

# Dundee City Council

**Report to Members and the Controller of Audit  
on the 2006/07 audit**



**October 2007**





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# Key Messages

## Introduction

In 2006/07 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 in 2006/07 and the outlook for the period ahead.

## Key outcomes from 2006/07 audit

We have given an **unqualified** opinion on the financial statements of Dundee City Council for 2006/07. The council dealt well with significant changes to the format of the accounts.

The contribution to the general fund was £1.8 million more than planned after appropriations of £1.9 million. Around £1 million of the General Fund contribution was due to amounts set-aside for the implementation of single status which were not required during the year. After earmarking £1.3 million to restrict future council tax increases, the uncommitted general fund balance of £4.4 million was more than the target minimum level of £3 million.

The council had corporate governance systems in place during 2006/07 that operated well within a sound control environment. Further action is required to embed its risk management framework and to continue to improve performance management arrangements.

The council has reported a number of improvements in performance including a number of substantial improvements in areas measured by statutory performance indicators. There is, however, scope to improve the working papers supporting indicators. There is a recognised need for greater specification of performance measures and targets. This is required to bring more focus to overall objectives and to improve the ability to achieve demonstrable continuing performance improvement.

Overall, the council's monitoring reports indicate that good progress has been made in implementing the actions contained in its Best Value Improvement Plan (BVIP). For example, revised service planning guidelines were issued during the year. These incorporated actions in relation to a number of the BVIP areas including development of coherent links between planning and budgeting and regular reviews of performance against targets and indicators. Further improvements in performance monitoring and reporting are due to be incorporated into the new departmental service plans. The outputs from these plans will be reported to the Best Value Performance and Efficiency Sub-Committee.



## Outlook for future audits

In the course of our work we identified some of the strategic risks that the Council will need to manage in delivering on its stated objectives and priorities. These can be grouped into the following themes:

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

The council had cash backed funds of £26 million as at 31 March 2007 and an unallocated general fund balance broadly in line with its overall strategy. However, it will need to continue to work hard to manage its overall financial position in the years ahead to manage significant cost pressures. Unless radical changes to the funding methodology are agreed, the council's demographic position means that it will have to continue to operate with below average increases in block grant funding.

Some allowance has been made for the costs of single status in current budgets. However, the agreement is yet to be implemented locally and until implemented, the initial and continuing costs to the council remain uncertain and are likely to be significant. In securing a local agreement the council needs to ensure it maximises the opportunity for service and job redesign to ensure that it achieves value for money from its investment in staff.

In a tightening fiscal environment, and in pursuance of best value objectives, there will be a continuing need to identify and release efficiencies on an ongoing basis. The council has improved its arrangements to capture the savings achieved with the introduction of an annual efficiency statement, recording efficiencies of around £2 million in the year. A more strategic approach to procurement can be expected to provide financial benefits in the years ahead. When operational, asset management planning should help ensure that all the assets are used effectively and efficiently to deliver services in line with priorities.

Significant underlying pension liabilities need to be funded on an ongoing basis, including the council's share of the cost of unfunded schemes for police and fire fighters. The overall liability position is currently improving with increased employer contribution rates, changes in financial markets and recent changes to pension fund regulations which are expected to bring financial benefits to employers and more flexible benefits to future pensioners. The overall impact of this will be assessed at the next actuarial valuation.

Improvements are planned to performance management arrangements, including greater specification of performance measures and targets, increased reporting using corporate and departmental performance scorecards and improved monitoring. These improvements will deliver benefits in the way the council



manages its performance, but it also needs to be clearer about the extent to which financial savings planned and made are impacting on services.

While the Council has experienced a degree of continuity relative to many other Scottish local authorities, there are a number of new councillors and changes have been made to the roles of individual members. Renewal of the council's strategic direction and organisational structure will help ensure that it is best placed to meet the range of challenges it will face in the years ahead.

The Council approved a human resources strategy and action plan designed to effectively develop and deploy its workforce to meet the Council's objectives. The benefits arising from the strategy are expected to feed through in future years as it becomes embedded in the management process. Introduction of an integrated payroll and personnel system will help underpin improvements in workforce planning and management.

A realignment of partnerships in the city was designed to improve partners' ability to achieve the Community Plan's underpinning principles of sustainability, social inclusion and active citizenship. Continued work is required to ensure that partnership arrangements are delivering anticipated benefits.

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

**Audit Scotland**  
**October 2007**



# Introduction

1. This report summarises the findings from our 2006/07 audit of Dundee City Council, the first year of a second five year appointment. Findings are drawn together within four sections: performance, financial position, governance and financial statements. 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 was set out in our Audit Risk Analysis and Plan (ARAP), which was submitted to the Audit and Risk Management Sub Committee in June 2007. The ARAP set out our views on the key business risks facing the Council and described the work we planned to carry out under the following strategic themes:
  - Funding future improvements
  - Political and management structures
  - Effective partnership working
  - Delivering improved performance
  - Workforce management
  - Delivering improved infrastructure
3. Overall conclusions about the Council's management of key risks are discussed throughout this report.
4. During the year we undertook two exercises which resulted in separate audit reports: *Computer Services Review* and *Priorities and Risk Position Statement*. The key messages from these are incorporated here for the consideration of members. Appendix A sets out a number of risks highlighted in this report and the action planned by management to address them which we wish to draw to the attention of members.
5. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members during the course of our audit work.



# Performance

## Introduction

6. In this section we summarise key aspects of the Council's reported performance during 2006/07 and provide an outlook on future performance, including our views on the current status of identified risks. We also comment on the progress against agreed improvement actions arising out of the best value audit and the findings of national performance audit studies.

## Corporate objectives and priorities

7. The Council Plan for 2003 – 2007 set out the key goals and priorities for the Council and explained how it planned to achieve these. The plan was based on five themes, cutting across a variety of services:
  - learning and working
  - health and care
  - community safety
  - building stronger communities
  - caring for the Dundee environment.
8. A total of 51 objectives were established across these themes. In meeting the challenge to modernise services, the Council aimed to:
  - deliver best value, and demonstrate to the public and stakeholders that this has been done
  - be customer focused and less concerned about institutional boundaries
  - renew democracy and public involvement in local government.
9. Following the May 2007 elections, work is currently ongoing to develop an updated corporate plan for 2007 – 2011. The new plan is due to be published in October 2007. Each department will also produce a new Service Plan, detailing how its objectives, projects and performance targets contribute to achieving the overall strategic aims of the Council.
10. There has been no change in the political leadership following the elections. We anticipate that the issues raised in this report will continue to be relevant as the council renews its strategic objectives.





