken by the council.
120. Overall, we have concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

## **Standards of conduct and arrangements for the prevention and detection of corruption**

121. 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.
122. The council has a code of conduct for both members and officers with specific sections for each group. This code covers a number of areas including gifts and hospitality, expenses and allowances, use of council resources and tendering.
123. The council also has an anti-fraud and anti-corruption policy which includes reference to all relevant policies and procedures aimed at preventing fraud and corruption.
124. We have concluded that the arrangements in East Dunbartonshire Council are satisfactory and we are not aware of any specific issues that we need to report.

## **Welfare Reform**

125. The Welfare Reform Act 2012, as reported last year, represents the biggest reform of the UK welfare system for 60 years. As reported to the policy and resources committee on 20 December 2012, the council has created a welfare reform group, chaired by the Director of Customer Services and Transformation. The group contains representatives from various council teams. The Department for Work and Pensions are also represented.
126. The council has also appointed a dedicated officer to coordinate communication of the changes to benefit recipients.

## Partnership working

127. The Scottish Government and Convention of Scottish Local Authorities reviewed community planning and Single Outcome Agreements in 2012 following which they published their 'Statement of Ambition'. It makes clear that significant changes to improve community planning are needed to respond to the challenges of reducing public finances while demand for services increases.
128. East Dunbartonshire Community Planning Partnership (CPP) consists of 11 partner organisations. Its partnership board is chaired by the leader of the council and comprises leaders from other party groupings, and senior managers from the council and partner organisations. The role of the board is to provide strategic direction for the work of the CPP and ensure effective implementation of the East Dunbartonshire Single Outcome Agreement (SOA). The board meets twice a year as a minimum.
129. The refreshed SOA 2013-2016 was submitted to the Scottish Government by the 30 June 2013 deadline. This sets out the CPP's vision for East Dunbartonshire of "Working together to achieve the best with the people of East Dunbartonshire" and its long-term (five to ten year) outcomes. These are:
- We have reduced inequality and disadvantage across East Dunbartonshire
  - Our communities are more engaged in the design and delivery of services.
130. Six shorter term (three year) outcomes underpin the long term outcomes. Progress towards achieving these will be measured through a range of high level performance indicators.
131. Audit Scotland carried out CPP audits at Aberdeen City, North Ayrshire and Scottish Borders in 2012/13. The resulting Audit Scotland report *Improving community planning in Scotland (March 2013)* concluded that partnerships have not been able to show that they have had a significant impact on delivering improved outcomes across Scotland.

