

# Dundee City Council

**Report to Members and the Controller of Audit  
on the 2008/09 Audit**

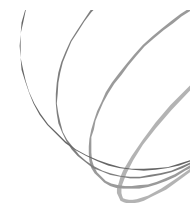
**October 2009**



 **AUDIT SCOTLAND**

# Contents

<b>Key Messages</b>	<b>1</b>	<b>Performance management and improvement</b>	<b>29</b>
<b>Introduction</b>	<b>4</b>	<b>Appendix A</b>	<b>37</b>
<b>Financial statements</b>	<b>6</b>	<b>Appendix B: Action Plan</b>	<b>38</b>
<b>Use of resources</b>	<b>12</b>		
<b>Governance and accountability</b>	<b>25</b>		



# Key Messages

## Outcomes for 2008/09

We have given an unqualified opinion on the financial statements of Dundee City Council.

Audited accounts show a net contribution of £0.735 million from reserves, which is £3.847 million less than was budgeted. This resulted in an unallocated balance of £4.287 million on the general fund, which exceeds the minimum level of £2.1 million agreed by the council in February 2008 to cope with unforeseen events. This outturn position masks some underlying pressures in the recurring budget position which the council will have to manage in future years.

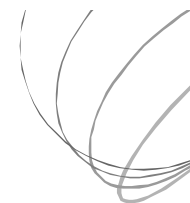
The first Single Outcome Agreement (2008–2011) for Dundee was signed in July 2008. Development of the second SOA (2009–2012) involved greater participation across the Dundee Partnership, and it was signed by all partner organisations in July 2009. The SOA has an appropriate strategic focus with a meaningful and manageable number of high level outcomes and supporting indicators. The key strategic outcomes for the City are clearly linked to the Scottish Government's 5 strategic objectives and 15 national outcomes, and to the strategic objectives and priorities set out in the Council Plan. This provides a firm basis for ensuring that the council's activity supports the overall aims of the SOA, although work is continuing to ensure that an appropriate 'golden thread' runs through all of the council's plans.

Work is continuing to ensure that the SOA is underpinned by appropriate outcomes and indicators, and that responsibilities for delivering on these are clear. Delivery plans are currently being prepared by each of the eleven strategic theme groups, who have primary responsibility for the performance management of the associated outcome. These are due for completion in November.

The Director of Finance, supported by the work of internal audit, has concluded that reasonable assurance can be placed on the council's internal control system and that of other bodies that fall within the group boundary during 2008/09. We identified some areas where the council needs to keep the effectiveness of its existing approaches under review:

- cash management;
- identification and recording of common good assets.

We have previously reported concerns about the effectiveness of scrutiny. Since then the council has made a number of changes, but arrangements in other areas remain as before. The effectiveness of the council's Audit and Risk Management sub-committee is limited. The council is planning a review of its current arrangements. It is important that this takes a holistic view of the council's arrangements and approach to scrutiny.



The council's corporate performance scorecard helps it to manage and report on performance. In 2008/09 30% of the 20 indicators showed improved performance compared with the previous year and 20% showed a decline. Performance was maintained in the remaining 50%.

We are currently undertaking an audit of best value and community planning. This is a pathfinder audit, which is helping to test and further develop the Accounts Commission's new approach. The controller of audit will report the results of this to the Accounts Commission in early 2010 and the report will be published thereafter. Comments made in this report are made on the basis of information made available in the course of our annual audit and we avoid significant comment on aspects of performance that fall to be considered more fully in the BV audit.

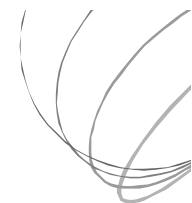
## Outlook for future years

The Scottish Government has made it clear that public expenditure will be constrained for the medium term. The council needs to plan now for a future where there is no real growth in funding and where it continues to face difficult financial pressures. The council has prepared medium term forecasts of its own budget position. These indicate that savings of up to £30 million (equivalent to around 8% of the current net revenue budget) will be required to be identified over the next four years to maintain council tax at current levels.

While this work provides a good baseline against which the council can manage its overall financial position, longer term resource planning remains limited and will need to be improved, something the council has recognised. Savings take time to accrue and the council has to take action now to be sure of achieving efficiencies in the future. A review of spending priorities is also likely to be required in the future to ensure that the council can balance its books and ensure that it is directing resources to the priorities and objectives agreed for the City.

Achieving the level of efficiencies and other savings required will require much better coordination of the council's efforts. Although there are some well established examples of shared services, including the operation of Tayside Contracts, the council recognises that there is much greater scope for such initiatives and that it will be reliant on working more closely with neighbouring councils and other public sector organisations if it is to release the level of savings required. While initial discussions have been held there is still much to do before specific plans are developed and implemented.

The council has managed its overall financial position tightly over the past five years. During this time it has built up the capital fund, which will help it to manage future capital and debt repayment costs. Uncommitted balances are above the minimum level previously agreed, but represent less than 1% of the total funding and other income received annually. This means that the council will have limited opportunity to use its general fund balance to manage any significant reductions in income and recurring expenditure pressures.



In recent years the council has relied on capital receipts to finance a significant proportion of its capital expenditure. The economic recession means that assets are harder to dispose of and receipts are lower. The council has therefore decided to retain assets until prices rise to ensure that they achieve Best Value. This means the council is having to scale back its capital plans – reducing the capital budget in 2008/09 from £63 million to £45 million.

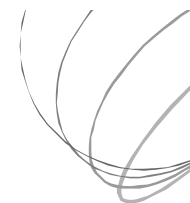
The development of the SOA and supporting arrangements has the potential to improve planning and performance management significantly. However, the long term and complex nature of many of the outcome targets pose many questions for performance management. A key challenge will be integrating and aligning the council's processes to support delivery of the desired outcomes – making sure that resources and efforts are directed to key areas.

It is important that the council starts the transition to International Financial Reporting Standards (IFRS) in 2009/10 to support the move of all local government accounts to IFRS with effect from 2010/11. The council has established a working group with appropriate internal representation, which has begun to meet regularly, and has engaged external support.

The co-operation and assistance given to us by members, officers and staff is gratefully acknowledged.



**October 2009**

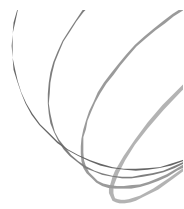


# Introduction

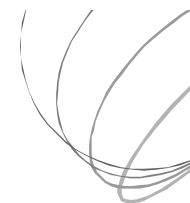
1. This report is the summary of our findings arising from the 2008/09 audit of Dundee City Council and other relevant work carried out by Audit Scotland. A number of detailed reports have already been issued in the course of the year in some of which we make recommendations for improvements (see Appendix A). We do not repeat all of the findings in this report. Instead we focus on the financial statements and any significant findings that have arisen from our review of the management of strategic risks.
2. We are currently undertaking an audit of best value and community planning in Dundee (BV audit). This is a pathfinder audit, which is helping to test and further develop the Accounts Commission's new approach to BV audits (BV2). Our BV2 audits are founded on a shared risk assessment conducted in partnership with other scrutiny bodies, ensuring that detailed audit work is proportionate and risk based – drawing on existing audit and inspectorate evidence wherever possible. The Controller of Audit's report on the BV audit will be provided to the Accounts Commission in early 2010.
3. The structure of this report is aligned to the headings of the new corporate assessment framework, which is being developed for BV2 and for joint scrutiny work. The framework is founded on the characteristics of a best value council developed by the Accounts Commission, which are available on Audit Scotland's website<sup>1</sup>. Using evidence gathered in the course of the annual audit, alongside other relevant work by Audit Scotland and inspectorates, we comment on the council's position this year.
4. It must be stressed that our comments are made on the basis of information made available in the course of the annual audit. In view of continuing BV2 work, this report avoids significant comment or conclusion on aspects of performance that fall to be considered more fully in the BV audit report.
5. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are:
  - The impact of the race equality duty on council services.
  - Improving energy efficiency.
  - Asset management in councils.
  - Overview of drug and alcohol services.

---

<sup>1</sup> - [http://www.audit-scotland.gov.uk/docs/local/2009/bv\\_090331\\_bv2\\_consultation\\_char.pdf](http://www.audit-scotland.gov.uk/docs/local/2009/bv_090331_bv2_consultation_char.pdf)



- Mental health overview.
  - Civil contingencies planning.
  - Strategic procurement.
6. We mention the key findings from these reports and the implications for Dundee City Council in the performance and use of resources sections of this report. Full copies of the studies can be obtained from Audit Scotland's web page at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
  7. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *Planned Management Action*. We do not expect all risks to be eliminated or even minimised. What we are expecting to see is that the council understands its risks and has in place mechanisms to manage them. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to be duly assured that the proposed action has been implemented.
  8. This report is addressed to members and the Controller of Audit. It will be published on our website after consideration by the council. The Controller of Audit may use the information in this report for her annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and used by the Accounts Commission as the basis for its annual briefing to the Scottish Parliament's Audit and Local Government and Communities committees.
  9. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses highlighted by auditors in this and other reports are only those that have come to our attention during our normal audit work in accordance with the Code of Practice approved by the Accounts Commission, and may not be all of the weaknesses that exist. Communication by auditors of the matters arising from the audit does not absolve management from its responsibility to address the issues raised and for maintaining an adequate system of internal control.
  10. We thank the members and officers of the council for their assistance and cooperation in the conduct of our 2008/09 audit.



# Financial statements

## Introduction

11. In this section we summarise key outcomes from our audit of the council's financial statements for 2008/09, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.

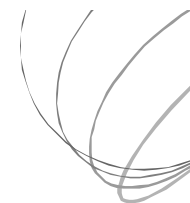
## Audit opinion

12. We have given an unqualified opinion that the financial statements of Dundee City Council for 2008/09 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
13. We were satisfied with disclosures made in the statement on the system of internal financial control and the adequacy of the process put in place by the council to obtain assurances on systems of financial control.
14. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Final accounts preparation procedures and working papers were good and this enabled the audit to progress smoothly.
15. The accounts were certified by the target date of 30 September 2009 and are now available for presentation to members and publication. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

## Accounting issues

16. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice* (the SORP). No major changes were introduced by the 2008 SORP. We were satisfied that the council prepared the accounts in accordance with the 2008 SORP.
17. The council has adjusted the financial statements to reflect audit findings. As is normal practice, immaterial unadjusted errors have been reported to the Head of Finance. Details of significant accounting issues arising in the course of our audit are summarised below.