## Overview of performance in 2006/07

### Annual report

11. The Council's annual report was published in August 2007 and provides a brief round-up of the performance of services provided by Dundee City Council for 2006/07. It includes statements from the Leader of the Council and the Chief Executive highlighting the most significant achievements and developments during the year, including the Council's success in winning a national award for community involvement in the regeneration of Ardler.
12. The report describes aspects of performance and achievements across each of the corporate plan themes, including:
  - **Learning and working** – 500 teachers undertook four modules in Self Empowerment Learning as part of the Learning Together in Dundee Strategy (LTiD); six themes to raise attainment were identified through consultation with secondary Head Teachers and an action agenda has been established around these themes; over 200 personal computers with high speed broadband connections in libraries and Learning Centres allow access to Information and Communication Technology facilities.
  - **Health and care** – all departments in the council have achieved the Scottish Health at Work bronze award and six have achieved the silver award.
  - **Community safety** – 66% of the city's street lighting in residential areas have been converted to white light; eight mosquito devices, which are ultra-sonic teenage deterrent systems are installed in various locations across the city and evaluations of the effectiveness of these systems are now being carried out.
  - **Building stronger communities** – 170 affordable housing units approvals were issued during 2006/07; the new Charleston Community Centre and Library was completed in 2006.
  - **Caring for the environment** – £4 million spent between 2004 and 2006 resulted in 50 hectares of land being removed from the Vacant and Derelict Land Register; a further 10,000 kerbside recycling boxes were issued to householders in August 2006 and 50 sites have been selected for on street recycling points to serve 7,000 households in multi occupancy dwellings.
13. 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.

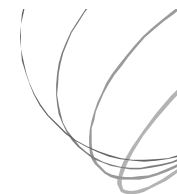


## Measuring performance

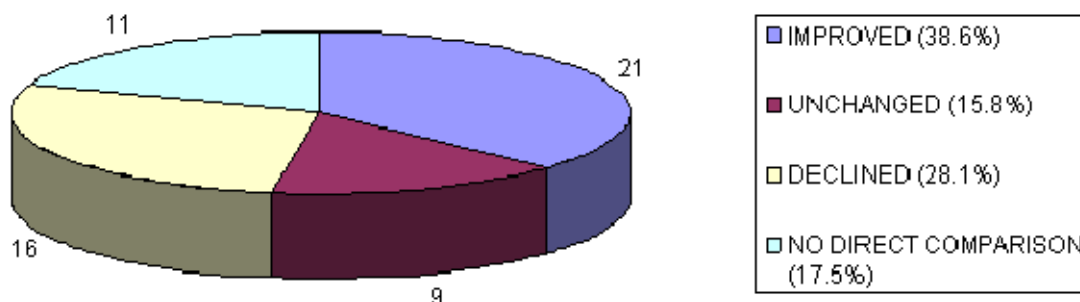
14. Since 2005, the Council has used a Strategic Plan Monitoring Database to track the progress of objectives in the Council and Service plans as well as recommendations made by both internal and external audit. Performance reports compiled from the database are submitted to the Best Value Sub Committee quarterly. Service Committees also get annual performance reports.
15. 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.
16. The council has recognised a need to further specify the objectives set out in the council and service plans thereby bringing more focus to its overall objectives. New planning guidelines set out clear steps to help achieve this for future planning rounds. The guidelines also require clear links between themes in the council plan and service plan objectives and the monitoring database will require these links to be clearly specified.
17. Quarterly departmental performance scorecards, based on a wider range of supplementary measures and targets, are also being developed and these will be reported for the first time in 2007/08. All of the Council's performance measures are recorded within their performance database which provides trend information over time and comparison with neighbouring and similar councils.

## Performance indicators

18. In advance of planned improvements to performance measurement and monitoring outlined above, one of the important ways of measuring Council performance is through statutory performance indicators (SPIs). There were 57 major SPIs reported in 2006/07 and a significant proportion of these have been incorporated within the corporate performance scorecard.
19. Full details of all SPIs are also posted on the council's website and a summary of changes in performance is included in the chart below. Around 54% of indicators have either improved or been maintained during the year. In 16 indicators (28%) performance has reduced. Review by the council has established that in these cases the deterioration was marginal, as a result of volume increases or due to factors outwith the council's control.



## 2006/07 SPIs



20. Substantial improvements have been reported in the following areas:

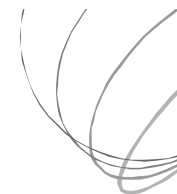
- the average time to provide community care services reduced from 19 to 5 days
- the percentage of children's hearing reports submitted within target time increased from 24.8% to 29%
- daytime respite care – recorded hours have more than doubled due to improved management information systems
- litigation claims incurred reduced in number with the value of claims falling by 50% in the year
- the cost of council tax collection reduced to £25.31 per dwelling from £28.22 in 2003/04
- food safety hygiene inspections overall inspections carried out on time improved from 86.5% to 89.6%.

21. Each year we review the robustness of the Council's arrangements to prepare SPIs. Overall, the quality of working papers provided to support the SPIs this year was adequate, but we identified a number of areas for improvement. Evidence of quality control checks was variable, with insufficient review of the underlying reasons for a number of significant changes. Information on changes to indicator definitions and formats was not always passed to the relevant officers, with changes requiring to be made to the unaudited indicators as a result.

**Key risk area 1**

## Best Value audit

22. 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.

23. The Best Value audit of Dundee City Council was carried out in 2005 and the findings published in October that year. In response, the Council approved a Best Value Improvement Plan (BVIP) setting out fifteen improvement agenda items from the report together with the planned actions and timescales for implementation.
24. Since this time, the improvement plan has been incorporated into the Council's ongoing performance management arrangements. Progress reports have been considered by the Best Value Sub Committee on a six monthly basis. Overall, the Council's monitoring reports indicate that the Council has made good progress in implementing the actions contained in its Best Value Improvement Plan. Further improvements in performance monitoring and reporting are due to be incorporated into the new departmental service plans. The outputs from these plans will be reported to the Best Value Performance and Efficiency Sub-Committee.

#### **BVIP progress 2006/07**

**Planning guidance** - Revised service planning guidelines were issued during the year for use in future planning rounds, helping to progress a number of BVIP actions, including:

- Helping members to take a more active role in reviewing the performance of services, with committee convenors being required to provide a preface to the relevant service plans.
- Introducing more coherent links between service planning and budgeting, with a strategic financial outlook covering financial risks, options for dealing with cost pressures, future savings and efficiencies.
- Improvements in the specification of objectives and related performance measurement.
- Improved consideration of risk management and business continuity issues.

**Review programme:** - In 2003 the council set out an ambitious BV review programme. In the period since then a number of reviews were deleted on the basis that they had either been overtaken by events or were being addressed in other ways. Nine reviews were due to be completed during 2006/07, but only three of these had been reported to the Best Value Sub-Committee by June 2007. The Council continues to operate in a changing environment and Best Value reviews will be key drivers in adapting to change and identifying new and efficient ways of delivering public services.