## Outlook

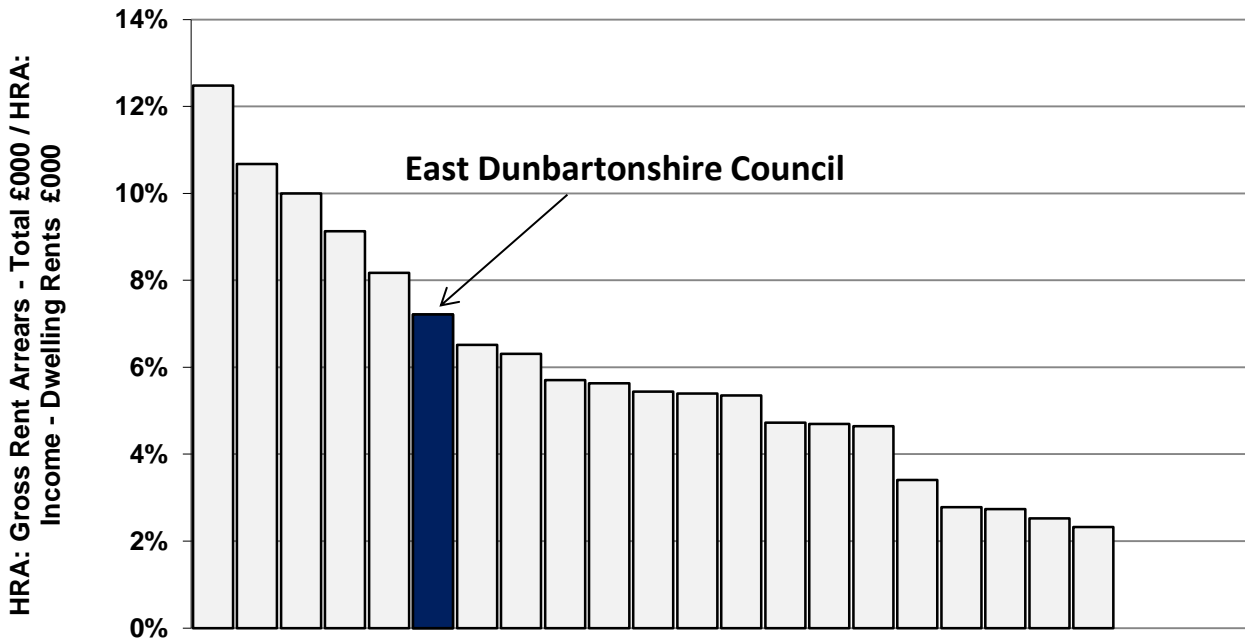
132. Welfare reform will continue for several years to come and from October 2013 the universal credit will start to be rolled-out nationally. This will replace a range of existing means-tested benefits and tax credits for people of working age. It is important that the council continues to monitor the impact of these reforms closely and develop efficient and effective strategies that address the welfare reform agenda.
133. East Dunbartonshire Council has allocated additional funding from the Scottish Government to add to their discretionary housing payment budget. This could mitigate some of the impacts of these changes. The additional Scottish Government funding allocated to the council is £0.160 million.
134. Rent arrears have been increasing in East Dunbartonshire. In 2011/12 arrears totalled £0.784m and these had increased to £0.881m in the current year (an increase of 12.4 per cent). Revenue officers anticipate that welfare reform will bring significant risks to rent collection rates in 2013/14.



Refer to Action Point No. 10

135. As demonstrated in Exhibit 7 the council have the sixth highest gross rent arrears as a proportion of HRA dwelling rents in Scotland.

**Exhibit 7: Gross rent arrears as a proportion of HRA dwelling rents**



Source: Local Government, Unaudited Financial Statements

# Performance

- 136.** Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value. 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 are also required to review and report on the audited body's progress against its Best Value improvement plan.
- 137.** Additionally, auditors of local government bodies 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.
- 138.** Furthermore, 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.
- 139.** This section includes a commentary on the performance management arrangements within the council. It also reflects the performance information and management elements of the targeted Best Value audit work carried out in 2013. In addition we note any headline performance outcomes and measures used by the council and comment on any relevant national reports and the council's response to these.