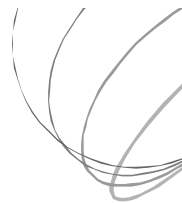




18. It is the nature of financial information that in some areas estimates and judgements require to be made by the council about the amounts to include in the accounts. Our role is to assess the significant estimates and judgements made by the Director of Finance in the preparation of the financial statements. Such estimates were necessary in 2008/09 in relation to two key issues:
- Actual and potential claims in relation to equal pay legislation, with a creditor of £0.560 million being recognised as at 31 March 2009;
  - Actual and potential claims in relation to other self-insured and uninsured losses, with a provision of £4.291 million being recognised at 31 March 2009.
19. The Head of Finance has confirmed that each of these amounts have been reviewed and are the best estimates of the expenditure likely to be required to settle these potential obligations. While there remain uncertainties over the actual costs that will be incurred to settle any such cases, we are satisfied that a reasonable approach has been taken. The council will continue to require to keep the likely amount of these potential liabilities under review in future years.
20. During the year the council received grants and other capital contributions that were used to retrospectively fund capital costs that had been charged to the general fund balance in previous years. We are content that £3.203 million of the amounts received relate to items previously charged to the general fund, and that the adjustment made for this amount is reasonable. However, the council has not been able to demonstrate that the remaining £0.516 million relates to capital expenditure previously charged to the general fund. It is therefore uncertain whether adjustment for this latter amount was appropriate. Potentially the general fund is overstated and the capital adjustment account is understated. In our view this is not material to the 2008/09 accounts. The council should review its processes to ensure that it can track how individual projects are funded, to ensure that it is accounting for this correctly.

## Audit testing

21. As part of our work, we took assurance from a number of the council's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:
- |                          |                      |
|--------------------------|----------------------|
| ▪ Payroll                | ▪ Accounts payable   |
| ▪ Housing rents          | ▪ Council tax        |
| ▪ Main accounting system | ▪ Non-domestic rates |
| ▪ Accounts receivable    | ▪ Pensions           |



## Prevention and detection of fraud and irregularities

22. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy and response plan; a whistle blowing policy; codes of conduct for elected members and staff; and defined remits for relevant regulatory committees.

### NFI in Scotland

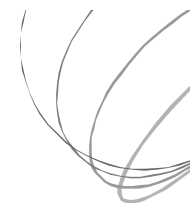
23. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings for Scottish public bodies (£40 million to 2008). If fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.
24. The council has shown that it is committed to using the NFI to detect and deter fraud. The most recent data matching exercise was carried out in October 2008 and national findings will be published by Audit Scotland in May 2010. The council had 4,381 data matches, the major elements of which related to the benefits system (2,524), payroll and pensions (628), procurement (564) and housing rents (332). The council has prioritised its investigations and focussed on the areas of housing benefits and payroll and pensions. However, high risk matches in other areas have not yet been investigated. A single case of benefits claimant error has been identified and £10,788 is under recovery. No cases of fraud have been identified.

### Housing Benefit

25. In 2008/09 the council paid out around £72.7 million in benefits to assist persons on low incomes to pay Council Tax and Rent. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Our specialist team are carrying out a programme of risk assessments of benefits services in all councils over a two year period.
26. The risks to Dundee City Council's benefits service were assessed in November 2008 and a detailed report was issued. The council has responded to the risks we identified with an action plan. We believe the actions will make a positive contribution to improving the benefits service and we will monitor progress in the next inspection cycle, which starts in 2010.

### Group accounts

27. The diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to give a true and fair view of a council's income and expenditure.



## Associates, Joint Ventures and Joint Arrangements

28. The council has interests in seven other bodies:

- Tayside Joint Police Board (Associate)
- Tayside Fire and Rescue Joint Board (Associate)
- Dundee City Developments Limited (Associate)
- Tayside Valuation Joint Board (Associate)
- Dundee Leisure Limited (Associate)
- Dundee Energy Recycling Limited (Joint Venture)
- Tayside Contracts Joint Committee (Joint Arrangement).

29. They have been included in group accounts in accordance with the SORP. Sufficient audit assurances were obtained in relation to the figures in the group accounts to support our opinion.

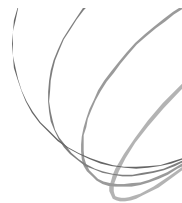
30. Proper accounting practice requires local authorities to make a charge to the income and expenditure account for pension costs based on the applicable accounting standard (FRS 17 Retirement Benefits). Regulations provide a legal basis for removing the FRS 17 based costs from being a charge to the general fund, so that only the actual pension payments are charged to that fund. It recently emerged that the relevant regulations do not currently apply to new police and fire pension schemes which came into effect from 6 April 2006. Although the Scottish Government intends to amend the regulations to include these new schemes, there is no legal basis for removing the FRS 17 based costs for the new schemes from the general funds of Police and Fire and Rescue Authorities.

31. Both joint boards decided not to amend their accounts for this issue, and the council was consistent with this approach in its own group accounts. As a result the balance on the group's general fund as at 31 March 2009 was overstated by £2.577 million, with a corresponding understatement of the Pension Reserve. While significant, we agree with the view that these amounts are not material to the financial position of the group accounts.

32. To comply with recommended accounting practice, accounting policies within the group for significant items such as pension costs and the valuation of fixed assets; should be aligned with those of the council. Plant and equipment leased to Dundee Energy Recycling Limited (DERL) is recognised on the balance sheet of both DERL and the council and an adjustment was made to compensate for this in the group accounts.

## Trust funds

33. The council is trustee for 34 charitable trusts and endowments, 29 of which are registered as charities with the Office of the Scottish Charity Regulator (OSCR). Local authorities with registered charitable



bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. However, the OSCR has deferred the date of full implementation until 2010/11. This means that reliance can be placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.

34. In preparation for 2010/11 implementation date the council is currently reviewing the status of its charitable bodies and is examining the legal implications around transferring some of these to council departments providing similar services. Two such transfer took place during 2008/09, although neither of these were registered with OSCR.

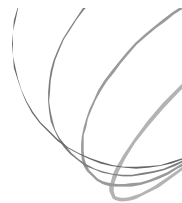
## **Common good fund**

35. In December 2007, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. This requires the accounts of the common good fund to be disclosed within the financial statements and a separate common good asset register to be in place by March 2009. The council discloses the common good accounts within its financial statements.
36. The guidance says that local authorities should take reasonable steps to ensure that common good fixed asset registers support the assets shown in the common good balance sheet. The council has not introduced a separate asset register for common good assets nor identified assets explicitly as belonging to the common good within its main asset register. Instead, when any asset is identified for disposal by the council the title deeds are checked to see if there are any conditions or burdens attached to the property. This would indicate whether or not it is an asset of the common good fund, enabling appropriate action to be taken. The council's view is that reviewing the title deeds at point of sale represents reasonable steps for maintaining the fixed asset register. It considers that a title deeds search of all council assets would be time consuming, expensive and possibly inconclusive and as such would not represent best value.
37. We are content that the approach adopted does not present any significant risk of material misstatement of the council's accounts or that of its group. The council should, however, keep its approach under review to ensure that it fully supports its responsibilities for the stewardship of common good assets.

## **Key risk area 1**

## **Legality**

38. Through our planned audit work we consider the legality of the council's financial transactions. In addition the Head of Finance confirmed that, to the best of her knowledge and belief, and having made appropriate enquiries of the council's management team, the financial transactions of the



council were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.

## Financial reporting outlook

### IFRS adoption

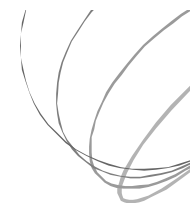
39. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. Local government has already adopted some aspects of IFRS, which should aid transition and next year councils will be expected to account for PFI projects on an IFRS basis. It is important that the council starts the transition period in 2009/10. A comparative balance sheet as at 1 April 2009 will be required and whole of government accounts will also be required on an IFRS basis from 2009/10. The council has established a working group with appropriate internal representation, which has recently begun to meet regularly, and has engaged external support.

### Pension funds

40. The introduction of the IFRS based accounting code of practice in 2010/11 is likely to require separate pension fund reports and accounts, something also supported by LASAAC. The council already prepare separate accounts for the Tayside Superannuation Funds. Although it is unlikely pension funds will be separate audit appointments (as they are not statutory bodies in their own right) it may be necessary for us to treat them separately. This is something we will be discussing with the CIPFA Directors of Finance Group.

### Carbon trading commitment

41. From April 2010 a new and complex system for charging for carbon emissions will be introduced by the EU. The council will be required to purchase and account for carbon credits to cover all of its non transport related energy usage. Incentives and penalties will be built into the system to encourage a reduction in carbon emissions. A review by the Carbon Trust established that in 2007/08, the emissions of the council were over 51,000 tonnes. At a price per tonne of £12 the cost of carbon permits in 2010/11 could be as much as £612,000. The council will need to consider how it accounts for any potential assets and liabilities that may arise from this scheme.



# Use of resources

## Financial results

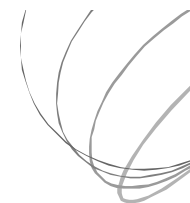
42. In 2008/09, Dundee City Council spent £641 million on the provision of public services, £595 million on revenue costs and the remainder on capital projects. Income for the year from central government, local taxation and other sources amounted to £508 million. This resulted in a deficit of £86.5 million for the year on the income & expenditure account.
43. As the council is required to set its council tax on a different accounting basis this deficit is subject to further adjustments. The main adjustments are to ensure that capital investment is accounted for as it is financed rather than when fixed assets are consumed, and that retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as future benefits are earned. The impact of these adjustments in 2008/09 is to reduce the deficit by £85.4 million, resulting in a deficit of £1.1 million being taken to the general fund.
44. While the general fund surplus or deficit is a key measure in managing the council's annual budget, the income and expenditure deficit indicates the underlying level of resources the council has consumed during the year. The effect of this will ultimately impact on future revenue and capital budgets as assets are maintained and replaced and pension commitments met.
45. The budget set for 2008/09 was based on a Band D council tax level of £1,211 with a planned contribution of £4.6 million from reserves (exhibit 1). Audited accounts show a net contribution of £0.753 million from reserves, which is £3.847 million less than budgeted.