25. Progress in a number of key areas is summarised in the table above. Elsewhere in the report we comment on progress in reviewing structures, developing a human resources strategy and in implementing asset management planning. We will continue to keep the Council's progress in implementing its BVIP under review in future audits, considering the evidence of the impact that this has on underlying performance.



## Performance outlook – opportunities and risks

### Introduction

26. In our Audit Risk Analysis and Plan we identified the strategic risks facing the Council in delivering its stated objectives and priorities in the years ahead. In the following paragraphs, we comment both on the progress made by the council during the year and on the key risks yet to be fully addressed.
27. Risk exists in all organisations which are committed to continuous improvement 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

28. The Council continues to face significant challenges in relation to managing ongoing financial pressures such as single status and increasing pensions costs. Through sound budgetary control procedures, service departments are continually being challenged to meet or make savings against their allocated budgets and by March 2007 the Council had managed to increase its general fund balance by £1.8 million. These funds give the Council some flexibility in addressing known and unexpected financial pressures.
29. Whilst the budgets for the next three years include identified amounts for single status, the full impact of this and other mandatory legislation such as the Homelessness Act 2002, ongoing health & safety and disability discrimination, has still to feed through. The Council therefore needs to continue to be vigilant in its financial monitoring and use of reserves.
30. The Efficient Government initiative has incorporated some assumed efficiency savings into annual financial settlements, presenting an on-going challenge as efficiency gains through service redesign are likely to take longer than one year to be fully realised. The Council has reported £5.67 million anticipated efficiency savings over the three years 2005-08 which exceeds the Scottish Government’s target for Dundee City of £4.98 million.
31. The council’s unallocated general fund balance is broadly in line with overall strategy, but the Council will need to continue to work hard to manage its overall financial position in the years ahead.

### Delivering improved performance

32. 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. The Strategic Plan Monitoring Database records details of action points from performance



improvement areas, the best value improvement plan and other external audit reports. It is a self-assessment approach and responsible officers are required to keep the database up to date with progress. The database is now being expanded to incorporate a *Performance Indicator* database which will enable more systematic monitoring of numerical performance measures, and better support regular reporting and monitoring of corporate and service performance scorecards.

33. In managing its future performance the council needs to be clear as to the extent to which planned and implemented savings measures impact on the quality and delivery of services. In order to claim efficiencies under the Efficient Government initiative, the Council also needs to demonstrate that service outcomes have been maintained or improved. Without clear baseline information covering cost and quality of service, there is a risk that the Council will not be able to establish the extent to which savings measures have impacted on service provision. This issue remains to be fully addressed, but work has continued during the year, including implementation of a more structured approach to identify and record efficiency gains achieved and being pursued. This information is used to support an annual efficiency statement which has been included in the Council's annual performance report. Work is also underway to consider the outcome of the national work by the Improvement Service in this area.

## **Political and management structures**

34. The May elections introduced a number of significant changes to Scottish local government with the introduction of proportional representation and multi-member wards. 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.
35. While the Council has experienced a degree of continuity relative to many other Scottish local authorities, there are a number of new councillors and changes have been made to the roles of individual members. An induction session was held shortly after the election and members were provided with key information to support them in their new role. All members will require appropriate support for their roles on a continuing basis. Further training sessions have also been provided covering a number of areas including:
- Community Planning and the role of Dundee Partnership
  - Climate change
  - Scottish Parliament
  - Individual IT requirements.
36. Within its BVIP the council has committed to review its structure to ensure a better fit with corporate objectives, the needs of service users, and in seeking organisational efficiencies. Following the



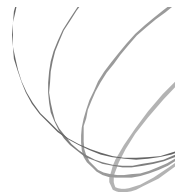
election, the number of committees in place was reduced from 13 to eight, as a first step towards developing more user focussed services and strengthening accountability. Further review of current structures will be considered alongside the development of the new Council Plan which is being drafted to take account of Dundee City's priorities and objectives for the next four years. Renewal of the council's strategic direction and organisational structure will help ensure that it is best placed to meet the range of challenges it will face in the years ahead.

## **Workforce management**

37. 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. The Council has a high staffing complement, and in recent years has experienced high absence levels compared to other Scottish councils. Improved absence management procedures adopted in 2005/06 resulted in absence levels falling that year and in 2006/07 they remained relatively static, with the exception of craft workers which fell by just over 1%. Continuing efforts to further reduce absence levels will help support continuous improvement in overall performance and the achievement of efficiencies.
38. Improvement in workforce management is also dependent on effective workforce planning, successful recruitment and retention practices and good industrial relations. In December 2006 the Council approved a human resources strategy and action plan designed to effectively develop and deploy its workforce to meet the Council's objectives. This met a specific requirement of the Council's BVIP. The benefits arising from the strategy are expected to feed through in future years as it becomes embedded in the management process.
39. Introduction of an integrated payroll and personnel system will help underpin improvements in workforce planning and management. The project has suffered from some delays and is more than a year behind schedule, but is now expected to be in place by December 2007. The delays arose due to unanticipated difficulties encountered in creating a single corporate establishment database from the individual departmental personnel registers.
40. Implementation of the single status agreement continues to be challenging. Details of progress and the implications for the financial outlook of the council are discussed in paragraphs 85 to 87 below.

## **Effective partnership working**

41. In June 2006, Audit Scotland published *Community planning – an initial review* which found that community planning is progressing across Scotland, but complexities make aims difficult to achieve. While community planning partnerships have made progress, they need to do more to show how their work is improving public services. The report also calls on the Scottish Government to support community planning more effectively. In particular, the large number of national policy initiatives, each



with their own funding arrangements, can make it difficult for partnerships to plan and deliver effectively.

42. In the Communities Scotland report "Evaluation of the effective engagement of communities in regeneration" (December 2006), Dundee City Council was one of 7 councils selected as case studies. From this report, it appears that the Council has made and is continuing to make progress towards satisfying the recommendations made in the Audit Scotland's national report on community planning.
43. A number of changes have been made to community planning arrangements in Dundee that are designed to support future improvements in partnership working. In June 2007, Local Community Planning Partnerships (LCPP) were established to replace the existing Neighbourhood Partnership Networks (NPN). At the same time boundaries were re-aligned with the new multi-member wards, with eight LCPPs and eight aligned local strategy plans replacing the seven existing NPNs. The realignment of partnerships is designed to improve the partners' ability to achieve the Community Plan's underpinning principles of sustainability, social inclusion and active citizenship. Continued work is required to ensure that they are delivering these anticipated benefits.

## **Delivering improved infrastructure**

44. 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.
45. 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.
46. There has been slippage in progressing planned improvements to the Council's asset management processes. The Council originally planned to have an Asset Management Plan (AMP) in place by May 2007 and now expects this to be in place by November 2007. When operational these should help ensure that all the assets are used effectively and efficiently to deliver services in line with priorities.
47. The December 2006 HMIE report *Inspection of the education functions of local authorities – Dundee City Council* noted that the decreasing trend in population created challenges for the council, for example, in addressing the over-capacity in its schools. Whilst this was beginning to be addressed





through the Council's PPP programme, it could impact on the Council's ability to demonstrate best value in its educational expenditure.

