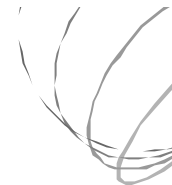


Dundee City Council

**Report to Members and the Controller of Audit
on the 2007/08 Audit**

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Key Messages

Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by the council. We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our main findings, summarising key outcomes from the 2007/08 audit and the outlook for the period ahead.

Key outcomes from 2007/08 audit

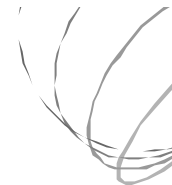
We have given an **unqualified** opinion on the financial statements of Dundee City Council. Audited accounts were finalised by the target date of 30 September 2008.

The general fund balance of £8.582 million at 31 March 2008 is £3.081 million above the position budgeted at the start of the financial year. After recognising earmarked amounts for 2008/09 council tax and expenditure commitments carried forward the uncommitted general fund balance of £4 million is above the minimum level of £2.1 million set out in the council's reserve policy. A further £1.5 million of year end transfers were made to the capital and renewal and repair fund.

Since the publication of the Best Value audit report in October 2005, the council has made a step change to the manner in which it manages its performance. This has contributed to significant improvements in key performance measures, with the overall rate of Statutory Performance Indicator (SPI) improvement amongst the best in Scotland. A number of improvements have also been made to corporate processes. Comparative data is not yet available for 2007/08, but the council's own results have indicated that performance has continued to improve. When ranked against other Scottish local authorities, the council's overall SPI performance is now broadly in line with Scottish averages.

The actions identified in the improvement plan established as a result of the BV audit are generally well advanced with two thirds now considered fully or substantially complete. There is also a renewed focus on continuous improvement, using a range of review activities at both a corporate level and in examining individual services or processes.

However, there has been limited change to the manner in which council business is 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 is clear that the council remains content with its current arrangements and that it does not wish to make further change to its political management arrangements, reflecting a continuing disagreement with the concerns highlighted.



The Audit and Risk Management 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 of the decision making and other scrutiny functions within the council. The council is currently reviewing its local code of corporate governance against the new nationally recognised CIPFA/ SOLACE Framework and guidance.

Otherwise, the council had generally good governance systems in place that operated well within a sound control environment. Risk management is developing with most services becoming increasingly risk aware and a good quality internal audit service continues to be provided.

Outlook for future audits

In the course of our work we identified some of the strategic risks that the council needs to manage in delivering its corporate objectives and priorities. These have been grouped into the following themes:

- Funding future improvements
- Political and management structures
- Effective partnership working
- Delivering improved performance
- Workforce management
- Delivering improved infrastructure

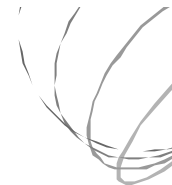
In recent years the council has relied on budgeted contributions from the general fund, on top of identified efficiencies and other savings, to enable it to retain council tax at existing levels. The planned contribution from the general fund was not ultimately required in 2007/08. Although the relaxation of some ring fencing gives the council greater flexibility, the council tax freeze increases the pressure to identify and deliver efficiency savings. The required level of annual savings will be challenging to meet on a continuing basis.

Recent improvements to performance management mean the council is well placed to continue to increase performance levels. However, this remains an area for continuing development as the council rebalances its approach to make less use of SPIs and more use of outcome and other local performance measures linked to its key priorities. There is also scope for continuing improvement to data collection and reporting processes. The council has recognised this and has embarked on a review underpinned by the development of outcome agreements.

Moving forward, the council needs to review the extent to which its committee structures and approaches will support effective scrutiny and transparency of decision making. Further development is also needed to embed effective approaches to the management of people and assets and it requires to adopt more robust approaches to option appraisal across the range of its activities.

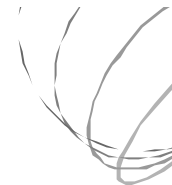
The co-operation and assistance given to us by Dundee City Council councillors and staff during the year is gratefully acknowledged.

Audit Scotland
October 2008



Introduction

1. This report summarises the findings from our 2007/08 audit of Dundee City Council, the second year of a five year appointment. Findings are set out in four sections: financial statements, financial position; governance and performance. Within each of these sections we have also provided an outlook setting out key issues and concerns facing the council going forward.
2. The scope of the audit is set out in our Annual Audit Plan (AAP), which was submitted to the council in February 2008. The AAP summarises the specific governance and other risks that could affect the council's financial statements. It describes the work we planned to carry out in response to these risks.
3. As part of the planned work we submitted a Strategic Audit Risk Analysis (SARA) to the council in March 2008. Under the following strategic themes, the SARA set out our views on the key business risks facing the council and described the work we planned to carry out as part of the annual audit:
 - funding future improvements
 - developing improved performance
 - political and management structures
 - workforce management
 - effective partnership working
 - delivering improved infrastructure.
4. Overall conclusions about the council's management of key risks are discussed throughout this report. Appendix A sets out the key risks highlighted in this report which we wish to draw to the attention of members and the action planned by management to address them.



Financial statements

Introduction

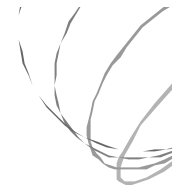
5. In this section we summarise key outcomes from our audit of the council's financial statements for 2007/08. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.
6. We audit the financial statements and give an opinion on:
 - whether they present fairly the financial position of the council and its expenditure and income for the year
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
7. We also review the statement on the system of internal financial control by considering the adequacy of the process put in place by the council to obtain assurances on systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the council.

Overall conclusion

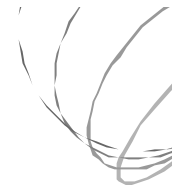
8. We have given an **unqualified** opinion on the financial statements of Dundee City Council for 2007/08.
9. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Audited accounts were finalised by the target date of 30 September 2008 and are now available for presentation to the council 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 practice

10. 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'). The 2007 SORP required a number of significant changes to be made to the 2007/08 financial statements to make them more consistent with the accounts of other public and private sector entities. The major changes include:
 - accounting for financial instruments based on FRS25, FRS 26 and FRS 29



- replacement of the fixed asset restatement account and capital financing account by a revaluation reserve and capital adjustment account
 - provision for penalties under the Landfill Allowance Schemes.
11. Overall, we were satisfied that the council had prepared the accounts in accordance with the revised SORP.
12. As is normal practice, details of significant accounting adjustments and issues arising in the course of our audit were reported to the Head of Finance in our letter issued in line with International Standard on Auditing 260 (ISA 260) *communication of audit matters to those charged with governance*. A number of adjustments were made to the unaudited statement of accounts to reflect our audit findings including the following matters:
- Write down of £7.149 million for airport assets following the transfer to Dundee Airport Limited was shown as a charge to the Income & Expenditure (I&E) Account rather than a loss in the Statement of Total Recognised Gains and Losses (STRGL). Discontinued operations in respect of the airport were also disclosed.
 - Losses on disposal of other assets of £0.583 million were also shown as charges to the I&E Account rather than as losses in the STRGL.
 - A gain on disposal of council houses of £2.639 million was recognised in both the Housing Revenue Account and the I&E Account rather than being taken to the revaluation reserve.
 - The balance in the revaluation reserve relating to council dwellings of £5.093 million was transferred out to the capital adjustment account as this figure did not relate to a revaluation
 - The elimination of £2.578 million of fixed assets in the group balance sheet in respect of the impact of the difference in treatment of the lease for DERL assets. The related non-alignment of group accounting policies was also disclosed in the notes to the group accounts.
 - The Tayside Superannuation Fund was adjusted to correctly reclassify £42 million of investments initially shown as listed investments rather than unlisted. Amendments were also made to the comparative figures (£40 million).
13. Details of one significant accounting issue arising in the course of our audit is summarised below.



Housing Revenue Account (HRA)

14. During the year, HRA land that had become available following the demolition of the associated council housing was sold for £1.830 million. The full value of the land and buildings had been removed from the asset register at the time of the demolition, meaning that the land had not been recorded separately in the register prior to its sale. On this occasion the transaction was completed before the year-end and there was no impact on the year-end position. However, it is clearly important that all assets owned by the council are properly recorded in the asset register, and particular care is taken to record the residual element of assets that have been partially demolished or disposed of.

Key risk area 1

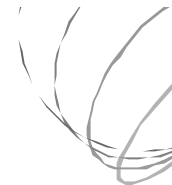
Legality

15. Each year we request written confirmation from the Head of Finance that the council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Head of Finance has 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 the relevant legislation and regulations governing its activities.
16. We reported last year that local authorities with registered charitable bodies (ie registered trust funds) 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, although the date of full implementation has been deferred by the Scottish Charity Regulator. The Office of the Scottish Charities Regulator (OSCR) has indicated that the interim measures introduced in 2006/07, can again be used in 2007/08 and reliance placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.
17. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

IFRS adoption

18. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2009/10. The government also announced its intention to publish Whole of Government Accounts on an IFRS basis from 2009/10. The intention is that local government will adopt IFRS for 2010/11, although there is a possibility that early adoption may be required in some areas and this might include PFI.