---

### Exhibit 1

#### Budgeted and actual use of reserves 2008/09

Reserve	Budget	Actual	Variance
General Fund	(1.783)	(1.151)	0.632
Capital Fund	(1.600)	2.137	3.737
Renewal & Repair Fund	(0.867)	(1.261)	(0.394)
Insurance Fund	(0.350)	(0.478)	(0.128)
Total reserves applied	(4.600)	(0.753)	3.847



46. This outturn position masks some underlying pressures in the recurring budget position that the council will have to manage in future years. The council overspent by £3.1 million on services and this was offset in 2008/09 by a number of non-recurring positive variances including:
- funding of £4.3 million which was offset against Capital Funded from Current Revenue (CFCR), £3.7 million of which had been incurred in previous years. The net CFCR figure in year therefore was shown as “income” as a result;
  - a release of non-recurring income of £1.2 million from a redundant provision for statutory additions;
  - savings on anticipated equal pay compensation costs of £0.5 million.
47. The council also made significant savings (£2.6 million) on a prudent budget for interest and loan costs. The public sector is entering a period of significant financial constraint and looking forward it is likely that CFCR and interest budgets are likely to be under significant pressure, reducing the scope to use these areas to help manage the overall financial position of the council.

## Reserves and balances

48. Exhibit 2 shows the balance in the council's funds at 31 March 2009 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a renewal & repair fund to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets. At 31 March 2009, the council had total reserves of £27.7 million.

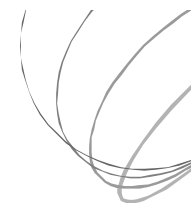
---

### Exhibit 2

#### Cash backed reserves

Description	31 March 2008 £ Million	31 March 2009 £ Million
General Fund	8.582	7.431
Renewal and Repair Fund	4.595	3.334
Capital Fund	13.122	15.884
Insurance Fund	1.526	1.048
	<b>27.825</b>	<b>27.697</b>

49. The general fund decreased by £1.1 million during the year to a balance of £7.4 million which equates to 1.8% of the council's net annual expenditure. Of this balance £3.1 million has been earmarked for

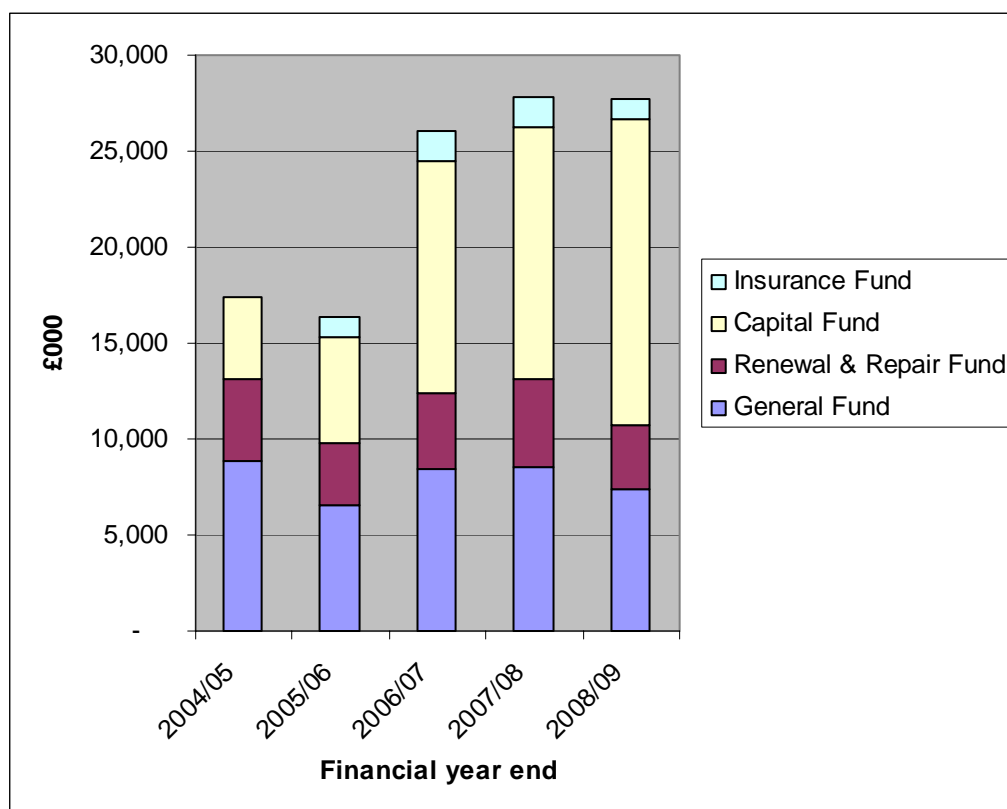


the devolved school management scheme (£0.364 million), car parking (£0.811 million), outstanding expenditure commitments (£0.669 million) and a £1.3 million contribution towards setting the 2009/10 council tax. This leaves an unallocated balance of £4.287 million, which exceeds the minimum level of £2.1 million agreed by the council in February 2008 to cope with unforeseen events.

50. Over the last five years the council has maintained general fund balances of between £8.9 million (2004/05) and £6.6 million (2005/06) (Exhibit 3). The 2008/09 outturn balance is in the middle of this range at £7.4 million. During this time the capital fund has risen significantly, up from £4.3 million in 2004/05 to £15.9 million in 2008/09. The council also introduced an insurance fund of £1 million in 2005/06 and the balance on its renewal & repair fund each year is broadly consistent at between £3 million and £4 million.

### Exhibit 3

#### Dundee City Council cash backed reserves 2004/05 to 2008/09



51. The council has managed its overall financial position tightly over the past five years. During this time it has built up the capital fund, which will help it to manage future capital and debt repayment costs. Uncommitted general fund balances are above the minimum level previously agreed, but represent less than 1% of the total funding and other income received annually. This means the council will have





limited opportunity to use its general fund balance to manage any significant reductions in income and recurring expenditure pressures.

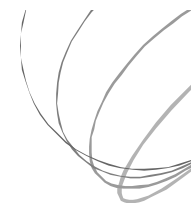
## Group balances and going concern

52. The overall effect of inclusion of all of the council's associates, joint venture and joint arrangement on the group balance sheet is to reduce net assets by £252 million, mainly because of pension liabilities.
53. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. All of these boards (Tayside Joint Police Board, Tayside Fire and Rescue Board, Tayside Valuation Joint Board and Tayside Contracts Joint Committee) had an excess of liabilities over assets at 31 March 2009 due to the accrual of pension liabilities. In total these deficits amounted to £561 million, with the council's share being £261 million. All group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.
54. The Council owns 40% of the ordinary share capital of DERL and this group entity is dependant on the financial support it receives from the council (including the provision of loans and meeting fixed asset costs). DERL has been operating a waste-to-energy plant for 9 years and during that time has accumulated aggregate losses of £42 million. The DERL financial statements have been prepared on a going concern basis, on the understanding that financial support from the council will continue to be extended for the foreseeable future. In deciding to extend such support the council identified significant savings in landfill charges due to the availability of this alternative facility. Looking forward, the council will need to keep the longer term sustainability of current funding arrangements under continuing review.

### Key risk area 2

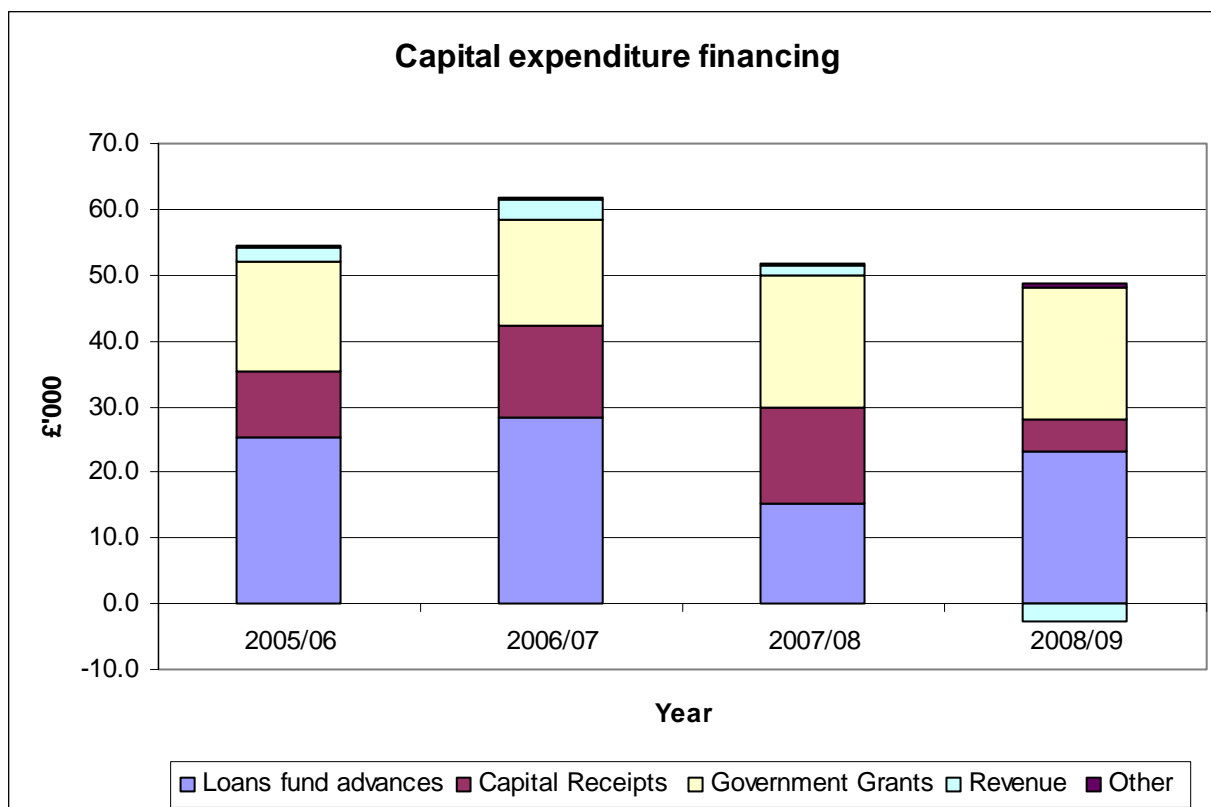
## Capital performance 2008/09

55. Capital expenditure in 2008/09 totalled £46 million, a reduction of £5 million from 2007/08 and £0.6 million more than the revised budget. Overspends in Planning & Transportation during the year were offset by underspends in housing. We note that the underspend in housing corresponds roughly to the £2.7 million shortfall in proceeds from house and housing land sales. This slowdown of activity may have an adverse impact on the council's ability to meet its Scottish Housing Quality Standard (SHQS) targets by 2015, and the Scottish Housing Regulator reported in March 2009 that the council faces a number of significant risks to its plans to meet the SHQS.
56. The trend in capital investment and sources of funds is reflected in exhibit 2.