## Performance information and management

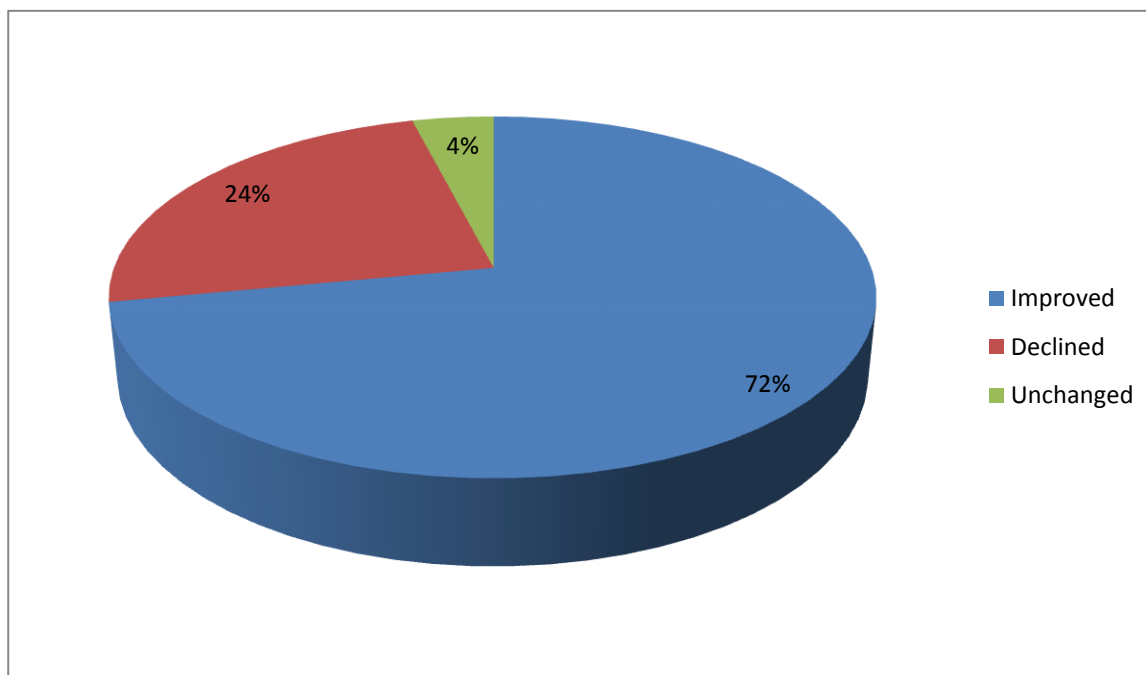
- 140.** The council produces a large volume of performance information. It collates service based performance information through "How Good Is Our Service (HGIOS)" self-evaluation exercises and reports this to the corporate management team and to the policy and resources committee and scrutiny panels.
- 141.** The council recognises that it needs to take a more strategic view of performance. Senior officers and elected members receive a substantial amount of detailed performance information. HGIOS reports, for example, in some cases exceed 50 pages. Information needs to be better targeted to meet the different needs of those reviewing performance and also to support clearer accountability for performance improvement.

**Refer to Action Point No. 11**

142. To support more effective performance management, the council continues to strengthen links between the Single Outcome Agreement (SOA) and business improvement plans for services (BIPs), with an emphasis on improving the consistency in measures and availability of information. For example, as part of quarterly reviews of the SOA and BIPs, managers are required to monitor information on the performance of their service quarterly. The council is looking to further develop its reporting through the inclusion of relevant proxy measures for indicators that are not available quarterly, such as, educational attainment data.
143. The council is also further developing its performance management system to produce clearer performance reports. For example, it is currently developing clearer performance reporting in 'dashboard' form, making it easier for senior managers and elected members to see direction of travel in relation to performance. This will help shift the focus of scrutiny from the presentation of data to actual performance.
144. The council recognises the need to focus more clearly on the action it is taking to improve performance results. It is developing a performance toolkit for managers to strengthen the relationship between their actions, interventions and their accountability for performance. This is critical to the success of its broad corporate transformation strategy.
145. In the 2011/12 Annual Audit Report we highlighted significant errors in the council's performance data on staff absence. In response, the council is working to strengthen its processes for ensuring the quality of performance data to ensure reported information is accurate. In particular, internal audit will have a more involved role in providing assurance on the quality of performance information. .

### **Statutory performance indicators**

146. In 2012/13, a total of 25 SPIs were required and overall these indicate an improvement in performance from the previous year as shown in Exhibit 8 below:

**Exhibit 8: Improvements demonstrated by SPIs between 2011/12 and 2012/13**

Source: East Dunbartonshire Council SPI data returns

**Areas of strong performance and improvement**

- *SPI 1 - Number of working days per Local Government Workers lost through sickness absence:* this indicator has improved from the prior year. A 14.4 per cent reduction in sickness absence reflects the implementation of the absence management plan, promotion of Healthy Working Lives and an increase in activity of service management in monitoring and acting on absence levels. In addition, the calculation methodology has been reviewed and amended as a result of audit work carried out in 2011/12.
- *SPI3 - The percentage of council buildings from which the council delivers services that are suitable for, and accessible to, disabled people:* The Council implemented a DDA capital investment programme in 2012/13 and reduced the number of properties being used for the delivery of services to the public. New properties were added to replace those that were previously non-compliant.
- *SPI12 - Use of libraries:* The introduction of William Patrick Library as a community hub has led to an increase in the footfall into the library. This has contributed to the 44.5 per cent increase in attendance levels.