Revaluation of council houses

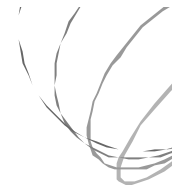
19. In line with accounting requirements, the council makes use of component accounting for capital expenditure such as replacement windows and kitchens on council houses. Council dwellings will be revalued at 31 March 2009 and, in order to prevent double counting of housing components, all capitalised expenditure incurred on council dwellings should be written down at that date. The net book value of capitalised expenditure at 31 March 2008 was £29 million.

PPP school replacement program

20. During 2007/08, land and buildings linked to the PPP school replacement program were revalued at £44 million. The carrying value and accounting treatment of fixed assets linked to the PPP program will need to be kept under review as the schools become operational. For the 2008/09 financial statements, consideration should be given to the accounting treatment of the following aspects:
- Land, buildings and equipment acquired by the council but operated by the PPP provider in return for lower unitary charges;
 - Residual value of land, buildings and equipment that will revert to the council at the end of the PPP contract;
 - Alternative use and appropriate valuation basis for ex-school buildings not operated by PPP provider.

Identification and valuation of common good assets

21. There have been a number of Scottish parliamentary petitions concerning the proper recording, auditing and safeguarding of common good assets and this area continues to produce a significant amount of correspondence and complaints. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The paper recognises the legislative distinction of the Common Good as a managed fund, which requires disclosure within the local authority financial statements this year, with common good asset registers in place by March 2009.
22. At 31 March 2008, the common good account only included one fixed asset (bathing shelter). The council will therefore need to demonstrate by 31 March 2009 that it has identified and appropriately recorded all its “common good” fixed assets in a separate asset register and that it complies with the LASAAC guidance on accounting for the common good.



Financial position

Introduction

23. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2008, providing an outlook on future financial prospects, including our views on potential financial risks. Our findings and key messages are set out in this section, highlighting the significant challenges being faced by the council in managing ongoing financial pressures in funding existing service delivery and future improvement.

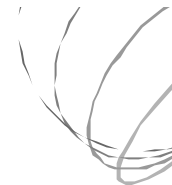
Council tax and the general fund

Operating performance 2007/08

24. The surplus or deficit on the income and expenditure account is the best measure of the council's financial result for the year, recognising the resources that have been consumed and generated in accordance with Generally Accepted Accounting Principles. The council's net operating expenditure in 2007/08 was £315.370 million. This was met by government grants and local taxation of £293.5 million, resulting in an income and expenditure account deficit of £21.870 million before adjustments. This is 6.9% of the net expenditure for the year.
25. However, the movement on the general fund balance is also an important aspect of the council's stewardship as the main budget reference point, the main differences being:
- capital investment is accounted for as it is financed, rather than when fixed assets are consumed;
 - retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

Note 17 on page 24 of the Statement of Accounts provides a reconciliation of the Income & Expenditure Account deficit (£21.870m) to the surplus on the General Fund (£0.105m). The main reconciling items are Depreciation/Impairment (£48.028m), offset by Repayment of Debt (£18.705m).

26. The budget set for 2007/08 was based on a Band D council tax level of £1,211 and a contribution of £1.3 million from the unallocated general fund. At the year end, the council transferred £0.105 million into the general fund, after making year end transfers to the capital fund and repairs and renewals fund outlined below. The general fund balance of £8.582 million represents an improvement of £3.081 million on the budgeted position. In the Foreword to the accounts the Head of Finance outlined the various areas which contributed to this, including a net underspend on council services, savings on loan charges and an underspend on contingencies.



Housing Revenue Account

27. The housing revenue account shows a deficit of £5.136 million for 2007/08 before adjusting for statutory and non-statutory proper practices. This is £0.35 million more than planned and is due to mainly to higher than expected repairs and maintenance costs. Overall, after adjustments for statutory and non-statutory proper practises, £0.547 million (budget: £nil) was transferred from the renewal and repair fund in respect of the HRA. At year end, the renewal and repair fund held £1.999 million in respect of the HRA (2006/07: £2.410 million).

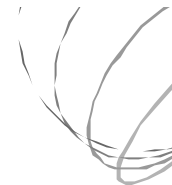
Reserves and balances

28. Table 1 shows the balance in the council's funds at 31 March 2008 compared to the previous year. At 31 March 2008, the council had total cash backed funds of £27.825 million, an increase of £1.777 million on the previous year.

Table 1: Reserves and Funds

Description	31 March 2008 £ Million	31 March 2007 £ Million
General Fund	8.582	8.477
Renewal and Repair Fund	4.595	3.896
Capital Fund	13.122	12.141
Insurance Fund	1.526	1.534
	27.825	26.048

29. The council achieved a general fund surplus of £0.105 million during the year. Added to the amount brought forward from 2006/07, the council has a general fund balance of £8.582 million, around £4 million of which is uncommitted. This uncommitted balance is above the minimum reserve level of £2.1 million set out in the council's reserve policy as necessary to guard against financial risk. Earmarked amounts include expenditure commitments carried forward from 2007/08, amount to be taken from balances in setting the 2008/09 council tax, devolved school management and car parking.
30. The renewal and repair fund can be used to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets. During the year £0.972 million was spent from this fund and £1.671 million was transferred into the fund.



31. The capital fund can be used to defray capital expenditure or repay loan principal. During the year there were no transfers from the capital fund and £0.981 million was transferred into the fund. Capital expenditure is discussed further in paragraphs 35 to 37.
32. The Insurance Fund reflects the balance held for self-insured and uninsured losses that are not specifically earmarked as provisions. A small balance of £8,000 was transferred out of this fund in the year, representing the excess of expenditure over income on the council's insurance transactions.

Group balances and going concern

33. The widening diversity of service delivery vehicles used by local authorities means that group accounts are required to present fairly all the activities of councils. The overall effect of inclusion of all of the council's associates and joint ventures on the group balance sheet is to reduce net assets by £269.826 million, substantially as a result of pension liabilities. 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.
34. 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 2008 due to the accrual of pension liabilities. In total these deficits amounted to £638.42 million, with the council's group share being £298.82 million.

Spending on assets and long-term borrowing

Capital performance 2007/08

35. Since the introduction of the prudential code in April 2004, the council can decide locally on a capital investment strategy which meets best value requirements as well as being affordable. The council's prudential indicators for 2006-09 were approved in January 2006 and significant increases in capital expenditure have been made as the council seeks to improve its asset infrastructure.
36. Capital expenditure in 2007/08 totalled £51.7 million, a reduction of £10 million from 2006/07. Capital investment in the last two years was funded as shown in Chart 1. Overall, £3.86 million less than planned needed to be funded through borrowing and around £9.5 million of capital projects were carried forward. This was due to a number of factors including: unforeseen delays on specific projects across the council's departments and delays in settling purchases and taking delivery of assets.

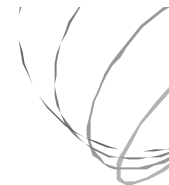
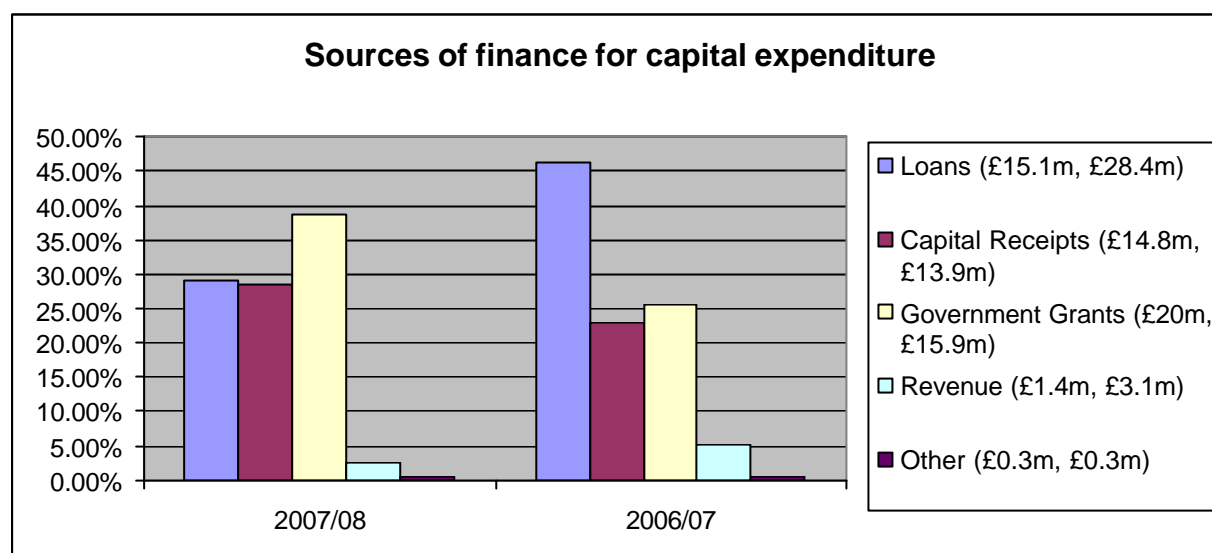