## Exhibit 4

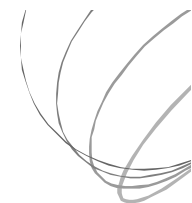
### Sources of finance for capital expenditure 2005/09



57. The “negative spend” from revenue sources in 2008/09 arose as the council offsets specific grants received against departmental capital funded from revenue (see paragraphs 18 and 43).
58. The world’s financial markets are experiencing turbulence and uncertainty. There is limited scope to achieve savings through debt restructuring and it is increasingly difficult to forecast interest rate movements as the balance between preventing recession and managing inflation is sought. It is also likely that capital receipts will be less than forecast for the medium to long term. This means that the council will have to consider alternative sources of capital funding or reducing capital budgets. During the year the capital budget was revised downwards from £63 million to £45 million after taking account of projects brought forward from 2007/08 (£6 million) and projects carried forward into 2009/10 (£26 million). A further £2 million was allocated to existing 2008/09 projects.

## Treasury management

59. In recent years, some councils have held significant amounts of cash and temporary investments to take advantage of favourable interest rates for planned capital programmes. In these circumstances, the early borrowing must be justified in its own right as representing the best time for borrowing the amount that will be required. This should be assessed without regard to temporary investment



possibilities, otherwise the action may be judged to be unlawful or to have subjected public money to unnecessary speculation risk.

- 60. As at 31 March 2009, the council held cash and temporary investments totalling £36.3 million. We received specific representation from the Director of Finance that all borrowing is compliant with the provision of the Local Government (Scotland) Act 1975.
- 61. Following the collapse of a number of Icelandic banks in which a number of other Scottish local authorities had funds invested, the council undertook a review of where it placed its own funds and made a number of changes to its list of approved counterparties.

## Pension funds

- 62. The council is responsible for the management and administration of two pension funds: the Tayside Superannuation Fund and the Tayside Transport Superannuation Fund. The investment assets for both funds are under the management of external fund managers. The value of the investment assets are illustrated in exhibit 5.

---

### Exhibit 5

#### Pension fund investment values 2005/09

	31/03/06	31/03/07	31/03/08	31/03/09
	£000	£000	£000	£000
Tayside Superannuation Fund*	1,432.7	1,571	1,544	1,233
Tayside Transport Superannuation Fund	40.6	41.9	40.0	32.7

*\* The council's share of the assets at 31 March 2009 amounted to 38.8% of the Fund's assets.*

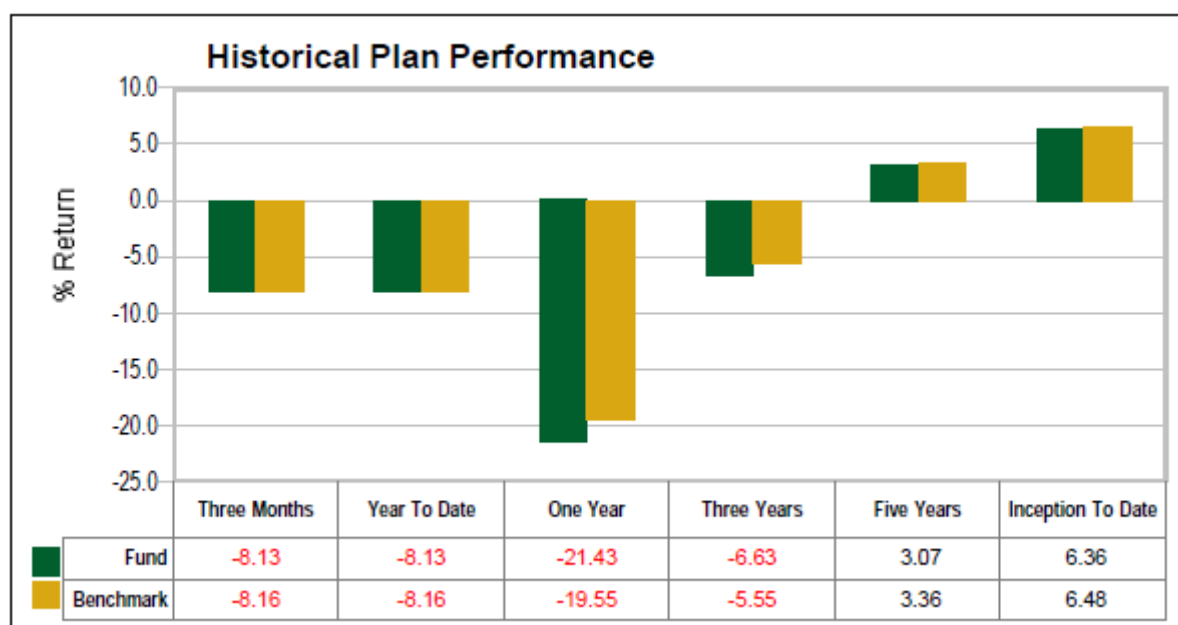
- 63. Total investment value increased steadily to 2007, but declined recently due to the global economic downturn. There have been significant movements in share prices particularly in the banking sector. This affects the investment asset valuation, but the volatile nature of the current market makes it difficult to make a long term estimate of the value of the asset. Both funds are valued every 3 years.
- 64. A full actuarial valuation of the Tayside Superannuation Fund was carried out as at 31 March 2008 and showed an increase in the funding level, calculated as the ratio of fund assets to past service liabilities, rising from 91% as at March 2005 to 97.6% as at March 2008. This was mainly due to the fund achieving a better rate of investment return than had been anticipated in the previous valuation and better statistical outcomes than assumed in 2005 - for example, lower number of retirements and less death in service.



65. The council agreed a slight reduction in employers' contributions, from 315% of employee contributions to around 310%, after considering the funding level and the impact of changes to the contribution rules for employees. While the headline rate has been reduced this is unlikely to lead to a significant reduction in total employer costs, with average employee contributions expected to increase as a result of the introduction of tiered contribution rates.

## Exhibit 6

### Tayside Superannuation Fund – historical plan performance

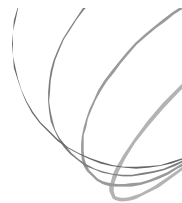


Note: first 2 columns are Jan-Mar 09, 2008/09 figures are per column 3

66. In 2008/09, the fund returned -21.4%, compared to a benchmark of -19.5%. Exhibit 6 summarises the performance of the fund over its history, highlighting that it has consistently underperformed against benchmark. This increases the funding pressure which will in turn mean that costs are greater in the longer term than they would otherwise have been if the benchmark was achieved.

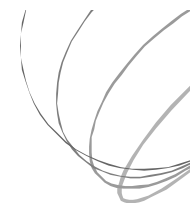
## Financial planning

67. The Scottish Government has made it clear that public expenditure will be constrained for the medium term. Councils need to plan now for a future where there is no real growth in funding. Dundee City Council continues to face difficult financial pressures in 2009/10, for example, single status, demand led social work pressures, fuel and food inflation, higher energy costs, reduction in capital receipts, planning income and commercial rents and increased support for the local economy.
68. As the council is party to the concordat with Scottish Government, the 2009/10 council tax has not been increased and the council has had to look at other sources of income and reductions in



expenditure to balance its budget. We noted that budget savings and efficiencies of £1.8 million have been identified in the 2009/10 budget and that further efficiencies are expected to be needed during the year. A report to committee in October 2009 forecast a small overspend of around £27,000 on the 2009/10 revenue budget after transferring £2.5 million from existing balances.

69. The Scottish Government has recently announced its proposed budget for 2010/11. The council has identified that it will require to deliver further savings of around £5.9 million to maintain council tax at current levels for the next financial year.
70. Beyond 2010/11, the full impact of the current economic recession on future grant levels is unclear. The Centre for Public Policy for Regions (CPPR) published data exploring possible scenarios for the three year period 2011/12 to 2013/14. Directors of Finance in Scottish local government have reviewed this work and formed their own view on the likely level of funding in the medium term, estimating a cumulative real terms reduction in funding of 12% to 14% up to 2013/14. The council has prepared medium term forecasts of its own budget position based on this work, taking account of additional expenditure pressures in adult social work services. These indicate that savings of up to £30 million (equivalent to around 8% of the current net revenue budget) will be required to be identified over the next 4 years to maintain council tax at current levels.
71. While this work provides a good baseline against which the council can manage overall financial position, longer term resource planning remains limited. This restricts the council's ability to prioritise expenditure to meet its strategic objectives. The council recognises the need to improve financial planning and to integrate this with longer term asset and workforce planning.
72. Savings take time to accrue and the council has to take action now to be sure of achieving efficiencies in the future. Key areas for 2009/10 include developing the procurement strategy, improving asset management and implementing an electronic records and document management system. There may also be a need to review the budget setting process to ensure that the assumptions are reasonable, based on both current and past performance, and that contingency plans are in place to address volatile or hard to forecast budget areas such as demand led services provided by social work.
73. Unit cost is concerned with how much each service "output" costs. In common with most local authorities, the council has limited information available on these. There is little evidence of unit costs being used systematically to plan, monitor and scrutinise service performance. The focus of financial management is on expenditure, budgetary performance and the annual financial position with less emphasis on unit costs and their inter-relationships with performance and quality. A good understanding of unit costs provides building blocks that the council can use in budgeting for the outcomes they are aiming for through the Single Outcome Agreements (SOAs).