**Areas for focus**

- *SPI4 - Administration Costs:* During 2012/13, the gross administration costs per benefit case increased from £45.46 to £48.48. The contributable factor for this increase is due to additional workload for the impending impact of welfare reform.

- *SPI11 - Museum Services*: This indicator shows a reduction in the number of museum visits per 1000 of the population. This is as a result of this year's local history week taking place in April 2013 rather than in March 2013.
- *SPI16 - Managing Tenancy Charges*: This indicator covers the percentage of rent due in the year that was lost due to voids. The indicator has shown a downturn in performance and reflects the increased number of void properties becoming available. This is the highest number the Council have recorded in eight years.

## National performance reporting

147. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland reports of direct interest in 2012/13 are outlined in the exhibit below.

### Exhibit 9: A selection of National performance reports 2012/13

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Responding to challenge and change - An overview of local government in Scotland 2013</li> <li>• Improving community planning in Scotland</li> <li>• Major capital investment in councils.</li> </ul> | <ul style="list-style-type: none"> <li>• Protecting consumers</li> <li>• Using cost information to improve performance: are you getting it right?</li> <li>• Health inequalities in Scotland</li> <li>• Reducing reoffending in Scotland.</li> </ul> |
|--|--|

Source: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

148. Audit Scotland encourages local authorities to review national reports, consider key findings and assess local performance against them, and identify local improvement actions where appropriate. The national reports are accompanied by a checklist which officers can use to carry out a self-assessment of performance. The expectation is that Audit Scotland's performance reports are presented to an audit or scrutiny committee for members to consider and hold management to account for local performance.
149. During 2012/13 intelligence was gathered in relation to the action taken by the council and the impact of the following Audit Scotland reports:
- *Using cost information to improve performance: are you getting it right?* - The report was presented to the policy and resources committee in August 2012 and identified the need for councils to make better use of cost information to inform policy decisions and assess the effectiveness and efficiency of services. The recommendations included within the report were noted. Work on these issues took place at national level through the Society of Local Authority Chief Executives (SOLACE) whilst working towards the development of more effective cost based performance indicators for use by councils.
  - *Improving community planning in Scotland* - The report was considered by the policy and resources committee in April 2013. Results and recommendations were based on recent audits of the work of Community Planning Partnerships (CPPs) undertaken by Audit Scotland. A self evaluation template was completed which set out the current

performance of the East Dunbartonshire CPP. It was agreed that progress on implementation of recommendations would be reviewed on a regular basis by council and the CPP board.

- *Protecting consumers* - The report was considered by the housing and community services committee in March 2013. The council were seen to be broadly supportive of the recommendations contained in the report, particularly those around joined up working, workforce planning, the use of intelligence systems, and national priorities and performance reporting.
- *Responding to challenge and change* - An overview of local government in Scotland 2013 - This report was considered by full council in June 2013 and focused on the resource and demand pressures facing local government and the potential impact of public service reform. It also identified the importance of the councillor role in achieving performance improvement and effective governance. A self evaluation template was completed which set out the current performance of East Dunbartonshire Council and its work with partners in relation to the Audit Scotland recommendations. It also identifies the improvement activity which the council will implement to accord with the recommendations.