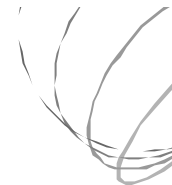
Chart 1: Sources of finance for capital expenditure 2007/08



37. The council's Scottish Housing Quality Standard (SHQS) delivery plan estimates £140 million will be incurred over ten years on bringing housing stock up to the standard. We noted that the Council has spent £3 million more in the first three years than it had anticipated when the business plan was prepared and that the cumulative additional spend is projected to increase to £24.5 million over the next three years. About £18.2 million of this is due to increasing the scope of the SHQS program to include the construction of 135 new-build council houses, 40 of which will be wheelchair accessible. We have been advised that a further £6.3 million relates to an acceleration of program timescales due to expected increases in proceeds from houses and land sales to 2011.
38. Given the scale of this project it is clearly important that costs and delivery are subjected to rigorous control on a continuing basis. A root and branch review of the SHQS Delivery Plan is currently underway and will be concluded by March 2009. This review will inform the update of the Delivery Plan and the forward investment plan

Borrowing and temporary investments

39. 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, early borrowing must be justified in its own right as representing the best time for borrowing the amount 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.



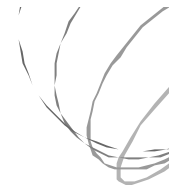
40. As at 31 March 2008, the council held cash and temporary investments totalling £35.1 million. This figure included £8.1 million received from the Tay Road Bridge Joint Board in January 2008 in settlement of their loans following the abolition of tolls and a further £6.0 million belonging to pension funds. Since the year-end the level of temporary investments has risen further as a result in changes in the pattern of payment of revenue support grant.
41. We considered the level of temporary investments in the context of the capital programme for 2008/09, which amounts to over £59 million and major capital projects such as Dundee House (£30.4 million before capital receipts) and concluded that borrowing in advance of immediate requirements was for a legitimate purpose in accordance with legislation and that on-lending was in the interests of prudent cash management.
42. The level of temporary investments gives the council a degree of flexibility in managing its exposure to future interest rate increases. Almost 80% of long-term borrowing at the year-end matures after more than 10 years. About £40 million (13%) of loans are ones where the lender has the option periodically to change the interest rate after an initial fixed rate period, and the borrower has the option to repay instead of accepting the new rate (LOBOs). In the 18 months after the year end, the option dates for two LOBOs amounting to £10 million occur.

Debt restructuring

43. The council has systems to monitor interest rates and regularly reviews its loan portfolio to identify opportunities to restructure. The risk of holding cash and temporary investments is taken into account when evaluating opportunities to restructure debt.
44. In 2007/08 the council increased its total Public Works Loan Board (PWLB) debt from £261.0 million to £262.8 million. No debt was restructured in the year and the average interest rate on the PWLB debt fell slightly from 6.23% to 6.21%, with some long term debt as high as 8.25%. Since the year-end, higher demand for government debt in the financial markets has meant that the interest rate on new PWLB debt has fallen to around 4.6%. However, since November 2007 there has been a significant penalty for early settlement, so that even with the low cost of new debt, refinancing is now rarely likely to be cost effective.

Significant trading operations

45. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period.



46. The identification of statutory trading accounts is the responsibility of the council and it has concluded that Dundee Contract Services continues to be its only statutory trading accounts.
47. In the three years to 31 March 2008 Dundee Contract Services made an aggregate surplus of £1.7 million, exceeding the statutory target. Whilst the organisation has consistently achieved a surplus over the three years, this fell short of its budgeted surplus in 2005/06. In 2007/08, a surplus of £631,000 was achieved against a budgeted surplus of £312,000 largely as a result of an increase in demand for services, particularly for major contracts. Action continues to be taken to identify efficiencies and control costs to ensure the organisation continues to meet its financial objectives.

Pension funds

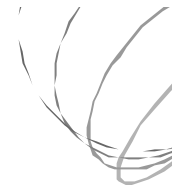
48. The council is responsible for the management and administration of two pensions funds – the Tayside Superannuation Fund and the Tayside Transport Superannuation Fund. The investment assets for both funds are under the management of external fund managers and have been on an upward trend over the last few years, however, 2007/08 has seen a slight dip in the value of investments as indicated by the table below:

Table 2: Pension Fund Investments

	31/03/05 £000	31/03/06 £000	31/03/07 £000	31/03/08 £000
Tayside Superannuation Fund*	1,101.6	1,432.7	1,571	1,531
Tayside Transport Superannuation Fund	34.5	40.6	41.9	40.0

** The council's share of the assets at 31 March 2008 amounted to 39% of the Fund's assets.*

49. A full actuarial valuation of both funds as at 31 March 2005 was reported early in 2006. Factors such as volatile stock markets and increasing life expectancy resulted in the funding level for the Tayside Superannuation Fund, calculated as the ratio of fund assets to past service liabilities, falling from 97% at 31 March 2002 to 91% at 31 March 2005. The next full actuarial valuation is due as at 31 March 2008 and is expected to be reported early in 2009.
50. The financial markets have recently been subject to significant volatility. A short Post Balance Sheet Event note is included in the accounts, commenting on the effect on current market valuations in relation to the pension fund accounts. This highlighted a further fall of 4.3% (unaudited) in the value of pension fund assets, but that this was not a significant concern given the longer-term time horizon of the pension fund.



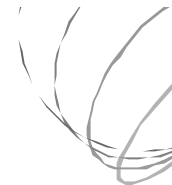
Financial outlook

Council tax freeze

51. The council is party to the concordat between the Scottish Government and COSLA. The financial features of this include an agreement to freeze council tax levels for three years in return for some additional funding and the removal of some ring-fencing. It is generally accepted that the council tax freeze will be challenging to achieve especially in light of increasing inflationary pressures.
52. The council faces the ongoing challenge of budgeting for no increase in council tax in 2009/10 and 2010/11. In both 2007/08 and 2008/09 the council planned to take budgeted contributions from the general fund, on top of identified efficiencies and other savings, to enable it to retain council tax at existing levels. The planned contribution from the general fund was not ultimately required in 2007/08. Although the relaxation of some ring fencing gives the council greater flexibility in the allocation of resources, the council tax freeze increases the pressure to identify and deliver efficiency savings.

Equal pay and single status

53. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an Employment Tribunal. Following cases pursued against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2006/07. Between 2005 and 2008 the council has incurred costs of £4.442 million in respect of equal pay costs for certain categories of staff. Around £3.2 million of this related to the council's liability to meet a share of the equal pay costs for Tayside Contracts staff.
54. In 1999 a single status agreement was reached between Scottish local authorities and trade unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). There was a general expectation that single status would be largely cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.
55. The original national single status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, was extended by agreement between local authorities and unions to April 2004. Dundee City Council implemented its single status agreement with effect from 1 April 2008, followed by Tayside Contracts from 1 July 2008. This will help to mitigate against continuing costs arising from further equal pay claims.



Future capital programme

56. Revised capital investment programmes for 2008/9 and 2009/10 anticipate annual capital expenditure of £59 million and £80 million respectively. This is expected to be funded by a number of sources including capital receipts, grants and other contributions and further increases in borrowing totalling £51.8 million over the two years.
57. Over the same period £41.6 million is planned to be spent on the council's housing stock, funded by a mix of borrowing and house sale proceeds. The council expects to comply fully with the Scottish housing quality standard by 2015. In 2006, Communities Scotland highlighted that the council faced a significant risk in meeting the standard based on the assumptions made in the delivery plan and welcomed the proposals to undertake a full root and branch review in 2008/09. This review is currently underway after which the council will be in a better position to determine what action, if any, is needed to ensure delivery of the plan.