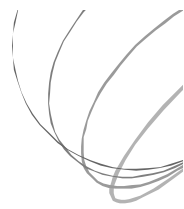


## Budgetary Control

74. This year, because of the heightened importance of good budgetary control, we paid particular attention to how the council set and managed its budgets. We found that the process for budget setting had elements of good practice, for example, the social work budget for 2009/10 was increased to take account of demand led pressures which had contributed to overspends in previous years. Historically, however, the council's budgets have largely been uplifted for inflation, alongside specific funding for priority development spending. A more radical review of spending priorities is likely to be required in the future to ensure that the council can balance its books and ensure that spending is appropriately aligned to corporate priorities and objectives.

## Asset Management

75. Effective management of council assets helps the council achieve its objectives and get best value from its investment in property. Through effective asset management, council buildings can be made to work better for staff and service users both now and in the future. It can also reduce the opportunity cost of money locked up in surplus property and reduce the council's carbon footprint.
76. In 2009, we published *Asset Management in Councils*. Our study found that strategic asset management was not well developed in most councils. For Scottish councils as a whole, over a quarter of all properties were in poor condition and slightly less than that were not suitable for the services being delivered from them. The council fared better than this as the statutory performance indicators for 2008/09 assessed 78% of its properties as being in a satisfactory condition and 80% are suitable for their current use.
77. The report made a number of recommendations for improvement and the council plans to address these and identify improvement to its current approaches through a best value review of asset management which is due to be carried out shortly.
78. In December 2007 the council approved its Corporate Asset Management Plan (AMP) "Building our Future". The council has recognised that it will take some time to bring together the various sub-plans that currently exist or are in the process of being developed, so that it has an overarching plan that covers all of its assets. The Corporate Asset Management Plan makes reference to the ultimate aim being "...to integrate these plans into a single strategic framework". Once this integration is achieved, it will enable the development of an over-arching corporate strategy for managing the entire asset portfolio and also facilitate stronger linkage between asset management and financial planning. However, the integration is not expected to be completed until 2011.
79. In recent years the council has relied on capital receipts to finance a significant proportion of its capital expenditure (see exhibit 4 above). The economic recession means that assets are harder to dispose

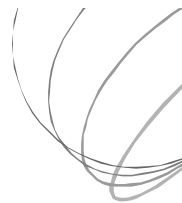


of and proceeds are lower than might previously have been anticipated. The council has therefore decided to retain assets until prices rise to ensure that they achieve Best Value. This will have an impact on the council's ability to deliver its existing capital plan. In March 2009, the council announced its intention to bring forward capital work to both support the local construction industry and to provide local jobs during the recession. The reduction in capital receipts may make this challenging to achieve.

80. During the year we completed an information technology review of the computer system used by City Development to store property asset management data (Grimley Valuation and Asset (GVA) Property Management System). Our initial review of the GVA system focussed on the software application and did not extend to an assessment of the accuracy or completeness of information held on GVA. We noted that between March 2008 and February 2009, following the Authority Financials migration, the interface for transferring a memorandum of repair costs to GVA from the financial system did not operate reliably. This may affect the quality of property asset management data and we understand work is currently on-going to update GVA and prove its completeness.

## Procurement

81. Local authorities spend significant sums of money annually on purchasing goods and services and as part of the efficient government initiative, the Scottish Government anticipated that scope existed for significant financial savings through improved procurement procedures and practices. The McClelland report on procurement published in March 2006 confirmed that significant savings were possible but concluded that public sector procurement processes still had weaknesses in resources, skills, organisational structures and practices.
82. In response to the McClelland report the Scottish Government introduced the Public Procurement Reform Programme (the Programme) in April 2006. In July 2009, Audit Scotland reported the extent to which the Programme had progressed nationally. This report concluded that while some significant steps had been made, more work was required before the Programme could achieve its full potential. The key findings of the report were that while the wider impact of the Programme appears positive:
- there was no systematic basis for reporting savings directly attributable to the Programme
  - savings from collaborative contracts, a key feature of the Programme, were being achieved more slowly than expected
  - there were wide variations across public bodies in the quality of purchasing data, practice and skill levels.
83. The council has had a joint procurement unit with Angus and Perth & Kinross Councils in place for just over a year. There are two strands to the Tayside Procurement Unit's work: e-Procurement and central contracting. The Scottish Government's procurement analysis tool (Spikes Cavell) is used to



analyse procurement spend and can be used to generate management information. In 2008/09 procurement efficiency savings of around £0.460 million were reported by the council, £0.300 million of which were directly attributable to the Tayside Procurement Unit. The Unit has six staff, three of whom are contract specialists and it is also able to draw on specialist expertise from the three constituent councils.

84. The council participates in the national centres of procurement expertise and an e-Procurement system, an integrated module of the council's financial system, was implemented in February 2008. During the year we reported that some departments are continuing to use a manual purchasing system, others use the Authority Purchasing module and a number use both approaches. The Authority Purchasing module feeds directly into both the general ledger, to create a commitment, and to the purchase ledger where invoices are automatically matched to orders when the order number is input. Due to problems with embedding Authority Purchasing across the council, this matching control was not fully operational during 2008/09. The responsible officer is aware of the current situation and is currently implementing a plan to roll out the Authority Purchasing System across the council which is to be completely by March 2010. This process includes reaffirming current basic procedures (e.g. matching invoices to receipted orders) as well as making available new system developments. Achieving this target is, however, dependant upon sufficient resources being available.
85. The Head of Procurement is currently working on a procurement capability assessment as part of an exercise being coordinated by Scottish Government. This will assess progress on McClelland requirements and the council's position in terms of benchmarking with other local authorities. It is due to be submitted in October 2009.

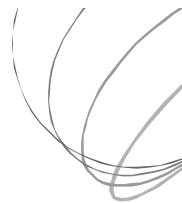
## Managing People

86. A Human Resources (HR) Strategy was approved by the council in December 2006. This set the strategic context for achieving council objectives but did not clearly prioritise aims and objectives nor how achievement of the strategy was to be monitored. In 2007/08 we reported that the HR strategy was under-developed and were advised that the strategy was to be revised as a matter of priority. An updated action plan for this work was approved in July 2009 and the council is currently working with the Improvement Service to develop a five year rolling plan by 2010.
87. The council had 11 equal pay legal cases outstanding at the end of March 2009. The implementation of single status was a significant milestone and should have helped reduce the risk of further claims.

## ICT

88. The council makes good use of ICT to support and deliver services. It has a clear strategy for the future development of ICT that is clearly linked to the council's objectives and restructuring plans. As





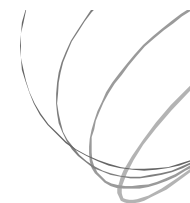
the lead council for implementing a national Citizen's Account (an identity and entitlement scheme), the council works closely with the Improvement Service.

## **Data handling and security**

89. Data handling and security has received increased public and media attention recently as a result of a number of national incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions, Tayside Police and NHSTayside. Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to civil and criminal litigation.
90. The council has a technical and physical security framework that greatly reduces the likelihood of data handling problems. In addition, we have observed a good level of awareness of security related issues and policies among service staff contacted by audit. The council incorporates security related messages where possible into staff training materials.
91. During 2008/09, Internal Audit completed a significant piece of work on the Payment Card Industry Data Security Standard, covering important aspects of data handling and security. We endorse their conclusion that there would be benefits to strengthening the information security management system in line with ISO27001. Applying this quality standard helps improve the effectiveness of management controls over information security and therefore reduces the likelihood of material loss.

## **Change management processes**

92. ICT change management is the process by which maintenance is performed on ICT systems, to resolve faults, fulfil requests for new functions and update software in line with manufacturers' recommendations. It is demand-led and susceptible to the risk that an error can cause knock-on problems and hence unplanned increases in demand.
93. We found that, whilst there is a range of controls in operation there is scope to further improve the change control system through greater use of controls to prevent and detect unexpected changes. Unexpected changes can cause connected systems to breakdown, resulting in unplanned work and a high workload for systems support personnel. Tighter controls would release staff deployed in trouble-shooting to work in more productive areas such as systems integration.

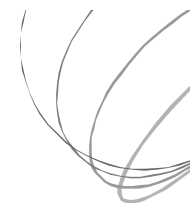


## Shared Services

94. The Accounts Commission commented on the lack of progress in developing shared services in its *Overview of the local authority audits 2008*. They recommended that councils should give this high priority in the light of financial pressures and the drive for efficiency.
95. There are a number of shared service approaches within Dundee including the Tayside Procurement Consortium (see procurement section), and Tayside Contracts. The council also provides financial services, such as accounting and payroll systems, to a number of external bodies.
96. The council currently shares some accommodation with community partners, such as NHS Tayside, in various buildings. There are also aspirational plans for the new council headquarters due to open in 2011 to be a “one stop shop” where citizens will be able to access not only council services but also those of the Department for Work and Pensions.
97. However, the council recognises that there is much greater scope for shared service initiatives and that it will be reliant on working much more closely with neighbouring councils and other public sector organisations if it is to release the level of savings required. While initial discussions have been held, there is still much to do before specific plans are developed and implemented.

## Outlook

98. Clearly we are in a period of reduced economic growth with big implications for the council's resources and the demand for services. The council needs to remain alert to the impact of the recession on the community it serves and what that means for its own objectives and services. At the same time as the council tries to support its local economy and provide best value services, it is likely to face a reduction in resources.
99. Whilst the capital fund provides some protection for future capital spending, revenue pressures are certain to increase and the council will be faced with making difficult financial decisions to balance future budgets. The scale of the financial challenge facing all Scottish councils is significant and the council will require to work hard to ensure that it gets the most out of the limited resources it will have at its disposal, and that it targets these appropriately to priorities. Improved integration of financial and service plans and better long term resource planning will help the council to do this.



# Governance and accountability

## Introduction

100. We believe that an effective council is committed to high standards of probity and can demonstrate high standards of governance and accountability. It has effective political and managerial structures and processes to govern decision-making and the exercise of authority within the organisation, supported by mature and effective relationships between members and officers. An effective council is committed to public performance reporting as a key element of public accountability. It clearly sets out service standards which reflect the needs of local people and other stakeholders, and is balanced in its presentation of the council's strengths, weaknesses and challenges for the future.