## Key risk area 2

48. The Council is upgrading its current financial management system which is reaching the end of its life cycle. This key business system is due to be in place by December 2007. No parallel run is planned for the changeover as the upgrade is deemed to be sufficiently similar to enable a direct switch from the old to new system. There are potential risks to this approach but these should be mitigated by the testing and training currently underway.
49. It was originally planned to introduce the e-procurement system favoured by the Scottish Government at the same time. However, uncertainty over the interface between this system and the Council's main financial management system led to the decision to trial the e-procurement system available as a module of the new system instead. This decision reduces the complexity of the migration and increases the likelihood of a smooth transition. The successful introduction of e-procurement is expected to bring significant performance and efficiency benefits in the years ahead.

## National studies

50. 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, and summarised elsewhere in this document include *No hiding place: the National Fraud Initiative in Scotland*, *Public Sector Pension Schemes in Scotland* and *Community Planning: an initial review*. Other reports of direct interest to the Council are set out in paragraphs 51- 59 below. Further information on these studies and reports can be obtained from Audit Scotland's web page at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Sustainable waste management

51. There is an increasing awareness of the need to protect the environment and to promote the sustainable use of resources. As a result of UN conventions and EU Directives, the UK government introduced a landfill tax to discourage the disposal of waste in landfill sites and set a (non-statutory) target that Local Authorities should recycle 25% of household waste by 2000. Local authorities did not achieve this target.
52. Further EU Directives required Member States to "take appropriate steps to encourage the prevention, recycling and processing of waste" and to set out details of measuring processes within waste management plans. Subsequently a series of targets was set over the period to 2020 to reduce the amount of biodegradable waste going to landfill. The EC can impose a fine on the UK of up to £350,000 per day if it fails to meet its targets.



53. Audit Scotland undertook a study to examine the performance of local authorities, the Scottish Environmental Protection Agency (SEPA) and the Scottish Government in reducing the amount of municipal waste being disposed of as landfill, including the impact and value for money achieved by the investment in this area. Dundee City Council was one of six councils visited as part of the study. The report published in September 2007 highlighted that:

- Significant progress had been made in meeting interim recycling targets with the percentage of municipal waste recycled and composted rising to an average of 25% in 2005/06. The Council reported recycling levels of 31% in 2006/07.
- The slow progress in developing facilities to treat waste that is not recycled means there is a significant risk the EU Landfill Directive targets are not met. The Council appears well placed to address this through Dundee Energy Recycling Limited.
- Increases in the amount of recycling have led to increased costs and it is estimated that £580 million in waste management expenditure will be incurred by 2019/20. This is one of the on-going cost pressures the Council has to manage.
- Councils, the Scottish Government and other agencies need to work more effectively together to make rapid progress in waste minimisation, recycling and waste treatment to achieve the Landfill Directive targets. 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.

## **Dealing with offending by young people**

54. During 2006/07, Audit Scotland undertook a follow up study of *Dealing with offending by young people* which was originally reported in December 2002 and November 2003. This considered progress in implementing previous recommendations, in the context of a changing policy landscape.

55. Dundee City was one of eight local authority areas visited as part of this study. The report published in August 2007 highlighted that although the Scottish Executive has increased funding for youth justice services from £235 million in 2000/01 to £336 million in 2005/06, the extent to which the new investment offers value for money and makes effective use of resources could not be demonstrated. The principal recommendations applying to local authorities were:

- Local authorities and other agencies should work to deliver on the local improvements required to successfully implement the agenda set out in the Youth Justice Improvement programme.



- Needs assessment activity should be strengthened at local authority level so that agencies are able to demonstrate that services are addressing local needs and reducing levels of offending behaviour.
- Local authorities and their partners should develop coherent and integrated approaches to services for children and young people not in education, employment or training in particular for those excluded or not attending school. We noted that the new Discover Opportunities Centre opened at the beginning of July and co-locates the NEET (Not in Education, Employment or Training) team alongside staff from the Employability Team, Financial Inclusion Coordinator, Working for Families, Health Condition Managers and Job Centre Plus.
- Local authorities should ensure that the key departments such as education are engaged more actively with the youth justice strategy agenda.

56. The Tayside Community Justice Authority should be fully operational by 2007/08. Partners will require to develop an agreed and integrated agenda even although there may be differences in governance and resourcing arrangements. Working through this new partnership should help address many of the issues raised in the national report.

## **Managing long-term conditions**

57. Long-term conditions, sometimes known as chronic diseases, lasting a year or longer, limit what a person can do and may require ongoing care. Managing long-term conditions is seen as the biggest challenge facing healthcare systems worldwide, with 60% of all deaths attributable to them. Audit Scotland conducted a study of services for adults with long-term conditions generally, focussing on two conditions in particular – chronic obstructive pulmonary disease (COPD) and epilepsy.

58. The report published in August 2007 highlighted that care for people with chronic illnesses is improving but the health service, councils and the Scottish Government need to do more to build a joined up system of care. A lack of information about costs and activity means many decisions on the use of resources are made with limited evidence about what works for patients, and this needs to be urgently addressed by the NHS and councils. Key recommendations for councils include:

- The Scottish Government, NHS boards and local authorities should collect better information on activity, cost and quality of services to support the development of community services.
- The Scottish Government, NHS boards and local authorities should evaluate different ways of providing services to ensure cost-effectiveness and share good practice.
- NHS boards and local authorities, through Community Health Partnerships, should ensure comprehensive information is given to patients about their condition, and the health and social care services available, at the time of diagnosis.



59. The report highlights the community COPD service that has been established within the Dundee Community Health Partnership. There is some evidence that this is contributing to reduced hospital admission rates.



# Financial position

## Introduction

60. In this section we summarise key aspects of the Council's reported financial position and performance to 31 March 2007, 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 future improvements.

## Council tax and the general fund

### Operating performance 2006/07

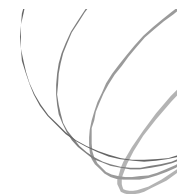
61. The presentation of the 2006/07 financial statements has changed significantly from previous years. They now include an income and expenditure account and a separate statement on the movement of the general fund balance, replacing the consolidated revenue account. The latter statement reflects items that require to be taken into account when determining a council's budget requirement and in turn its Council Tax level, as determined by statute.

62. 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 2006/07 was £266.608 million. This was met by government grants and local taxation of £284.44 million, resulting in an Income and Expenditure surplus of £17.832 million.

63. 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.