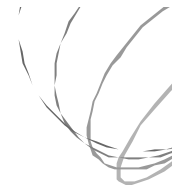
EC landfill directive

58. The EC Landfill Directive sets limits on the disposal of biodegradable waste to landfill and requires the pre-treatment of waste prior to landfill. There are technical and financial challenges facing councils in delivering solutions and the implications of landfill penalties could be significant. The Scottish Minister for the Environment has the power to waive penalties in certain circumstances, and he has advised COSLA that he may be prepared to do this, for local authorities who have made genuine efforts to maximise landfill diversion, and have not met targets due to circumstances outwith their control. From 2008/09 onwards, Scottish councils will be allowed to trade landfill allowances. If one council performs better than its targets, it can sell its excess allowances to other councils.
59. The council disposes of domestic and commercial waste through Dundee Energy Recycling Limited (DERL), a joint venture company between the council and private partners. DERL accounts for 60%¹ of the total incinerated council waste and the council views this as a key operation in keeping landfill costs down. It is anticipated that the council may be in a position to sell excess landfill allowances from 2008/09 thereby generating additional income.

Pension liabilities

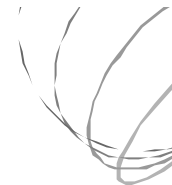
60. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. In accounting for pensions, Financial

¹ SEPA Landfill Allowance WasteDataFlow 2007/08 Quarter 3 Return



Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised in the annual accounts.

61. The council's estimated pension liabilities at 31 March 2008 exceeded its share of the assets in the Tayside Superannuation Fund by £114.7 million, reducing from £147.3 million in the previous year. Budgeted contributions have risen from 295% of employee contributions in 2007/08 to 315% by 2008/09, reflecting the reduction in the funding level as at 31 March 2005.
62. The next full actuarial valuation will assess the position at 31 March 2008. This will determine contribution rates for 2009-10 and the next two financial years. Recent changes to the Local Government Pension Scheme regulations are expected to release some future financial benefits, while providing additional flexibility to future pensioners



Governance

Introduction

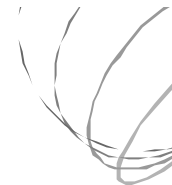
63. In this section we comment on key aspects of the council's governance arrangements during 2007/08. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2007/08

64. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Based on the work undertaken, we concluded that the council had systems in place that operated well within a sound control environment.
65. The council has adopted a local code of corporate governance based on previous best practice identified jointly by CIPFA and SOLACE and a Corporate Governance Group has been established to keep arrangements under review. CIPFA and SOLACE have recently published a revised Framework which is intended to be followed as best practice for developing and maintaining a local code of corporate governance. In 2008 this has been supplemented by a Guidance Note for Scottish local government. The council intended to review its local code by June 2008 but subsequently decided to wait until the Guidance Note was issued. We have been advised that a report on the review of the local code will be presented to the Policy and Resources Committee in December 2008.

Political Governance

66. The political context for councils changed significantly in 2007, with a new Scottish government and a shift to more coalition and minority administrations in local government. In Dundee there was no change to the overall political leadership of the council with a Labour/Liberal Democrat administration and the Scottish National Party in opposition. Some changes were made to the Committee structure after the elections to reduce the overall number from 13 to eight. All 29 members continued to serve on all service committees.
67. The creation of multi-member wards has required new ways of working to support efficient representation and sharing of the workload. The council has a protocol in place on multi-member wards designed to ensure a consistent way for officers responding to member enquiries. Whilst the protocol touches on members sharing workloads, it is up to individual members to determine the best way to cover the Ward workload. Multi-member wards are still fairly new in Scotland and the practical issues will become clearer as the new arrangements mature.



Audit & Risk Management Sub-Committee

68. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda. The council's Audit & Risk Management sub-committee was reformed with new members after the May 2007 election and has three administration, two SNP and 1 conservative members. It is chaired by a member of the administration, who is also deputy convener of the Policy and Resources Committee.
69. The 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. During the year we highlighted that, although the sub-committee receives an annual report on the work undertaken by internal audit, it did not include details of slippage. The Chief Internal Auditor recognised this gap and included details of slippage in the 2007/08 annual report presented to the sub-committee in September 2008.
70. Five of the sub-committee members attended audit committee training provided by CIPFA during the year which covered the main audit committee principles and identified good practice. 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 of the decision making and other scrutiny functions within the council.

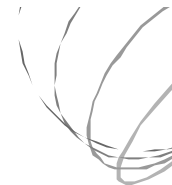
Key Risk Area 2

Internal Audit

71. Internal audit provides an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the council's internal audit arrangements against CIPFA's revised Code of Practice for Internal Audit in Local Government 2006. We found that the internal audit function is well managed and staff are experienced and competent. Although there was some slippage in the audit plan we have been able to take assurance from the work carried out in most of the areas we reviewed.

Systems of internal control

72. A Statement on the System of Internal Financial Control for the council and its group was included within the financial statements. In accordance with the Code of Practice on Local Authority Accounting, the Statement reflects the internal control environment for the group position. Following receipt of a range of assurances from managers across the council, the chief internal auditor and self-assessment questionnaires from associate companies, the Head of Finance concluded that she was satisfied that reasonable assurance could be placed on the adequacy and effectiveness of the systems of internal control operated by the council and its group.



73. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on a number of the council's main financial systems. We assessed the following systems as having a satisfactory level of control for our purposes:

- Payroll
- Accounts Payable
- Capital Accounting
- Budgetary Control
- Accounts Receivable

Prevention and detection of fraud and irregularities

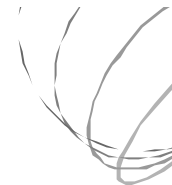
74. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include an anti-fraud and corruption policy and response plan, a whistle blowing policy, malicious allegation policy, codes of conduct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

NFI in Scotland

75. In 2007/08, the council again took part in the National Fraud Initiative (NFI) in Scotland. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from councils, police and 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 (£37 million as at the date of the publication of the Audit Scotland NFI report in May 2008) and, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

76. Overall, 8,452 matches were identified in respect of the Dundee City Council. At 31 August 2008, around 49% of the matches had either been cleared or were under investigation. The council concentrated resources in the areas of benefits, housing rents, payroll and pension. In total these areas have identified potential recoveries of £48,604, of which £39,010 (34 cases) are in the process of recovery. The areas are summarised below:

- Rent arrears, £28,907; recovery action for £24,528 (26 cases) in hand.
- Pensions, £5,999 (four cases); recovery action for £2,198 (two cases) in hand
- Housing Benefits £13,698 (eight cases); recovery action for £12,284 (six cases) in hand. Included within the eight housing benefit cases are three instances of fraud totalling £10,657 of which £9,410 is in the process of recovery.



77. In our review of NFI arrangements in place within the council we found that good progress had been made in both planning for the initiative and in the investigation of data matches which the council has carried out without the need for additional resources.

Housing Benefit

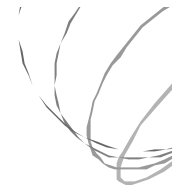
78. From April 2008, Audit Scotland took over responsibility for inspecting the housing and council tax benefit functions from the Department for Work and Pensions. We are carrying out risk based inspections on a cyclical basis and all councils will be inspected during an 18 month period. An inspection is currently being carried out at the council and is due to be reported in October 2008.

Data handling and security

79. 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 and other government departments. 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.
80. We carried out a review of data handling and security this year and were pleased to note that important elements of good practice are in place. In particular, the council's information and communications technology (ICT) infrastructure centralises the storage of data, increasing the likelihood that technical controls over information loss are effective. Senior management have promoted the importance of information and have supported measures to enhance its confidentiality, availability and integrity. Information is at greatest risk from the human factor and in this regard, the council is encouraging all staff to complete an on-line training package on information security.
81. We are aware that the governance requirements for information security are evolving, with increasing recognition that service departments, as well as the IT department, have responsibilities for the security of data used in service delivery. We will continue to track the development of the council's security framework, in particular the division of responsibilities, the allocation of resources and the integration of security principles into business and IT service delivery.

Payment card standards

82. The Payment Card Industry Data Security Standard (PCI/DSS) was developed by major credit card companies as a guideline to assist organisations that process card payments to prevent credit card fraud, hacking and various other security threats. Any organisation processing, storing or transmitting



payment card data must be PCI/DSS compliant or risk losing their ability to process credit card payments.

83. The council has assessed its payment card processes against the standard and reported the state of compliance to its payment card services provider. A network penetration testing program is supplemented by PCI/DSS specific tests and action is taken where appropriate to address risks.

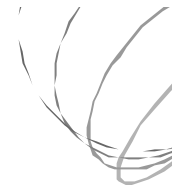
Governance outlook

Review of local governance code

84. The council is in the process of reviewing its governance arrangements against the updated COSLA/ SOLACE Framework for Delivering Good Governance in Local Government and associated guidance. In doing so it needs to consider the extent to which its structures will support effective scrutiny, including arrangements to ensure that its audit committee is sufficiently independent.