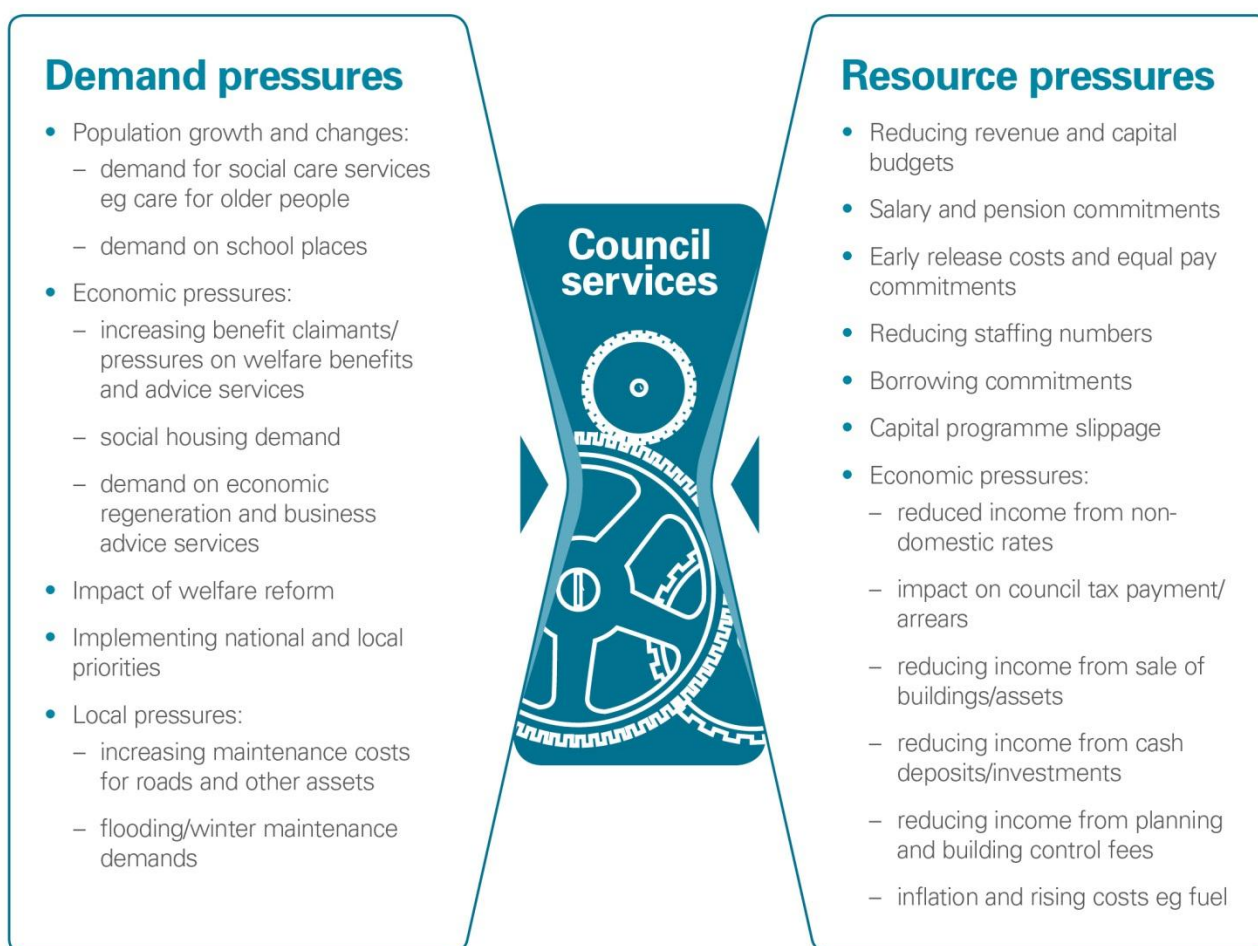
## Equality Act 2010

150. 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. One of the key requirements of the legislation is for public bodies to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013.
151. The council's equality and human rights policy was launched in July 2011. This is an overarching document, setting out the council's commitment to equality and human rights issues and provides information on work being undertaken across the council. The policy is linked closely to council plans including the SOA and strategic improvement plan.
152. The Equality Outcomes and Mainstreaming Report 2013-2017 sets out the council's approach to mainstreaming equality as set out by the Equality Act 2010 (Specific Duties) (Scotland) Regulations 2012. The report also sets out background information on equality legislation and steps being taken by the council to reduce unlawful discrimination, advancing equality of opportunity and fostering good relations between different groups. An action plan was developed to ensure that the council can meet the requirements of the Act. This was approved by the policy and resources committee in September 2012.
153. The East Dunbartonshire equality engagement group acts as a first point of contact between the council, planning partners and local equality groups and helps influence the development of policies in relation to equality. Meetings take place on a quarterly basis.
154. The council is proactive in promoting the equality agenda and is well placed to mainstream equality within everyday work.