## Structure and policies

101. Corporate governance is about direction and control of organisations. Councils are large complex organisations and so good governance is critically important. The council has recently assessed its own arrangements against the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government*. The outcome suggests the council is over 90% compliant with the existing guidelines. In 2009/10 the council plans to review its arrangements with reference to the Guidance Notes for Scottish Local Authorities which supplements the CIPFA/SOLACE guidance.

102. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. We have previously raised concerns about the effectiveness of scrutiny in the council. Since then the council has made some changes to its arrangements introducing a scrutiny committee, chaired by the opposition. The Improvement and Efficiency sub-committee monitors performance indicators and considers the findings of Best Value reviews. We are considering the effectiveness of these revised arrangements in the course of our BV audit and will report on this in due course.

103. The Audit & Risk Management sub-committee acts as the council's audit committee and its remit includes a requirement to monitor the strategy, plan and performance of internal audit and to consider the plans and reports from external audit. It is chaired by a member of the administration, who is also deputy convener of the Policy and Resources Committee. The sub-committee makes a contribution to scrutiny of the areas covered by its remit, but its composition and status means that it is not sufficiently independent. The time given to meetings is limited and its effectiveness is limited.

104. We are aware that a review of the council's scrutiny arrangements is scheduled to take place soon. It is important that this takes a holistic view of the council's arrangements and approach to scrutiny.



## Key risk area 3

### Roles and relationships

105. The Accounts Commission recommends that councils give priority to the continuous professional development of its members. The introduction of elected members' training and personal development plans is almost complete and the effectiveness of these plans will be subject to regular review. At this stage, members training plans do not link clearly to the council's plans. Take up of training by members in recent years has been low and, although we have been advised this is improving, there remains a challenge for officers to provide training appropriate to members' varying training needs.

### Partnership Working

106. Single Outcome Agreements (SOAs) have been introduced across Scotland following the concordat between central and local government in November 2007. Development of the SOA for Dundee and underpinning governance and performance management arrangements has been a key issue for partnership working, building on established community planning approaches. Our interest in SOAs relates primarily to how effective they are as a planning and performance management tool. Although progress against outcomes will be an important source of evidence for our BV2 pathfinder audit, we do not audit the delivery of the SOAs.

107. The first SOA for Dundee (2008 – 2011) was formally signed and adopted in July 2008, following a process of consultation with other members of the Dundee Partnership. Development of the second SOA (2009-2012) involved greater participation across the Partnership, and it was signed by all partner organisations in July 2009.

108. The SOA has an appropriate strategic focus with a manageable and meaningful number of high-level outcomes and supporting indicators. Eleven key strategic outcomes for the City have been established. These are clearly linked to the 5 Scottish Government strategic objectives and 15 national outcomes, and to the strategic objectives and priorities set out in the existing Council Plan. This provides a firm basis for ensuring that the council's activity appropriately supports the overall aims of the SOA, although work is continuing to ensure that an appropriate 'golden thread' as achieved throughout the council.

109. The SOA has a tight focus on a small number of indicators which the partners have agreed capture the essence of the changes they aim to achieve in the City. Work is continuing to ensure that these are underpinned by supporting intermediate outcomes and indicators, which are being set out in outcome delivery plans for each of the Dundee outcomes. The partners have recognised that there



are some gaps in the indicators currently available (for example in measuring the reduction in inequalities), and have identified the need to respond to these either nationally or locally.

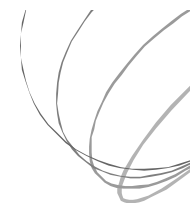
110. It is intended that delivery plans also clearly set the responsibilities of individual partners in either a lead or supporting capacity for each outcome. They are currently being prepared by each of the eleven strategic theme groups, who have primary responsibility for performance management for the associated outcome, and are due for completion in November. A Performance Improvement and Management System, adapted from the Public Sector Improvement Framework, has been piloted by a number of these groups and it is planned that this will be rolled out to each of them.
111. It is planned that the SOA and the outcome delivery plans will form the basis of a new Community Plan for 2010 to 2015. The SOA will be a key strategic document for the council's plans and it has been agreed that it will be reflected in the future corporate or organisational plans of all partner organisations.

## Community engagement

112. The council has a strong track record of working with local communities and taking a systematic approach to defining their needs. Local community planning structures have good community representation.
113. Locally commissioned projects are dependent on on-going funding. Whilst the Fairer Scotland funds will remain ring-fenced until 2010 there is a general move away from ring-fenced funding. In the longer term, it is recognised that there is a risk that the momentum on community regeneration, deprivation and employment projects may be lost as funding becomes less secure. The council continues to work with partners to develop ways of evidencing that funding given to local projects has delivered the expected outcomes.

## Public performance reporting

114. The council produces an annual performance report which is published on the council's website and available in hard copies in public libraries and council offices. The 2008/09 report was published in September 2009. It includes a summary of performance using 20 corporate scorecard indicators and makes comparisons with 3 other Scottish cities in relation to these and statutory performance indicators. It also includes the council's annual efficiency statement and a summary of progress in delivering Dundee's SOA. Each service provides a statement of its own performance. While the achievements of the council and its partners are given prominence, the report also includes some assessment of areas where improvement is needed. Further performance information is available in a more detailed report submitted to the council which further describes progress against council objectives and has been made available to the public on the council's website.



115. Local government accounting rules allows authorities to include a public statement on the effectiveness of the council's corporate governance framework in their annual accounts in place of the more limited statement on the system of internal financial control (SSIFC). The CIPFA framework document *Delivering good governance in local government* recommends that the review of the effectiveness of the system of internal control should be reported in an annual governance statement. LAAP bulletin 71 *The Annual Governance Statement* clarifies that authorities are encouraged to include an annual governance statement with their accounts. While the council currently produces a SSIFC, we understand that the council intends to introduce an Annual Governance Statement in future years to reflect good practice.

## Internal control

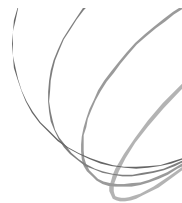
116. The Director of Finance undertook a review of the effectiveness of the system of internal financial control and reported the results of this in the annual accounts. She concluded overall that reasonable assurance could be place on the councils control system and that of other bodies that fall within the group boundary during 2008/09, drawing on the work of the council's internal audit service.

117. During the year we reviewed the council's cash management procedures including reconciliations & record keeping. Cash management is a significant system, processing council transactions exceeding £575m each year. In addition, the council provides banking & cash management services for a number of other organisations. We found the arrangements in place to be overly complex as a result of the number and variety of cashbooks, together with the multi-company general ledger structure. As a result there was duplication of data entry & delays in posting cashbook entries. Unnecessary complexity can result in inefficiencies, a lack of transparency over cash, uncertainty about roles and responsibilities and accounting challenges. There were difficulties with the separation of accounting records of different organisations that required substantial input each month to resolve.

118. We also identified weaknesses in the bank reconciliations during the year. Detailed work was required by officers during the year to resolve these satisfactorily prior to completion of the audited accounts. We have raised a number of concerns with management and the council is now reviewing its cash management procedures.

### Key risk area 4

119. During 2008/09, the council wrote off debts totalling £4.8 million (2007/08, £7.3 million), in respect of council tax, rates, statutory additions, poll tax, sales ledger, rents, housing benefit overpayments and parking fines. The standing orders provide the Director of Finance with delegated authority to write-off miscellaneous debts (subject to all possible measures to effect collection having been exhausted). We noted that not all debts written off in this manner are routinely reported to the Director of Finance

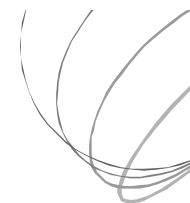


and no information on this is reported to elected members. There is a risk, therefore that debts written off cannot be robustly monitored by those charged with governance.

#### **Key risk area 5**

## **Outlook**

120. Partnership working is critical to the council's success. The Accounts Commission acknowledges that SOAs are still at an early stage of development. If they are to be successful the partnership will need to develop effective governance and accountability arrangements to support effective working and the delivery of overall aims.



# Performance management and improvement

## Introduction

121. We believe that an effective council has a clear and ambitious vision for what it wants to achieve for its locality and communities to secure high quality services and effective outcomes for local people. The vision is then effectively promoted by the member and officer leadership of the council and supported by staff and partners. It is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective council has a performance management culture which is embedded throughout the organisation. The council's performance management framework is comprehensive and integrated with service planning and delivery. Staff have a customer first culture. The council is able to demonstrate significantly improved outcomes for citizens and more effective and efficient services because of its performance management arrangements.

## Vision and Strategic Direction

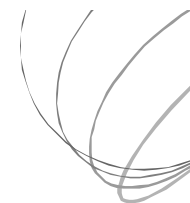
122. The council and its partners have an ambitious vision for Dundee, focused on clear priorities, such as reducing levels of deprivation and creating sustainable jobs. Since the end of 2008/09 the council has experienced a significant transition in leadership, with recent changes in political leadership and changes in senior officer posts including the appointment of a new chief executive. The impact of these changes will only become evident over time, and we are beginning to explore this through our best value audit.

123. While there is strong central control within the council, there is also some evidence of weak corporate and partnership working in some areas. Recent inspections have highlighted specific concerns:

- HM Inspectorate of Education (HMIe) - a joint inspection of services to protect children and young people found individual and collective weakness in vision, values and aims; leadership and direction; and leadership of change and improvement.
- The Scottish Housing Regulator (SHR) - found a lack of leadership and direction in housing services, with serious gaps in management responsibility for responding to poor performance. It also highlighted that the council has struggled to drive change needed to deliver improvements in its services.

124. The council and its partners are developing improvement plans to respond to the issues raised in these inspection reports.



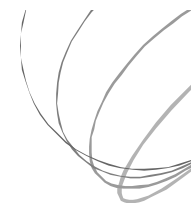


## Performance management

125. The council has made significant improvements to support more effective performance management, and we have previously reported on the positive impact these have had. While there are still gaps in the information available, particularly in relation to key targets in the SOA, an impressive performance monitoring database is in place which allows users to easily analyse performance by a number of themes or services. Performance reports compiled from the database are submitted to the Improvement and Efficiency sub-committee quarterly and service committees also get annual performance reports. Performance is also regularly considered by management teams across the council.
126. The council considers how it does things through a variety of approaches, leading to specific improvements and proposals for change. However, the council's review processes are disjointed and a more coherent and coordinated approach is required. The council also recognises the need to improve option appraisal, market testing, benchmarking and shared services to demonstrate that its services offer best value.