Single outcome agreements

85. The concordat between the Scottish Government and COSLA sets out the terms of a new relationship between the Scottish Government and local government. It underpins the funding to be provided to local government over the period 2008/09 to 2010/11. Central to the concordat is the single outcome agreement (SOA) between each council and the government. The SOA sets out the council's contribution to the government's 15 key national outcomes as set out in the concordat. It also reflects established corporate and community planning commitments. In this way progress at a national level is supported by outcomes at a local level.
86. Every council had agreed its first SOA by 30 June 2008. Dundee City Council and the Dundee Partnership Forum developed the SOA together. The SOA is the means by which the performance of the council and partners will be monitored. It is important therefore that the council has robust governance arrangements for the delivery and monitoring of this key document. We understand that this is being taken forward via the on-line performance monitoring system and in conjunction with partners.



Performance

Introduction

87. In this section we summarise how the council manages its performance. We discuss the overall arrangements before giving an outlook on future performance, including our views on the current status of identified risks. Finally we comment on the findings of Audit Scotland's national performance studies, relating them to the council's situation.

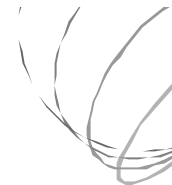
Corporate objectives and priorities

88. Following the May 2007 elections, a new corporate plan 'The Council Plan 2007 – 2011' incorporating the council's vision and priorities for the next four years was approved by the new council in October 2007. The plan is set out under three core aims:

- to achieve the vision of Dundee agreed with the council's partners in the Community Plan
- modernise and improve services for the public
- make the best use of public resources.

89. Eleven key priorities are linked to these aims and are listed below:

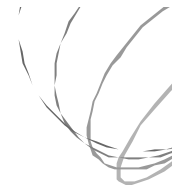
- creating an attractive modern city to attract jobs across a range of sectors and retain people
- increasing the attainment of children at school and helping all embrace lifelong learning
- identifying and reducing disadvantage, inequality and discrimination
- improving and protecting the health and fitness of the population
- shifting the balance of care from residential to community settings
- increasing the percentage of Dundee school leavers entering education, employment or training
- promoting safer communities which protect citizens from abuse and exploitation
- being a leader in improving services in a sustainable way
- embracing modern broadband technology
- involving local communities in improving local services
- delivering efficient services and keeping any council tax increases low.



Overview of performance in 2007/08

Annual Report

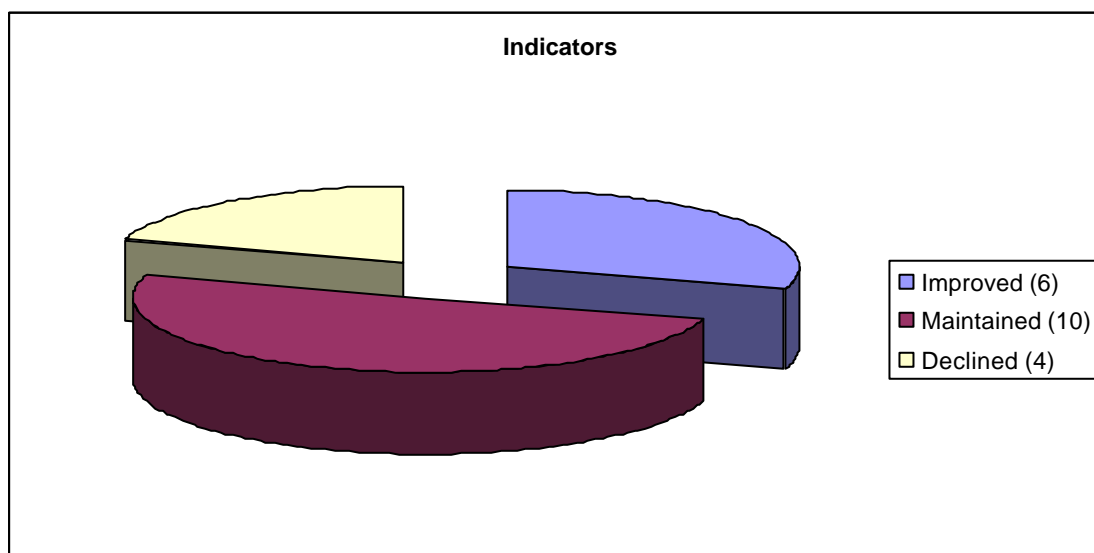
90. The council's annual report was published in September 2008 and provides a brief round-up of the performance of services provided by Dundee City Council for 2007/08. It includes statements from the Leader of the council and the Chief Executive highlighting the most significant achievements and developments during the year. Key points that were reported included:
- **Attainment of children at school** – improved results at Standard and Higher levels are being achieved and there is an increase in the percentage of school leavers who are going into employment, training or further education. Dundee was again selected as a finalist for Intelligent Community of the Year and judges were impressed by the advanced level of technology available to pupils.
 - **Creating an attractive modern city** – awards for the regeneration of Ardler were achieved in the year, in particular for the way in which local people were involved. Regeneration strategies were agreed for Lochee, Hilltown and Whitfield. £60 million will be invested in the next four years in improvements and maintenance of the council's housing stock. Local Community Planning Partnerships have been established for each ward, to ensure that departments and other agencies are working well together in response to local needs.
 - **Protecting the city's environment** – the city achieved a silver award in the Britain in Bloom competition and installed its 50th neighbourhood recycling point.
 - **Reduce disadvantage and inequality** – a new single access centre for health and local authority equipment services was opened and multi agency joint action teams were established to streamline access to services for children. The Lily Walker Centre for homeless people was refurbished and proposals for more new houses for people with disabilities were developed.
 - **Council tax** – the council tax has been frozen for the last 2 years and the 2008/09 budget includes extra money for breakfast clubs and after school clubs to maintain the improvement in educational attainment.
91. The annual report itself does not provide a rounded assessment of the extent to which the range of objectives and priorities set out in the corporate plan are being achieved. Further performance information is available in a more detailed report submitted to the council. This further describes progress against council objectives and has been made available to the public on the council's website.



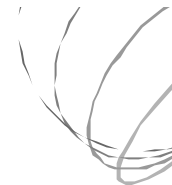
Measuring Performance

92. Since 2005, the council has used a Strategic Plan Monitoring Database to track the progress of objectives in the council and service plans as well as recommendations made by both internal and external audit. Performance reports compiled from the database are submitted to the Best Value Sub Committee quarterly. Service committees also get annual performance reports.
93. 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.
94. The following chart summarises progress over 2007/08 against the **20 targets** measured through the corporate balanced scorecard which were reported in the Performance Report.

Chart 2 : Achievement of Dundee City Council's targets 2007/08



95. Whilst there were some strong operational achievements during the year the council also faced a range of challenges, for example:
- EU targets require recycled waste to be 65% of municipal waste by 2015. At 31 March 2008, the council's recycled waste was 33%. Nationally, Audit Scotland's recent report on Strategic Waste Management confirmed that recycling rates vary across councils from 10% to 40%.



- Improving educational attainment in the area of “looked after children” which saw a marked decline in the number of children attaining at least one SCQF level 3 (any subject) from 54.7% in 2006/07 to 35.3% in 2007/08. It is the council’s view that these statistical measures are open to extreme statistical variance because of the low numbers of pupils (average 53) involved and should be treated with caution. The council advised that the its figure, as measured by the Scotxed three year rolling average, 2005-2008 for “looked after children” attaining at least one SCQF level 3 or higher was 48%.
- The city has faced a number of job losses over the year and the council, Careers Scotland, Jobcentre Plus and other partners have launched the Dundee Employability Partnership to provide a seamless service to people looking for jobs and training.
- The 2007 Employee survey showed improvement in employee satisfaction in a number of areas including communication by departmental management and commitment to both safety and quality. Further improvements are needed to improve the perceptions of openness with employees and assessment of training needs and departments have been tasked with developing action plans to deal with areas of concern from the survey.
- Further development is also needed to embed effective approaches to the management of people and assets.

Statutory performance indicators

96. One of the ways of measuring council performance is through the statutory performance indicators (SPIs). Within the council, key SPIs are included within the performance scorecard. Between 2004/05 and 2006/07 performance improved by at least five percent on 23 SPIs and worsened by at least five percent on 10 measures, producing a 2.3:1 ratio of improvement to decline compared with a 1.5:1 ratio nationally. This is the sixth best improvement rate in Scotland.
97. Comparative data is not yet available for 2007/08, but the council’s results have indicated that performance has continued to improve (chart 3). SPIs were published by 30 September 2008 and were submitted to the Best Value Sub-Committee.