## Outlook

155. In response to a request from the Cabinet Secretary for Finance, Employment and Sustainable Growth the Accounts Commission has led development work, with scrutiny partners, on how audit and inspection can support the delivery of better outcomes by CPPs. A number of CPPs will be audited in 2013/14. These include Falkirk, Moray, West Lothian, Orkney and Glasgow City. There is no specific timetable for a CPP audit in East Dunbartonshire.
156. The Audit Scotland report *Responding to Challenges and Change - an overview of local government in Scotland 2013* (March 2013) highlights the pressures faced by councils in terms of resources and demands on services (see exhibit below). These pressures are not going to abate and this means that councils may have to consider decisions, which they had previously ruled out to balance their budgets.

### Exhibit 10



Source: Audit Scotland

# Appendix A: audit reports

## External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Audit Committee
Review of the Adequacy of Internal Audit	27 March 2013	7 June 2013
Annual Audit Plan	14 February 2013	21 February 2013
Assurance and Improvement Plan	25 April 2013	30 April 2013
Internal controls management letter	6 June 2013	13 June 2013
Report on financial statements to those charged with governance	19 September 2013	23 September 2013
Audit opinion on the 2012/13 financial statements	19 September 2013	23 September 2013
Audit opinion on the 2012/13 Whole of Government accounts consolidation pack	26 October 2013	N/A
Report to Members on the 2012/13 audit	tbc	5 December 2013