64. After adjusting for these items the Council achieved a general fund surplus of £1.881 million after appropriations of £0.9 million to capital fund, £0.6 to repairs and renewals fund and £0.4 million to insurance fund, a total of £1.9 million. When this year's surplus is added to the amount brought forward from 2005/06, the council has a general fund balance of £8.477 million. The budget set for 2006/07 was based on a Band D council tax level of £1,211 and no contribution from the unallocated general fund was made.



65. Within the overall outturn, there were a number of under-and-overspends against budget. In particular, an under-spend of £2.4 million was made by Social Work largely due to increased resource transfer funding from NHS Tayside and additional supporting people grant to fund eligible social work services. A further £1 million underspend was achieved from lower than expected contingencies and unforeseen items relating solely to funding for single status which was not required in the year. These were offset by an overspend of £1 million on Education largely as a result of increased Residential School placements and under recovery of Special Education Needs costs.

## Reserves and balances

66. At 31 March 2007 the Council had total cash backed reserves and funds of £26 million, including an insurance fund that underpins the Council's self-insurance arrangements, a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets and a capital fund. The capital fund may be used to finance future capital expenditure or repayment of debt.

### *Reserves and Funds 2006/07*

Description	2006/07 £ Million	2005/06 £ Million
General Fund	8.477	6.596
Renewal & Repair Fund	3.896	3.237
Capital Fund	12.141	5.440
Insurance Fund	1.543	1.127
	<b>26.057</b>	<b>16.400</b>

67. In her Foreword to the financial statements the Head of Finance highlighted that, after allowing for net transfers to earmarked balances of £1.2 million and a contribution of £1.3 million towards the 2007/08 Council Tax, the Council held an uncommitted general reserve balance of £4.413 million as at 31 March 2007. The Council aims to maintain a minimum working balance of around £3 million and the uncommitted balance was broadly in line with this. A range of financial issues which could impact on the reserves position are discussed in our Financial Outlook section below.



## Rents and housing revenue account

68. The Council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to at least cover the costs of its social housing provision. The budget set for 2006/07 was based on an average weekly rent level of £48.50, an increase of 2.4% on the previous year. No HRA balances are held and any surplus or deficit for the year is transferred into the general fund. A surplus of £0.676 million was transferred to the general fund from HRA in 2006/07.

## Group balances and going concern

69. The widening diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to present fairly all the activities of councils. The overall effect of inclusion of all of the Council's associates, joint venture and directly managed funds on the group balance sheet is to reduce net assets by £290 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.

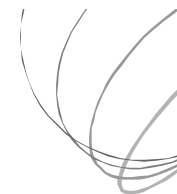
70. The Council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. All of these boards (Tayside Joint Police Board, Tayside Fire and Rescue Board, Tayside Valuation Joint Board and Tayside Contracts Joint Committee) had an excess of liabilities over assets at 31 March 2007 due to the accrual of pension liabilities. In total these deficits amounted to £644.6 million, with the Council's group share being £302 million.

## Spending on assets and long-term borrowing

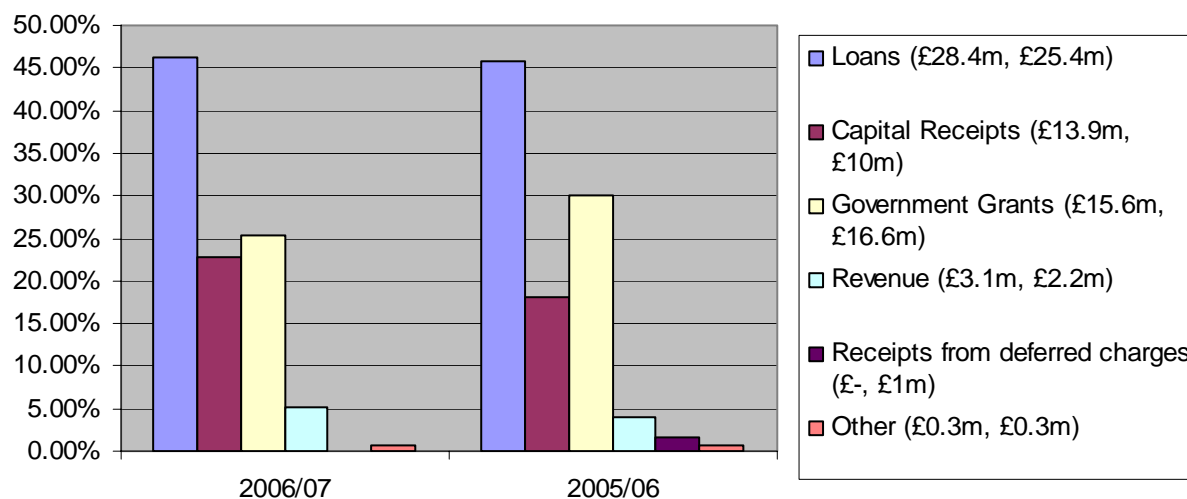
### Capital performance 2006/07

71. Following the introduction of the prudential code in April 2004 the Council can decide locally on a capital investment strategy which meets best value requirements and is 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.

72. Capital expenditure in 2006/07 totalled £61.3 million, rising from £53.7 million in 2005/06. Capital investment in the last two years was funded as shown below. Overall, the capital programme was delivered largely as planned. Around £7.1 million capital projects were carried forward into 2007/08. This was due to unforeseen delays on specific projects across the Council's departments.



### Sources of finance for capital expenditure 2006/07



73. Although the Council has increased its capital spending, it had decreased its overall medium to long-term borrowing at 31 March 2007 to £297 million, being £5.8 million less than the 2005/06 level of £302.7 million. This was largely achievable through increased capital proceeds in the year of £4 million. Around 80% of long and medium term loans at the year-end mature after more than 10 years and the Council has actively managed its exposure to variable interest rate movements with most of its debt on fixed interest terms.

### Forward capital programme

74. General services capital plans for 2007/08 and 2008/09 anticipate annual capital expenditure of £42.256 million and £31.952 million respectively. HRA capital plans over the two years are estimated at £16.1 million and £14 million. These plans are expected to be funded by a number of sources including capital receipts, grants and other contributions with around 54% being funded through borrowing.

### Significant trading operations

75. 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.

76. The identification of statutory trading accounts is the responsibility of the Council. LASAAC guidance suggests three tests should be applied to determine whether a trading operation falls within the ambit of the Act. These are:

- whether the service is provided in a competitive environment





- whether the service is provided on a basis other than recharge of cost
- a test of significance which has to be passed if the above two conditions are met.

77. If all three conditions are met then the service should be accounted for as a statutory trading account. The Council reviewed its trading activities during the year and concluded that Dundee Contract Services continues to be its only statutory trading accounts. We have considered the work carried out in respect of this review and concluded that the conclusions drawn are reasonable.