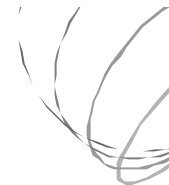
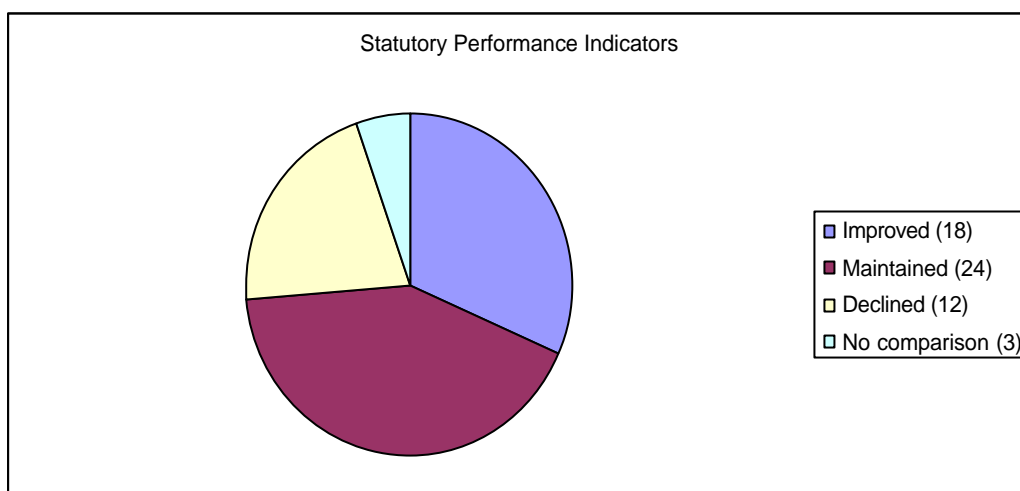


Chart 3: Improvements demonstrated by SPIs

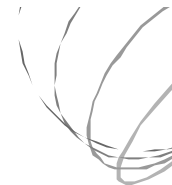


98. Each year we review the reliability of the council's arrangements to prepare SPIs and in 2007/08 this work was undertaken in conjunction with Internal Audit colleagues. Overall, the quality of working papers provided to support the SPIs was variable and two indicators were classified as unreliable compared with one in 2006/07. The Benefits Administration indicator on overpayments was deemed to be unreliable as this was based on three quarters information rather than the full financial year. The Asset Management indicator was found to be unreliable for the second year due to the lack of robust data on the number of operational buildings and condition surveys. The report submitted to the sub-committee did not advise members that two indicators were unreliable.

Key Risk Area 3

Best Value audit

99. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response the Accounts Commission introduced new arrangements for the audit of best value based on a full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out by the local auditor.
100. The Best Value audit of Dundee City Council was carried out in 2005 and the findings published in October that year. Overall conclusions from the audit were "Dundee City Council has had considerable success in regenerating its area in the face of complex social and economic challenges. It demonstrates a strong commitment to engaging with its local communities. Council services generally perform well, but some have been deteriorating. The council considers that pressure on its funds is a critical issue, but it needs to do more to demonstrate that it is achieving Best Value from its use of resources. There is potential for the council to deliver greater benefits for Dundee through improved corporate management and more effective integration across the organisation."



101. In response, the council approved a Best Value Improvement Plan (BVIP) setting out eighteen improvement agenda items from the report together with the planned actions and timescales for implementation.

102. Actions identified in the council's best value improvement plan are generally well advanced. Improved direction by senior management has led to a greater focus on performance management and continuous improvement. This has contributed to improvements in measured performance. There are, however, a number of actions still to be fully implemented, for example, asset management and human resource strategies, option appraisals and benchmarking of services.

Key Risk Area 4

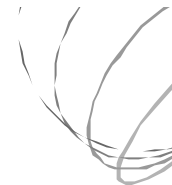
103. In the 2005 report, the Commission also highlighted that it was concerned that a number of issues, which related largely to the corporate centre of the organisation at member and officer level, needed to be addressed to achieve continuous improvement in service delivery. While significant improvements have been made in some areas, most notably to corporate processes to better support performance management, the council has not addressed other concerns expressed by the Commission about transparency, scrutiny and strategic management of council structures. This largely reflects the council's continuing disagreement with the issues originally highlighted in these areas.

104. A separate report relating to our findings from a follow up review of progress towards best value is due to be finalised shortly.

Performance outlook – opportunities and risks

Introduction

105. In the course of our audit work we identified some of the strategic risks to Dundee City Council delivering its stated objectives and priorities in the years ahead. These risks were set out in our Strategic Audit Risk Analysis (SARA) and grouped into six risk themes. In the following paragraphs, we comment on the progress made by the council during the year and the key risks yet to be fully addressed. Risk exists in all organisations which are committed to continuous improvements and, inevitably, is higher in those undergoing significant change. The objective is to be 'risk aware', and have sound processes of risk management, rather than 'risk averse'. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.

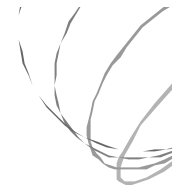


Funding future improvements

106. 2007/08 was the final year of the Scottish Government's initial Efficient Government Plan to achieve recurring efficiency gains of £1.5 billion and efficiency savings had been incorporated into the annual financial settlement provided to councils by the Scottish Government. The principles of the efficient government initiative encourage the delivery of services for lower unit cost without compromising the quality of the service provided. Over the three years of the plan the council has consistently reported savings of over £2 million which have been in line with the targets set by the Scottish Government.
107. New funding arrangements between Central and Local Government come into effect in 2008/09. A number of previously ring-fenced funds have been included in the main financial settlement from 2008/09 thereby increasing the flexibility within councils on how funds can be spent. A condition of the new arrangements was the freezing of council tax at 2007/08 levels and although the Scottish Government plan to compensate councils for this tax freeze this will be done within tight fiscal constraints. The council has recognised that delivering a freeze on council tax will be difficult within the existing funding. Councils are also required to achieve 2% efficiency savings each year from 2008/09 which can be used to address on going pressures and local priorities. This will amount to annual savings of more than £3.5 million, which will be challenging to meet on a continuing basis without impacting on the level or quality of services delivered.

Key risk area 5

108. The council recognises that procurement processes have a critical role to play in achieving potential efficiency savings. A procurement strategy was approved in March 2007 and the council became a member of Scotland Excel, the local government centre of excellence for procurement, in April 2008. A Corporate Procurement function has been established, however, this is at a very early stage of development. We noted that the new financial system, Authority Financials, has a number of procurement functions built in, for example, tolerance levels, user authorisation levels and budget checks. Other functions such as on-line catalogues and quote requests are being developed.
109. The sound management of procurement arrangements is a complex and technical area and whilst there is clearly a commitment to improving procurement arrangements at the council, we have some concerns about the level of resources dedicated to improving procurement practices which may result in significant slippage and delays in achieving efficiencies in this area. This will be subject to on-going audit review and the council should consider whether the current level of resources are sufficient to establish a sound control framework for procurement.
110. The council has significant investment underway in a wide range of areas including school buildings, housing and the waterfront area. It faces further financial pressures in relation to single status, pension liabilities and any potential future liability with regard to backdated equal pay claims. The



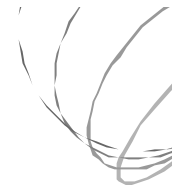
council has concerns about its funding position and, in line with agreed council policy, only moderate reserves are held and therefore it will need to continue to work hard to manage its overall financial position in the years ahead.

111. There is limited long term financial planning which restricts the council's ability to prioritise expenditure to meet longer term objectives. We have been advised that a 20 year high level financial model has now been developed and that this is currently being refined (and will be on an ongoing basis) to reflect changes in future inflation assumptions and the latest longer term population projections. Overall however, there is an absence of a strategic framework to deliver change and set out a vision for the council in the long term which reflects commitments already made such as the 30 year waterfront project, the workforce which will be required and the assets which will be needed to deliver that vision.

Key risk area 3 & 4

Delivering improved performance

112. The council has made significant improvements to its corporate processes to support more effective performance management. It has well established reporting to elected members and the corporate management team covering a selection of key performance measures and progress against initiatives and projects. Monitoring information is aligned to strategic priorities and colour coding helps to improve evaluation. Formal reporting takes place quarterly and management information is available directly from the strategic plan monitoring database on a continuing basis.
113. The council has made use of a number of self-evaluation and review techniques including European Foundation for Quality Management (EFQM) approaches, best value service reviews and "lean service" reviews. A corporate self-assessment using EFQM was completed in June 2007 and led to a number of improvement initiatives being incorporated into the current corporate plan. The council has recently reviewed its approach to self-assessment with a view to introducing a more structured corporate approach in line with the recommendations of the Crerar report on public sector scrutiny. It is considering a move to the Public Sector Improvement Framework which is based on the underlying EFQM model previously used.
114. The council carries out an annual customer satisfaction survey as part of evaluating progress towards achieving the objectives set out in the Council Plan. The main purpose of the survey, conducted by an independent market research company, is to track over time a core set of questions related to customer care issues and the public's overall perception of the council as an organisation. The results from the annual customer satisfaction survey is used to inform continuing development and implementation of the council's Customer First strategy and to provide information on trends for EFQM self-assessment purposes.