# 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	31	<p><b>Reconciliations and internal control processes</b></p> <p>The council needs to strengthen internal control processes and year-end closedown procedures for a number of main financial systems.</p> <p><b>Risk:</b> the council may not be able to accurately record, process, summarise and report accurate financial and other relevant data.</p>	A focused review of action points and progress is being undertaken. Changes through organisational planning and new systems will address this longer-term along with short-term improvements	Director of Finance & Shared Services	Ongoing
2	32	<p><b>Council tax rebanding</b></p> <p>The council faces potentially significant costs associated with the possible rebanding of around 1,000 houses within the local area.</p> <p><b>Risk:</b> meeting the costs of rebanding could impact on the delivery of council priorities.</p>	The financial impact will be considered and included within the Revenue Budget 2014/15.	Director of Finance & Shared Services	February 2014
3	52	<p><b>Usable reserves</b></p> <p>The council continues to have a low level of usable reserves in percentage terms compared to many other Scottish local authorities.</p> <p><b>Risk:</b> the council's</p>	The Council's strategy for reserves and balances has been effective in previous years. This will be reviewed in the context of the Revenue Budget 2014/15.	Director of Finance & Shared Services	February 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		uncommitted reserves may be insufficient to fund future unforeseen costs.			
4	58	<p><b>Funding gap</b></p> <p>The council is facing a significant challenge in bridging a funding gap of £20 million over the next five years.</p> <p><b>Risk:</b> the council may not be able to generate sufficient efficiencies and cost savings to bridge the funding gap.</p>	A strategy for areas to achieve financial savings will be established which will develop areas of efficiency through organisational planning and, in future, any impact on service activity.	Director of Finance & Shared Services	Ongoing
5	61	<p><b>Borrowing</b></p> <p>The council borrowed to fund the purchase of land for the proposed office accommodation and depot at Westerhill. As the initial costs of the Westerhill site have increased significantly further options are being considered.</p> <p><b>Risk:</b> the council incurs unnecessary borrowing costs which impact on its ability to make savings.</p>	The treasury management strategy considers the council's overall borrowing and investment arrangements matching this against planned capital expenditure.	Director of Finance and Shared Services	Ongoing
6	76	<p><b>Reporting on major capital projects</b></p> <p>Information provided by officers to elected members on capital projects needs to include all possible options and the associated costs and risks.</p> <p><b>Risk:</b> the council makes decisions with negative</p>	The council has developed new project management processes and introduced new staffing resources into this area. The system for reporting to elected members has been updated and agreed through council in	Director of Development and Regeneration	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		financial and/or reputational consequences.	September 2013 and will be implemented on all future major projects.		
7	81	<p><b>Procurement</b></p> <p>The council needs to modernise its procurement practices. It faces significant challenges in achieving this due to the scale of improvements involved.</p> <p><b>Risk:</b> spending decisions do not represent value for money and the council is unable to make efficiency savings.</p>	A procurement improvement plan has been developed to support the updated corporate procurement strategy approved by council in June 2013.	Director of Finance and Shared Services	Ongoing
8	89	<p><b>Workforce management</b></p> <p>The council needs to carefully manage changes in service delivery to achieve its goals of workforce reduction and deliver its transformational programme.</p> <p><b>Risk:</b> the investment required for the community hub programme, new technology and training may not be available.</p>	<p>The Council has been successfully developing its transformation programme since 2008/9.</p> <p>Strategic reports to be considered by the Council on 17th December will provide specific detail on the next stages of the programme. An integral element of these reports will be fully integrated resource plans identifying the necessary investment to deliver on all aspects of the</p>	Director of Customer Services & Transformation	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			transformation programme including community hubs, technology and employee development.		
9	112	<p><b>Public Services Network (PSN)</b></p> <p>The council has yet to have its application to connect to PSN approved.</p> <p><b>Risk:</b> the council may not be able to share or access data held by other public sector bodies.</p>	<p>The Council like all local authorities is currently engaged with the Government's CESG (Communications Electronic Security Group) regarding PSN compliance. The Council is now ready to submit its response to CESG on the two remaining outstanding issues for future compliance.</p> <p>These involve confirmation that no unmanaged devices are able to access the Council's network and clarification of our risk management processes. After recent dialogue with our CESG Account Manager, the Council is confident that our latest response will meet the PSN security compliance criteria</p> <p>It is also worth noting that CESG has agreed with SOCITM that there will be no threat</p>	Director of Customer Services & Transformation.	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			of disconnection for Council's who are actively working towards achieving compliance.		
10	134	<p><b>Rent arrears</b></p> <p>Council rent arrears are continuing to rise and this is likely to be further impacted by welfare reform.</p> <p><b>Risk:</b> the council may not be able to prevent arrears from increasing further leading to a loss of income.</p>	<p>Loss of income has been experienced and bad debt provision increased accordingly.</p> <p>Arrears procedures are being followed and mitigating action put in place to minimise the impact of welfare reforms.</p> <p>Additional employees are in place to assist with face to face contact and assisting tenants with DWP applications</p>	Director of Neighbourhood Services	March 2014
11	141	<p><b>Performance management</b></p> <p>Performance information needs to be better targeted to meet the different needs of those reviewing performance.</p> <p><b>Risk:</b> There is no clear management of and accountability for performance improvement.</p>	<p>Revised corporate guidance issued to Directorates relevant to performance management and reporting will enable more tailored reporting</p>	Director of Customer Services and Transformation	April 2014