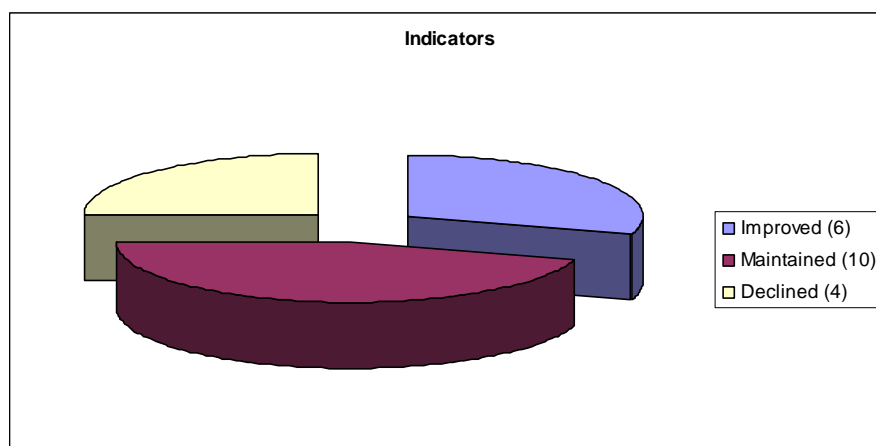
## Overview of performance in 2008/09

127. A corporate performance scorecard has been established, and is reviewed by both senior officers and members quarterly. It draws on a number of statutory performance indicators and other indicators established by the council. The scorecard is seen to be an essential tool in maintaining and improving performance. All of the council's performance measures are recorded within the on-line performance database which provides trend information over time and comparison with neighbouring and similar councils.
128. Exhibit 7 summarises progress over 2008/09 against the 20 indicators measured through the corporate balanced scorecard which were reported in the Performance Report.
129. During the year there have been some significant operational achievements, for example an increase in the number of schools operating at more than 60% capacity and improvements to household waste recycling. The council also faced a range of challenges including, reducing rent arrears and rent lost on empty houses, further improving school capacity levels as well as sickness absence levels for teachers. Overall, performance is improving steadily when compared to previous years, but there remain specific areas of concern.



## Exhibit 7

### Corporate performance scorecard 2008/09 – direction of travel

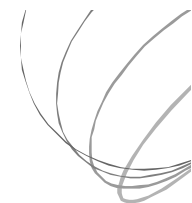


## Statutory performance indicators

130. One of the ways of measuring council performance is through the statutory performance indicators (SPIs). Within the council, key SPIs are already included within service scorecards. In 2008/09, a total of **58 SPIs** were required. These were published by 30 September 2009 and were submitted to the council's Improvement and Efficiency sub-committee. SPIs provide a consistent form of measurement for councils to review their performance over time and to make comparisons with other councils. In overall terms, Exhibit 8 highlights that the council has made improvement in a number of areas, while in others performance has declined.

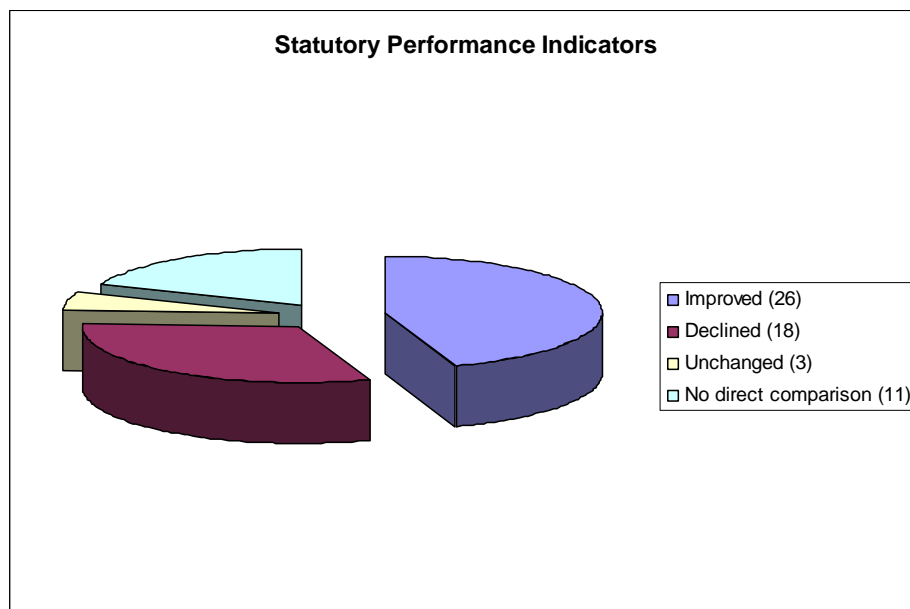
131. Each year we review the reliability of the council's arrangements to prepare SPIs and in 2008/09 this work was undertaken in conjunction with Internal Audit colleagues. Overall, the quality of working papers provided to support the SPIs continued to be variable. In one department the lack of documented procedures for compiling the indicators caused difficulties this year as the responsible officer was new to the role, meaning significant additional work was required to prepare the required information. No indicators were classified as unreliable (2007/08: 2). However, the council needs to ensure the procedures and working papers supporting the SPIs are clearly documented.

132. SPIs have declined in cultural and community services in relation to museum services and library book borrowers. This has been attributed to a particular focus on one project rather than promoting museums in general and to spending reductions at libraries. There was also a decline in housing indicators in respect of letting times and tenant arrears. A lean service review of the letting system is now underway and the council plans to undertake a benchmarking review with those local authorities that have shown most improvement in rent arrears.



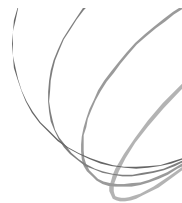
## Exhibit 8

### Statutory performance indicators 2008/09 – direction of travel (Total 58 indicators)



## Equality and Diversity

133. In 2008, we published a study examining how councils responded to their race equality duty, *The impact of the race equality duty on council services*. This study found that all councils have developed policies and processes on race equality. A number of initiatives are in place to meet the diverse needs of local communities, such as the provision of interpretation and translation services, and information packs for recent migrants. However, councils lack information about minority ethnic communities, their needs and experiences. Councils are also unable to show how race equality is routinely built into the design and delivery of services.
134. Dundee City Council has produced an Equality Action Plan 2009-2010 to address the key messages and recommendations included in the report and to make more general improvements in this area. It has a range of groups for progressing equalities issues but it is not clear how they all interrelate and they have had limited impact. The Equalities Action Plan suggests that the council has struggled to make a great deal of progress with many of its equalities initiatives. The focus of demonstrating equality has been on workforce equality and it is clear the council has found it difficult to develop any monitoring information to demonstrate the equality of service outcomes.
135. No councillors and few managers have had formal race equality training since 1st April 2004. It is unclear whether any other equality training has been provided. Gender balance amongst senior officers is amongst the lowest in Scotland, but the accessibility of the council's buildings is relatively high.



136. The council recognises that improvements in this area are needed. This includes: developing more sustained community engagement with equalities groups, setting clearer equality outcome targets, improving its monitoring and analysis of equalities data and reviewing its Equality Impact Assessment (EQIA) processes.

## Efficiency

137. In June 2004, the Scottish Executive launched the Efficient Government Initiative. The initiative aspired to achieve £1.5 billion of efficiency savings by 2007/08 and reported efficiency savings of £1.7 billion. In November 2007 the Scottish Government announced the Efficient Government Programme 2008/09 – 2010/11, setting set out its target to deliver cash-releasing efficiency savings amounting to £1.6 billion in 2010/11.

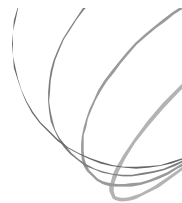
138. To achieve this level of savings the Scottish Government set a target of two per cent cash-releasing savings – producing the same outputs with fewer inputs – for each of the three financial years. Public bodies will therefore need to be able to deliver year on year efficiency savings and contribute to the achievement of the Scottish Government's savings targets.

139. As part of Audit Scotland's performance audit programme a national study on the delivery of efficiencies within the Scottish public sector is being undertaken. The study will provide an overview of the Scottish Government's Efficient Government Initiative 2005/06 – 2007/08 and consider the extent to which public bodies are set up to deliver year on year efficiency savings from 2008/09. To assess the readiness and ability of public sector bodies to deliver year on year efficiency savings we undertook fieldwork across central government, the NHS and councils, with five bodies being selected from each. Dundee City Council was one of the local authority bodies which agreed to participate in the study.

140. The fieldwork was carried out during March and April, and included interviews with senior officers and analysis of supporting documentation. The fieldwork applied the Audit Scotland's Best Value Efficiency Toolkit which was developed to enable either auditors or public sector bodies to assess the efficiency arrangements in place within an organisation. Audit Scotland's national report will be published in late 2009.

141. We found that improving efficiency is a key strategic objective within the Dundee City Council Plan and efficiency initiatives are regularly reported to members. However there is no specific plan or strategy setting out the council's efficiency projects and there are no targets set in relation to efficiency projects.

142. The council reported £3.5 million efficiency savings in 2008/09. This represents 1.5% of revenue funding received from Scottish Government. As highlighted in the use of resources section above the



council will require to achieve significant efficiencies and other savings in the years ahead. This will require much better coordination of the council's efforts.

#### Key risk area 6

143. Tackling climate change and making the best use of resources require the efficient use of energy. In 2008, we published a report on this subject: *Improving Energy Efficiency*. Our report concluded that the public sector in Scotland has made progress in using energy more efficiently, recording a 5% decrease in energy consumption in councils for the three years to March 2007. However, the amount spent on energy, over the same period, increased by 47% due to price increases. Public bodies are recommended to develop and implement robust energy strategies and to encourage the necessary changes to culture and behaviour.
144. The council reduced energy consumption by 10 per cent between 2002 and 2007. It also takes part in the Public Sector Carbon Management programme which is designed to deliver carbon reduction in line with the Kyoto commitments. A report to committee in August 2009 highlighted that the Carbon Management Plan commits the council to a target of 10% reduction in carbon dioxide by 2013 and underpins potential financial savings of around £5.25 million. An Energy Management Group comprising senior officers was established to monitor and review progress against an energy management action plan, but the council has recently recognised the need to reinvigorate this group. During our *Improving Energy Efficiency Study (2008)* we noted that the Energy Manager is rarely involved in the planning of major capital projects and there are no protocols for considering energy efficiency issues in the procurement of office equipment and new plant.