115. An effective performance management framework is an important tool in delivering demonstrable improvements in performance, and the council has recognised the need to improve its arrangements in order to better manage the delivery of the Single Outcome Agreement (SOA) with the Scottish Government. Two on-line performance monitoring databases are used to record details of action points from performance improvement areas, the best value improvement plan and other external audit reports along with details of key and statutory performance indicators. Improvements to the links between the two databases and clearer lines of accountability for both the council and its partners is expected to enable better monitoring of outcomes through the SOA.

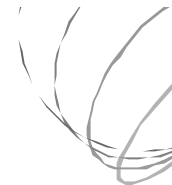
Political and management structures

116. Following the May 2007 elections the chief executive held discussions with each of the political groups on the structure of the council. The result of these was a streamlining of the council's committee structure. All members continued to serve on all committees. No alternative options to the structures were presented at that time or have been considered subsequently. This approach is common across committees with papers being submitted for approval with no indication or record of the various options already considered. Decision making processes are not sufficiently transparent. There also remains very little challenge and debate in public meetings. As all members sit on all committees and are therefore involved in all decision making, there is no independent review and scrutiny of decisions taken at one committee by another. These concerns have been raised with the council in our 2007/08 Best Value Progress report which will be published shortly (see also paragraphs 99 to 104).

117. The Scottish Local Authorities Remuneration Committee recommended that members training records be included in annually published information. A structured training programme to ensure that all members are fully aware of their regulatory and legislative duties is in place. The latest report from the Scottish Local Authorities Remuneration Committee published in September 2008 recommends that all councillors should have training assessments and personal development plans in place by 31 March 2009. We have been advised that personal development plans will be developed in line with the Improvement Service's professional development framework which is currently being piloted by seven councils. We noted that attendance at training sessions varies, therefore members may not be able to readily evidence that they are up to date with training requirements.

Key risk area 6

118. Whilst there has been some restructuring within some services in recent years, overall the council structure has remained largely unchanged. It should be recognised that the existing organisational structures and cultures may not necessarily be the most appropriate for dealing with the changing environment in which the council operates. Opportunities for service reconfiguration are also offered by new technologies and the council continues to face requirements to provide more responsive, joined up services – often in partnership with other agencies.



Workforce management

119. People play the key role in delivering high performing services. The council needs to make sure it has the right skills, in the right place, at the right time. Improvement in workforce management is also dependent on effective workforce planning, successful recruitment and retention practices and good industrial relations. A Human Resources (HR) Strategy was approved by the council in December 2006. Whilst this sets the strategic context for achieving council objectives it is not clear how achievement of the strategy will be monitored and there is no clear prioritisation of aims and objectives. The HR strategy is under-developed largely due as a result of resource intensive work on the single status agreement taking priority. We understand that now that the agreement is in place and coupled with the appointment of a new Head of Personnel the strategy will be revised as a matter of priority.

Key risk area 4

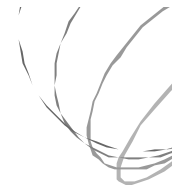
120. A number of senior officers within the council are nearing retirement age and succession planning has been recognised as an issue. The revised HR strategy needs to address this concern.

121. Introduction of an integrated payroll and personnel system will help underpin improvements in workforce planning and management. We reported in 2006/07 that this project had suffered from some delays and was more than a year behind schedule, but that it was expected to be in place by December 2007. As at September 2008 the transfer to the new integrated payroll and personnel system is still not complete and previous commitments appear to have been under-resourced.

Effective partnership working

122. Increasingly the council is dependent on partnership working to deliver service improvements. Formal duties to initiate, facilitate and maintain community planning have been placed on the council. In order to maintain and develop community planning arrangements the council is currently in discussions with partners to agree accountability lines around delivery of the outcomes in the Single Outcome Agreement (SOA).

123. Community planning 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 is also working with partners to develop ways of evidencing that funding given to local projects has delivered the expected outcomes. This is being addressed through the on-going discussions with the Dundee Partnership.

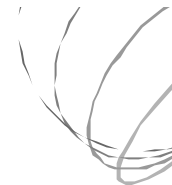


Delivering improved infrastructure

124. The council needs facilities and infrastructure that are suitable and sufficient to meet the requirements placed on them in the provision of services and the delivery of council objectives, now and in the future. A requirement for significant investment has been identified in a wide range of areas including school buildings, housing, transport, waste management, care homes and information systems.
125. The management of public assets and the borrowing that helps support them constitute the second greatest cost to the revenue budget after staff. Any improvement in the strategic and operational management of these assets could therefore have a real impact on the financial resources available to improve services. Appropriate use of assets in the right location can also make the difference between good and bad service delivery.
126. Asset management is a complex area and requires various disciplines, for example architectural, building, maintenance, health & safety, IT, procurement and finance professionals to work together to maximise benefits. Asset management planning represents a major part of the financial planning process.
127. In December 2007 the council approved its Corporate Asset Management Plan (AMP) "Building our Future", which covered the property portfolio of around £109 million, excluding Housing stock and roads infrastructure. The total value of assets held by the council as at 31 March 2007 was over £730 million, including investment properties, social housing, schools, and infrastructure assets e.g. roads and bridges.
128. Whilst, the corporate AMP is a good starting point it currently relates to a relatively small percentage of the council's asset base (by value). The council has advised that asset management planning is an evolutionary process and that it will take some time to bring together the various sub-plans that currently exist or are in the process of being developed. In addition, it is argued that a significant proportion of the council's asset base is already covered by departmental asset management plans and this proportion is expected to increase over time. The Corporate Asset Management Plan makes reference to the ultimate aim being "...to integrate these plans into a single strategic framework". Once this integration has been achieved, this will then 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.

Key risk area 3 & 4

129. The council upgraded its financial management system in February 2008. As noted at para 108 above the new system has a number of controls built in to the purchase, for example, tolerance levels,



user authorisation levels and budget checks. Other functions such as on-line catalogues and quote requests are being developed. We have also been advised that e-procurement will not be fully functional until 2010.

National studies

130. 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 described below. Further information on these studies and copies of the reports can be obtained from Audit Scotland's web page at www.audit-scotland.gov.uk

Sustainable waste management

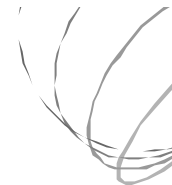
131. Collecting household waste is a vital and universal service. In recent years significant new investment has been made to reduce the amount of waste sent to landfill. Our national report on sustainable waste management, published in September 2007, highlighted that:

- Significant progress has been made in meeting interim recycling targets, but the rate varies considerably between councils. The percentage of municipal waste recycled and composted increased from 7% in 2001/2 to 25% in 2005/6. Co-mingled collections appear to achieve higher recycling rates.
- There has been slow progress in developing facilities to treat residual waste and there is a significant risk that EU landfill directive targets might not be met.
- Increased recycling has led to increased costs for councils.
- All parties need to work more effectively together to make progress in waste minimisation, recycling and waste treatment.

132. The three Tayside councils have a Tayside Waste Strategy in place and this is recognised in the service plan for the Council's Waste Management department. The three councils are also members of the Tayside Area Waste Group which is a forum for the Scottish Government, through SEPA, to disseminate information to councils and for the councils to feedback progress on waste management.

Free personal and nursing care

133. Since July 2002, all councils have had systems in place to deliver free personal and nursing care (FPNC). People of all ages living in care homes are entitled to free nursing care and people over 65, living in any setting, are entitled to free personal and nursing care. Our national report about the financial implications of FPNC, published in September 2007, found that:



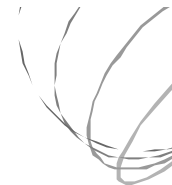
- Councils have interpreted the legislation and guidance relating to food preparation differently across Scotland.
- Councils should improve their information systems to enable them to collect comprehensive and accurate information on FPNC and other aspects of care and support services.
- Councils should provide clear information to older people on what is covered by FPNC.
- Councils should work with local health partners to evaluate the longer term consequences of reducing domestic homecare services.