78. In the three years to 31 March 2007 Dundee Contract Services made an aggregate surplus of £1.3 million, meeting the statutory target, although the overall surplus was down slightly on the 2005/06 figure of £1.5 million. Whilst the organisation has consistently achieved a surplus over the three years, this fell short of its budgeted surplus in 2004/05 and 2005/06. In 2006/07, a surplus of £800,000 was achieved against a budgeted deficit of £37,000 largely as a result of an increase in turnover in the year. Action continues to be taken to identify efficiencies and control costs to ensure the organisation continues to meet its financial objectives.

## Pension funds

79. The Council is responsible for the management and administration of two superannuation 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 as indicated by the table below:

	31/03/04 £000	31/03/05 £000	31/03/06 £000	31/03/07 £000
Tayside Superannuation Fund*	942.2	1,101.6	1,432.7	1,571
Tayside Transport Superannuation Fund	32.9	34.5	40.6	41.9

\* The Council's share of the assets at 31 March 2007 amounted to 39% of the Fund's assets.

80. A full actuarial valuation of both funds as at 31 March 2005 was reported in early 2006. Factors such as falling investment yields and increasing life expectancy have 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.

## Financial outlook

### Share of general government grant

81. The share of revenue support grant awarded to each council is underpinned by an allocation model based on Estimated Service Expenditure. Much of the methodology is unchanged between annual



settlement calculations and any changes that are required are discussed and agreed with COSLA and Local Authority Directors of Finance through the 3 Year Settlement Group. The methodology takes into account variations in the demands for services and the costs of providing them to a similar standard and with a similar degree of efficiency. It is effectively dependent on statistical measurement of a number of primary indicators of need along with factors such as rurality and deprivation.

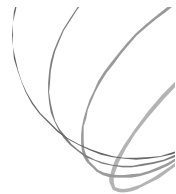
82. The impact of this methodology, based on current demographics, is that Dundee's share of any future grant increases will be considerably behind most other Councils. This is mitigated to some extent by the existing floor mechanism, which guarantees all councils a minimum rise. For example in the original settlement for 2007/08 the rise in grant without the operation of the floor mechanism was 0.81% against an average for all Scottish councils of 2.32%. The floor arrangement increased the actual rise to 1.75%.
83. Unless radical changes to the funding methodology are agreed, the Council will have to continue operating with below average annual increases in grant funding. The floor mechanism resulted in an additional £2.35 million to the Council in 2007/08, therefore, any changes to the operation of the floor mechanism would have a significant impact on annual funding increases.

## **Current budget**

84. The council's revenue budget for 2007/08 was approved in February 2007 and is based on a Band D council tax level of £1,211, unchanged from the previous year. The budget included a contribution of £1.3 million from general reserves and set aside £1.87 million for additional costs associated with the single status agreement (see below).

## **Single status**

85. In 1999 a single status agreement was reached between Scottish local authorities and trades 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 presumption that single status would be cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.
86. 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.
87. Dundee City Council has yet to implement the agreement and currently estimates that this will be in place by April 2008. While amounts have been set aside in the current and previous year's budgets, until single status is implemented the initial and continuing costs to the Council cannot be reliably estimated, representing a continuing financial risk to the Council. In securing a local agreement the



Council needs to ensure it maximises the opportunity for service and job redesign to ensure that it achieves value for money from its investment in its staff.

### Key risk area 3

## Efficient government

88. As part of the continuing drive to deliver public services more efficiently with existing resources, the Scottish Government expect public sector organisations to apply the principles of the efficient government initiative in their day-to-day operations. It aims to achieve recurring efficiency gains of £1.5 billion by 2007/08. In the case of councils, efficiency savings have 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.
89. In order to continue delivering its full range of services within the financial forecast, the Council needs to find 1.5% to 2% efficiency savings on its revenue budget per annum (£294 million budget in 2007/08). This is an increase on the 1% savings target set for service departments in 2006/07 and reflects the on-going financial pressures being experienced by the Council.
90. During 2006, councils across Scotland recognised that as part of their partnership arrangement with the Scottish Government, they had a responsibility to report efficiencies on the five key operational themes as set out in "Building a Better Scotland" (Procurement, Absence Management, Asset Management, Shared Services and Streamlining Bureaucracy) on a consistent basis. As a result, the Improvement Service was commissioned to devise a set of standard measures which would allow councils to publish unaudited efficiency statements on a common basis. Guidance was issued to all councils in May 2007.
91. The Council is aware of the national indicators developed by the Improvement Service and has included these in training sessions given on the new service planning guidance developed in 2007. Revised service plans include specific efficiency measures and plans.
92. An efficiency statement was included in the Council's annual report and highlighted savings of £1.6 million over the five operational themes and £0.3 million of other savings. The main efficiencies reported included:
- Development of the new Housing Repairs and Revenues Contact centre.
  - Rationalisation of area Housing Offices within the City.
  - Savings generated through the consolidation of customer registration processes from services through the Dundee Discovery Card/National Entitlement Card scheme.



- Procurement savings made by departments through membership of the Local Government buying consortium.

93. In 2005/06 we reported that, in line with most other councils, Dundee City did not have an effective system to evidence that efficiency savings resulted in either no loss of service for less resources or improvements to the service for the same resources. While the introduction of efficiency statements improves the information available there is still some way to go until this issue is fully addressed. In a tightening fiscal environment and in pursuance of best value objectives, there will be a continuing need to identify and release efficiencies on an ongoing basis.

#### **Key risk area 4**

### **Procurement**

94. The Efficient Government initiative includes procurement as one of five key areas for achieving efficiency improvements. The Council is an associate member of the Authorities Buying Consortium (ABC) and has started to see some benefits from a more strategic approach to procurement. ABC is committed to the establishment of a Centre of Procurement Expertise which is being developed under the Scotland Excel project.
95. The Council has bid for and secured combined Scottish Government and Scotland Excel funding of £327,000 to purchase and implement an e-procurement system and modernise its procurement function. It is anticipated that annual commodity savings will start to be reflected in the Revenue Budget 2008/09 onwards and will count towards the Scottish Government's planned efficiency savings from their strategic overhaul of Public Sector Procurement. The e-procurement system is being taken forward in conjunction with the upgrading of the Council's financial management system.
96. A Head of Procurement has been in post since September and will be responsible for driving the procurement plan 2007-11 which aims, amongst other things, to commit to continuous improvement and efficiency savings.

### **Asset management**

97. Scottish councils control land, property and equipment valued at around £22 billion. Capital assets are the second highest cost incurred by local authorities after staffing. Prior to 2004, the legislation that controlled capital investment by local government did not contribute towards good asset management. Part 7 of the Local Government in Scotland 2003 Act introduced the *Prudential Code* which gave local authorities freedom to invest as long as their capital spending plans are affordable, prudent and sustainable. The *Code* is a fundamental component of an authority's financial governance and management which requires authorities to have regard to option appraisal, strategic planning and asset management planning.