### Progress on delivery of the council's best value improvement plan

145. A full review of best value and community planning was published in October 2005. In intervening years short follow-up reviews are carried out by the local auditor. In 2007/08 we reported that actions identified in the council's 2005 best value improvement plan were generally well advanced. Improved direction by senior management had led to a greater focus on performance management and continuous improvement. This had contributed to improvements in measured performance. However, option appraisal remained underdeveloped and the council also remained cautious about the extent to which it can realign resources to better reflect its strategic priorities. Significant further development of asset and workforce management was also required.
146. Important improvements had been made in some key areas, most notably to corporate processes to better support performance management. However, there had been limited change to the manner in which council business was organised and conducted to address specific concerns raised by the Accounts Commission in relation to transparency of decision making, scrutiny and strategic management of organisational structure. It was clear that the council remained content with its current



arrangements and that it did not wish to make further change to its political management structures, reflecting a continuing disagreement with the concerns previously highlighted.

147. A BV2 Pathfinder audit is currently being carried out at the council during 2009 and a report detailing the findings from this work is scheduled to be published in early 2010.

## Risk Management

148. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance. In February 2009 the council approved its first corporate risk register as part of its Risk Management Strategic Plan and Strategic Risk Register document. It is planned that this will be subject to annual review by the council, although members have yet to see it.

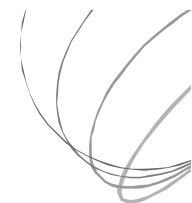
149. A High Level Business Continuity Plan was approved by the Policy & Resources Committee in February 2009 and contains some clear organisational instructions along with a basic pack of documents and procedures for incident management. We are aware that some limited testing of business continuity plans has been undertaken but there is no systematic testing as yet. There is also a need to train staff on the importance of business continuity planning.

## Outlook

150. The development of the SOA and supporting arrangements has the potential to improve planning and performance management significantly. However, the long term and complex nature of many of the outcome targets, pose many challenges for performance management, for example, in evidencing how the council's action make a difference to the city. A key challenge for the council will be integrating and aligning its approaches to support delivery of the desired outcomes.

151. We are currently developing our approach to best value 2, and as one of five pathfinder councils, Dundee City is contributing to this development. From April 2010, our new approach will be rolled out to all Scottish councils.

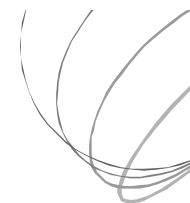
152. Our pathfinder work and the associated risk assessment is being carried out in conjunction with other scrutiny bodies. Along with the other bodies, in the first half of 2010 we intend to prepare a scrutiny plan for the council covering all scrutiny activity over a three year period. This will be informed by the outcomes of our current best value audit work.



# Appendix A

## External audit reports and audit opinions issued for 2008/09

<b>Title of report or opinion</b>	<b>Date of issue</b>	<b>Date presented to Audit Committee</b>
Strategic Audit Risk Analysis	17/4/09	29/4/09
Tayside Safety Camera Partnership claim certification	18/6/09	N/A
Corporate Governance: Systems Assurance	22/6/09	28/9/09
ICT Review of Grimley Valuation and Asset (GVA) Property Management System	22/6/09	28/9/09
ICT Review of Authority Financials System	2/7/09	28/9/09
Transfer of Functions to the NHS – unfunded elements of superannuation benefits claim certification	2/7/09	N/A
Education Maintenance Allowance	3/7/09	N/A
ICT Change Management	14/7/09	28/9/09
ICT Review of Resourcelink Payroll System	25/8/09	28/9/09
Statutory performance indicators	31/8/09	N/A
Cash Management	21/9/09	28/9/09
Criminal Justice claim certification	1/10/09	N/A
Report on financial statements to those charged with governance	30/9/09	N/A
Audit opinion on the 2008/09 financial statements	30/9/09	N/A

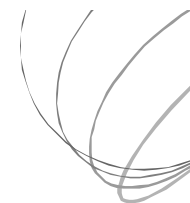


# Appendix B: Action Plan

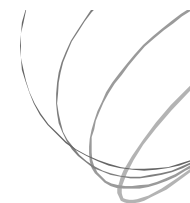
## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	35	<p><b>Common Good</b></p> <p>A separate account for the common good is disclosed in Dundee City Council's financial statements but no separate fixed asset register is maintained.</p> <p><b>Risks: In the absence of a clear record of which assets are held on the common good, the council is unable to demonstrate that it is performing its stewardship role effectively in relation to such assets.</b></p> <p><b>Common good land assets are inadvertently disposed of without the necessary judicial authority.</b></p>	<p>Although the Council does not have any assets in its Common Good Fund Accounts, the Council has an in-house Legal Team which carries out in-depth title searches prior to any decisions on asset sales and any applications for judicial authority required have been made.</p>	Director of Finance	30 June 2010
2	54	<p><b>Financial Support</b></p> <p>The council owns 40% of the ordinary share capital of DERL and this group entity is dependant on the financial support it receives from the council. The DERL financial statements have been prepared on a going concern basis, on the understanding that support from the council will continue to be extended. DERL has been operating its waste-to-energy plant for 9 years and during that time has accumulated losses of £42 million.</p> <p><b>Risk: Current funding arrangements for DERL are not sustainable in the longer term.</b></p>	<p>The financial and environmental rationale for the continued operation of DERL (as opposed to land-filling) is well established. The performance of DERL, both in financial and operational terms, has improved during 2009 and will continue to be closely monitored by the Council. Reports will continue to be submitted to Committee, as appropriate. The Council's three year Revenue Budget includes provision for payments to DERL in line with the existing contractual arrangements.</p>	Director of Finance / Head of Waste Management	On-going





Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	104	<p><b>Effectiveness of scrutiny</b></p> <p>We have previously reported concerns about the effectiveness of scrutiny. Since then the council has made a number of changes, including the introduction of a scrutiny committee, but arrangements in other areas remain as before.</p> <p>We are considering the effectiveness of the revised arrangements in the course of our BV audit, but in the meantime the council is planning its own review of its current arrangements. It is important that this takes a holistic view of the council's arrangements and approach to scrutiny.</p> <p><b>Risk: The planned review of scrutiny arrangements does not lead to a coherent and effective approach to scrutiny of decision making and performance.</b></p>	<p>At its meeting on 11 May 2009, the City Council agreed to establish a Scrutiny Committee with its own specific scrutiny role and to review the Committee and its operations after a period of six months.</p> <p>Scrutiny exists at many levels within the Council and involves both Officers and Members. The Policy &amp; Resources Committee has the widest scrutiny role but all of the Council's Service Committees contribute to the work of scrutiny to some degree.</p> <p>In addition, the Audit &amp; Risk Management and Improvement &amp; Efficiency Sub-Committees also have their own specific scrutiny roles.</p> <p>All of the Council's scrutiny arrangements will be reviewed.</p>	Chief Executive	31 January 2010
4	118	<p><b>Cash management</b></p> <p>Our report on cash management highlighted concerns about the effectiveness and efficiency of cash management processes, related to their underlying complexity. We also identified weaknesses in bank reconciliations during the year. We have raised these concerns with management and the council is now reviewing its procedures.</p> <p><b>Risk: The complexity of current arrangements results in inefficiency, a lack of transparency, uncertainty over responsibilities and accounting difficulties.</b></p>	<p>The external auditor's report on Cash Management included a 14-point agreed action plan. A series of changes / improvements are now being implemented in line with the agreed action plan. Progress against the overall action plan is being closely monitored and, indeed, some actions are already complete. All action plan points are due to be addressed by 1 January 2010. The external auditor's report was considered by the Audit &amp; Risk Management Sub Committee on 28 September 2009.</p>	Director of Finance	1 January 2010



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	119	<p><b>Debt Write Off</b></p> <p>During 2008/09, the council wrote off debts totalling £4.8 million, in respect of council tax, rates, statutory additions, poll tax, sales ledger, rents, housing benefit overpayments and parking fines. We noted that not all debts written off are reported to the Director of Finance although this officer has the delegated authority to write-off miscellaneous debts under the council's standing orders. No details of amounts written off are notified to committee.</p> <p><b>Risk: There is a risk that debts written off are not robustly monitored by those charged with governance.</b></p>	<p>The Director of Finance has been given delegated powers in respect of the write-off of debt. Therefore, it is considered that there is no requirement to report this matter to Committee.</p> <p>The existing procedures for the write-off of debt will be reviewed and revised, as necessary, to ensure that all debt write-offs are reported to the Director of Finance for authorisation.</p>	Director of Finance	30 June 2010
6	142	<p><b>Savings and efficiency</b></p> <p>The council anticipates a significant real terms reduction in the resources available to it over the medium term and has forecasted that it will need to identify savings of up to £30 million over the next 4 years.</p> <p>Achieving the level of efficiencies and other savings required will require much better coordination of the council's efforts.</p> <p>The council recognises that there is much greater scope for sharing services with neighbouring councils and other public sector bodies. While initial discussions have been held, there is still much to do before specific plans are developed and implemented</p> <p><b>Risk: The council cannot balance future budgets without significantly compromising its ability to deliver on its priorities and corporate objectives.</b></p>	<p>The Council is acutely aware of the short and medium-term financial difficulties facing it, due to the impending reductions in grant funding. The Council will continue to seek to identify opportunities for real efficiencies across the wide range of services that it provides, in order to minimise the impact on the level or quality of services provided. The Council has already entered into a number of joint projects with other public sector partners that are aimed at minimising duplication, achieving economies of scale and delivering real efficiency gains. Examples include the Tayside Procurement Consortium, the Joint Equipment Store and the Joint Archive Facility.</p>	Director of Finance	On-going to 2014