134. We have been advised that the council is awaiting the outcome of the Free Personal Care National Working Group to determine their position with regard to food preparation. The council does, however, expect to change its policy in this regard and will make financial provision for this accordingly. The council recognises that systems need to be adapted to improve the quality of information collected on FPNC and has started to adjust management information systems accordingly. It is about to publish criteria for access to care which will include FPNC. The council and Dundee Community Health Partnership, through the Dundee Health and Local Authority Management Group, jointly monitors patterns of service delivery and uses a whole systems model of provision as reflected in the approach adopted locally to shifting the balance of care.

Scotland's school estate

135. A major programme of school building renewal started at the end of the 1990s and is continuing today. The programme aims to create a school estate that achieves the government's vision for 21st century schools that are well designed, well built and well managed. Our national study reviewed what has been achieved so far, how much it is costing, how effective the improvements are and how well the Scottish Government and councils are working together to manage improvements to the schools estate. One of the main conclusions of our report, published in March 2008, is that the current rate of progress will take up to 20 years to remove all schools from poor or bad condition. The report recommends actions for the Scottish Government and councils to help improve arrangements and support future achievements. These include:

- Better planning by councils and the Scottish Government to set specific, measurable and meaningful targets for the school estate strategy.
- Greater use of the Scottish Government guidance by councils to make sure future school design strikes a good balance for the comfort of everyone who uses the building.
- Making environmental sustainability a key element of school design.



- Doing more to identify and share good (and bad) practice in school design and estate management.
- Estimating pupil rolls for at least ten years ahead with a minimum annual review.

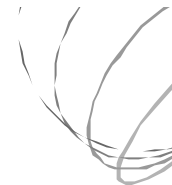
136. The council recognised that 10 primary and three secondary schools were in poor condition. However, the current schools building project is on target to address all but three of the primary schools by August 2009. We were also advised that the PPP project addresses the design and environmental sustainability which will continue to be monitored on future projects ensuring all relevant legislation is met.

The impact of the race equality duty on council services

137. In November 2008, Audit Scotland will publish a national report about the impact of the race equality duty. The report will:

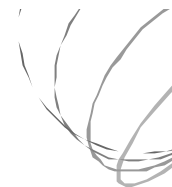
- Examine the impact of the duty on council services and people from minority ethnic communities.
- Consider the main factors that affect the performance of councils on race equality.
- Set out how councils can now improve their performance.
- Make recommendations to councils as well as to national bodies that are active in the equalities field and have a role to play in supporting councils meet their race equality responsibilities.

138. Following publication, Audit Scotland will track councils' progress in addressing the recommendations.



Final Remarks

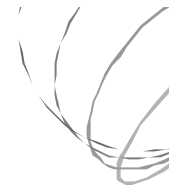
139. We have made a number of recommendations in the various reports we have issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate.
140. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of members. In response, officers have considered the issues and have agreed to take the specific steps set out in the column headed 'planned management action'. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management's response to the identified risks.
141. Appropriate mechanisms should be considered and agreed by members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2008/09 audit.
142. The co-operation and assistance given to us by Dundee City Council members and staff is gratefully acknowledged.



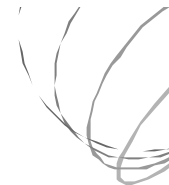
Appendix A: Action Plan

Key Risk Areas and Planned Management Action

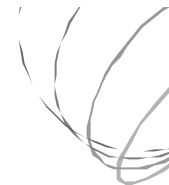
Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	14	<p>Asset register</p> <p>During the year, HRA land that had had become available following the demolition of the associated council housing was sold for £1.830 million. The full value of the land and buildings had been removed from the asset register at the time of the demolition, meaning that the land had not been recorded separately in the register prior to its sale.</p> <p>All assets owned by the council should be properly recorded in the asset register, and particular care is taken to record the residual element of assets that have been partially demolished or disposed of.</p> <p><i>Risk: All of the council's assets are not properly recorded.</i></p>	<p>This matter will be reviewed and relevant departments will be consulted to ensure that all residual elements of assets are properly recorded in the corporate asset register on a timely basis.</p>	Head of Finance	31 March 2009
2	70.	<p>Status & composition of audit committee</p> <p>The CIPFA/ SOLACE Framework for Delivering Good Governance in Local Government highlights that the audit committee should be independent of the executive and scrutiny functions of an authority.</p> <p>The council's Audit & Risk Management Sub-committee is a sub-committee of the Policy & Resources Committee (PRC) It is chaired by the deputy convenor of the PRC. All members are also members of the PRC, and all other service committees. It cannot, therefore, be sufficiently independent of the council's decision making and other scrutiny functions.</p> <p><i>Risk: audit committee is not effective.</i></p>	<p>Although all members of the Audit & Risk Management Sub Committee are also on all Council Committees, it is the Council's view that they do operate effectively as a scrutiny Committee, undertaking the remit set by the Policy & Resources Committee. It is not therefore considered necessary to change either the composition of the Committee or the Convenership.</p>	Chief Executive	Not Applicable



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	98, 111, 128	<p>Asset Management</p> <p>The Asset Management indicator was found to be unreliable for the second year due to a lack of robust data on the number of operational buildings and condition surveys.</p> <p>A corporate Asset Management Plan is in place but currently only covers a relatively small proportion of the total asset base.</p> <p><i>Risk: Assets are not being managed efficiently and effectively.</i></p>	<p>Robust data is now available to ensure that the 2008/09 Asset Management indicator will be reliable.</p> <p>The Asset Plan Review is expected to be reported to Committee in November and will incorporate 57% of the total asset base.</p>	<p>Director of Economic Development</p> <p>Director of Economic Development</p>	<p>31 March 2009</p> <p>November 2009</p>
4	102, 111, 119, 128.	<p>Best Value</p> <p>Actions identified in the council's best value improvement plan are generally well advanced. There are, however, a number of actions still to be fully implemented, for example, asset management and human resource strategies, option appraisals and benchmarking of services.</p> <p>The council has not addressed concerns expressed by the Accounts Commission about transparency, scrutiny and strategic management of organisational structures. This largely reflects the council's continuing disagreement with the issues originally highlighted in these areas.</p> <p><i>Risk: the council is not in a position to deliver best value.</i></p>	<p>The Council will continue to address the actions identified in the Best Value Improvement Plan, as appropriate.</p> <p>The Council is of the view that its Committee structures ensure effective scrutiny and transparency of decision making. The Council's performance statistics support this, as does the Council's work with the Dundee Partnership.</p>	<p>As per BVIP</p> <p>Chief Executive</p>	<p>As per BVIP</p> <p>Not Applicable</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	107	<p>Efficiency agenda</p> <p>The council has recognised that delivering a freeze on council tax will be difficult within the existing funding. Councils are also required to achieve 2% efficiency savings each year from 2008/09 which can be used to address on going pressures and local priorities. The required level of annual savings will be challenging to meet on a continuing basis without impacting on the level or quality of services.</p> <p><i>Risk: the required efficiency savings can not be delivered without impacting on the level or quality of services provided.</i></p>	<p>The Council will continue to seek to identify opportunities for real efficiency savings across the wide range of services that it provides, without any adverse impact on the level or quality of services provided. This process will be co-ordinated at officer level through the Improvement & Efficiency Board, with specific initiatives including the Efficiency Diagnostic Study, Best Value Reviews, Lean Service Reviews etc. Reporting and scrutiny of the Council's efficiency programme will continue through the Best Value Performance & Efficiency Sub-Committee.</p>	Head of Finance	31 March 2011



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
6	117	<p>Members Training</p> <p>A structured training programme to ensure that all members are fully aware of their regulatory and legislative duties is in place. The latest report from the Scottish Local Authorities Remuneration Committee published in September 2008 recommends that all councillors should have training assessments and personal development plans in place by 31 March 2009. The council has advised that personal development plans will be developed in line with the Improvement Service's professional development framework which is currently being piloted by seven councils. We noted that attendance at training sessions varies.</p> <p><i>Risk: members may not be able to readily evidence that they are up to date with training requirements.</i></p>	<p>The Council's intention had been to wait for the national launch of the members' development framework, which is currently being piloted by the Improvement Service and seven local authorities. However, the Improvement Service have now advised that this framework will not be finalised until Autumn 2009 at the earliest. In view of this, proposals for training needs assessments and personal development plans will be put to members with a view to achieving the March 2009 deadline recommended in the report of the Scottish Local Authorities Remuneration Committee. Correspondence with members on this, and on any specific opportunities for training, will emphasise that councillors are expected to undertake appropriate training to enable them to perform their duties effectively, and that information on the number of members attending training will be published and publicly scrutinised.</p>	Assistant Chief Executive (Community Planning)	31 March 2009