98. The Efficient Government initiative includes asset management as one of five key areas for achieving efficiency improvements. Proper asset management is a vital part of an efficient organisation and includes arrangements to ensure there are:
- strategies to reduce maintenance costs
  - proactive asset disposal policies
  - long-term capital planning and budgeting
  - robust asset management information for monitoring purposes.
99. The Council manages assets valued at £732 million. The vast majority of these are Council owned, but the Council also manages a number of common good and trust assets. Our 2006/07 Audit Risk Analysis and Plan highlighted that there is no cohesive and demonstrable approach in place at the Council to ensure that corporate strategies and objectives are supported by asset management plans in the long-term. The Council has been working towards development of a corporate Asset Management Plan (AMP) which is expected to be in place by November 2007. The corporate AMP will not include infrastructure assets as these will form part of the national highways AMP due to be completed in 2009/10 which will cover all Scottish councils.
100. Given the current development stage of both the corporate and national highways AMP, there are no indications, as yet, of any potential savings generated or increased costs likely to be incurred.

## **Pension liabilities**

101. 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. A recent Audit Scotland report on public sector pension schemes highlighted that the combined funding shortfall and unfunded liabilities of the six local government pension schemes in Scotland may be as high as £53 billion. There are proposals to amend the Local Government Pension Scheme which are designed to reduce the ongoing cost, although these have not yet been implemented.
102. In accounting for pensions, Financial 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.
103. The Council's estimated pension liabilities at 31 March 2007 exceeded its share of the assets in the Tayside Superannuation Fund by £147.331 million, reducing from £195.752 million in the previous year. The actuary was required to make a three-year assessment of the contributions that should be



paid by the employing authorities from 1 April 2006 to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions, normally 5% - 6% of salary. Budgeted contributions are expected to rise from 275% of employee contributions in 2006/07 to 315% by 2008/09, reflecting the reduction in the funding level as at 31 March 2005.

104. The next full actuarial valuation will take place in 2009/10, assessing the position at 31 March 2008. This will determine future contribution rates. Recent changes to the Local Government Pension Scheme regulations are expected to release some future financial benefits, while providing additional flexibility to future pensioners. For example, on retirement members can now elect to receive a larger lump sum payment in return for a reduced annual pension which has the effect of reducing the overall cost to the pension fund. The 2005 valuation did not make any allowance for these and they are expected to be reflected in contribution rates established following future actuarial assessments.



# Governance

## Introduction

105. In this section we comment on key aspects of the Council's governance arrangements during 2006/07. We also provide an outlook on future governance issues, including our views on potential risks.

## Overview of arrangements in 2006/07

106. 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.

## Audit & Risk Management Sub Committee

107. Effective scrutiny is central to good governance, with a significant role for councillors to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda. The Audit & Risk Management Sub Committee was reformed with new members after the May election and shows early signs of being effective.

108. Whilst we are aware that the Sub Committee covers most of the good practice principles as set out by CIPFA, to date the Council has not undertaken any formal comparison against these principles. One of the areas this would highlight is in relation to training for members of the Sub Committee. Plans are, however, currently underway to deliver the necessary training to members and, where practical, to identified substitute members of the Sub Committee.

## Internal Audit

109. The environment in which Internal Audit functions operate has changed markedly since the publication of CIPFA's Code of Practice for Internal Audit in Local Government in 2003. To ensure that the Code's requirements, which are mandatory for all local authorities and other relevant bodies under Section 95 of the Local Government (Scotland) Act 1975, continue to be fit for purpose, CIPFA's Audit Panel published a revised Code in December 2006. In general, the Code was brought in line with existing good practice and current professional standards

110. Such changes to the Code have expanded internal audit's role and status within the Council's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. Work is currently on-going to



strengthen links between the internal audit function and the risk management procedures. In addition, a review of the existing working paper structures is underway which aims to introduce a more consistent approach to recording audit assignments.

111. We carry out an annual review of the Council's internal audit arrangements and found that the function continues to be well managed, staff are experienced and competent and the work programme for 2006/07 was comprehensive. We have been able to take assurance from internal audit work in a number of areas including income collection, council tax, non domestic rates, pension fund and creditors.

## **Risk Management**

112. The Council has a Risk Management Strategic Plan in place, with the Risk and Business Continuity Manager responsible for implementing the strategy. An internal audit review of risk management during the year highlighted a number of areas for improvement, including the need to:

- ensure that risk management issues are considered prior to decisions being taken on projects and other Council initiatives with procedures being introduced to formally consult with the Risk Manager and to record the outcomes by way of a documented risk assessment
- complete the Council Risk Register and assess the adequacy of existing controls as soon as possible. The register should be subject to regular reviews to assess its completeness and suitability for management and monitoring
- continue embedding risk management within the Council, including consideration of further measures to increase staff awareness, to raise the profile of risk management within departments and to increase the accountability of Departmental Managers.

## **Systems of internal control**

113. In her annual report for 2006/07 the Chief Internal Auditor provided her opinion that, based on the internal audit work undertaken during the year, the Council's corporate governance arrangements were adequate and operating effectively.





114. 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 central systems as having a satisfactory level of control for our purposes:

- Payroll
- Housing rents
- Main accounting system
- Debtors and income.
- Creditors payments
- Council Tax
- Budgetary control

## Prevention and detection of fraud and irregularities

115. At the corporate level, the Council has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption. These arrangements include an anti-fraud and corruption policy and fraud guidelines which were updated in June 2006, a whistle blowing policy, codes of conduct for elected members and staff, and defined remits for relevant regulatory committees.

### NFI in Scotland

116. In 2006/07 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. For 2006/07 the exercise was extended to include information about tenants and councils were asked to submit further specified datasets where the risks merited their inclusion. The NFI has generated significant savings for Scottish public bodies (£27M to 2005) but, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

117. The NFI 2006/07 results (data matches) were made available to councils on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the council's involvement in NFI 2006/07 during the course of our audit.

118. The Council has demonstrated a commitment to the NFI through the processes it has put in place to ensure the quality of data downloads and the investigation of data matches. A principal accountant undertakes the primary role of co-ordinating data matches and submissions and periodic progress



reports, in line with NFI return dates, are made to the Deputy Chief Executive (Finance). We noted, however, that there is no formal reporting to members.

119. The 2006/07 exercise identified a total of 8,452 data matching results for the Council. Data matching investigation are dealt with by the relevant sections using existing resources. To date 1,020 matches have been cleared and a further 210 are under investigation.

120. The council did not take part in the invoice/creditors data matches as an extensive exercise was undertaken by Public Sector Funds Recovery (PSFR) in 2005/06. Very few erroneous payments were uncovered and this area was therefore deemed to be a low risk.

121. No savings were identified for the 2006/07 interim report, however, the Council is confident that the work in hand will identify further savings particularly in the areas of benefits and housing rents.

## **Governance outlook**

122. Overall internal control arrangements mean that the council is well placed to address future challenges, but continued work to improve risk management arrangements is required. The new Audit & Risk Management Sub Committee should review its performance in due course and ensure that it plays a full role in supporting continuing improvements to the overall governance of the council.

123. The council requires to remain vigilant against the risk of fraud and corruption, and the NFI provides an increasingly powerful tool to support efforts in this area.

124. The 2005 Best Value review highlighted that there has been little change to the Council's structure in recent years. In the changing environment within which local authorities operate consideration needs to be given to whether the current structure is the best fit for the Council to deliver its priorities and objectives. We understand that the Council is considering this as it sets out its priorities in the new Council Plan and we will monitor the impact of any changes as and when they occur.



# Financial statements

## Introduction

125. In this section we summarise key outcomes from our audit of the Council's financial statements for 2006/07. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues. 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.

126. 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 governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the Council.

## Overall conclusion

127. We have given an **unqualified** opinion on the financial statements of Dundee City Council for 2006/07.

128. The Council's un-audited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation processes and working papers were generally very good and this enabled the audit to progress smoothly. Audited accounts were finalised prior to the target date of 30 September 2007 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

129. 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 2006 SORP required a number of significant changes to be made to the 2006/07 financial statements to make them more consistent with the accounts of other public and private sector entities. These included:

- replacement of the consolidated revenue account with a traditional income and expenditure account



- a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit
- replacement of the statement of total movement in reserves with a statement of total recognised gains and losses
- similar changes to the housing revenue account
- parallel changes to the group accounts that would result in them being easier to understand and have a common format to single entity statement of accounts
- restatement of 2005/06 comparative figures.

130. Overall, we were satisfied that the Council had prepared the accounts in accordance with the revised SORP. There were a small number of adjustments made to the figures included in the un-audited accounts provided for public inspection. The net effect of this was to increase:

- surplus for the year by £0.171 million
- general fund carried forward by £0.05 million
- net assets by £0.138 million.

131. Details of the main adjustments and other significant accounting issues arising in the course of our audit are summarised below. A number of minor changes were also made to pension figures after the Council's actuary provided a revised report in July 2007.

## **Fixed Assets**

132. During the year the Council purchased the Commercial Street car park it had previously leased from Tay Road Bridge Joint Board. The £765,000 cost of this purchase was initially treated largely as a compensation payment (£755,000) for early withdrawal of the lease agreement and the balance was treated as a capital payment. Further consideration of the terms of the lease resulted in the compensation payment being adjusted to £442,000 with £313,000 being deemed capital expenditure on the acquisition of the car park. This purchase was part of the long term plans to develop the Waterfront and subsequent to the purchase the car park was taken out of operation. Following discussions with the district valuer the carrying value of this piece of land was revised from £10,000 to £90,000 with £233,000 being written off to the fixed asset restatement reserve.

133. In line with accounting requirements, the Council has introduced component accounting for capital expenditure, such as replacement windows and kitchens, on Council houses. Our review identified that the Council may not be correctly applying this capital accounting technique. At 31 March 2007, Council houses were valued at £202.2 million. Amounts spent on council house refurbishment in pursuit of achieving the Scottish Housing Quality Standard included the instalment or replacement of



components of council houses, such as heating and electrical upgrading, safety and security, kitchens and bathrooms. As these components replaced components that formed part of the 2004 council house valuation there is potentially an element of overstatement in relation to Council house assets.

134. There are a number of council houses sold during the year. However, no adjustment has been made to the carrying value of component assets to write down the associated kitchens, bathrooms etc related to these disposals. There is a risk that the Council is overstating the value of components included in houses that have subsequently been sold.

135. We have concluded that any impact on the 2006/07 financial statements would be immaterial to a reader's understanding of the accounts but we will keep under review as part of future audits. The Council should take this opportunity to review its approach to component accounting.

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

136. In line with accounting requirements, the Council discloses in its balance sheet the carrying value of "surplus assets held for disposal". The value reported at 31 March 2007 was £18 million, a slight reduction from the previous year. We have been advised by Council officers, however, that not all of the assets included within this figure are available for sale in the short or medium term and that some are currently generating rental income for the Council. It is possible that some of these assets may be used in the future to help deliver Council services. The Council has therefore agreed to review the categorisation of surplus assets in 2007/08 and it is likely that this review will result in a significant reduction in the value of assets reported under the heading "Surplus Assets Held for Disposal" in the balance sheet.

137. A Surplus Properties Group (SPG), comprising officers from all service and support service departments, was initially tasked with identifying all surplus assets and making recommendations to the Asset Management Group (AMG). However, after the AMG (now the Efficient Government Board) decided at their first meeting that the Director of Economic Development would deal with surplus properties the SPG was disbanded.

### **Common Good & Trust Funds**

138. Recognising heightened interest in the common good and associated accounting issues, which in many cases is disproportionate to the financial value of common goods funds themselves, LASAAC has prepared draft guidance on accounting for the common good fund.

139. This guidance, which is currently out for consultation, highlights a number of issues in relation to the financial management of common good funds, including some perceived concerns over the contents of asset registers relating to the common good. The assessment of LASAAC without empirical



examination, is that this may have arisen over time and is likely to have been a consequence of a number of factors, including:

- the historic nature of the common good which may encompass assets which are more than one hundred years old
- the compound effect of successive local government reorganisations
- somewhat crucially, no requirement for local authorities in Scotland to maintain formal asset registers until 1994.

140. We understand that the Council is actively reviewing the position with a view to implementing improvements in line with the draft guidance.

141. Accounting rules set out in the SORP do not directly cover common good and trust funds. Instead these funds require to be accounted for under applicable accounting standards. The Fleming Trust held assets of £4.7 million at the year end. Under Financial Reporting Standard (FRS) 15 the Council can elect to carry these on either an historic cost or current value basis, applying depreciation in accordance with the standard. These assets are held at historic cost, but are not currently depreciated.

142. When preparing group accounts consistent accounting policies need to be applied. This means that assets valued at historic cost require to be adjusted to a current value basis. As the Fleming Trust assets are included in the group accounts, their valuation basis should be consistent with the Council's for the purposes of group accounts. We have received assurances from the Head of Finance that the impact of this is not material to the results of the group, and we have accepted this. The valuation and depreciation basis will be reviewed during 2007/08.

## **Group accounts**

143. The unaudited group accounts incorporate the unaudited 2006/07 accounts of the Council's associates and joint venture. Due to accounting adjustments made to the accounts of Tayside Contracts Joint Committee the Council's unaudited group accounts figures were revised resulting in an increase in net liabilities of £178,000.

## **Legality**

144. 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.

145. Local authorities with registered charitable bodies (including relevant trust funds) are required to comply with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006. The effect of the Act and Regulations appears challenging with the volume of individual trusts under the control of some authorities as a full set of charities SORP compliant financial statements is required for each charitable trust fund.
146. The Office of the Scottish Charities Regulator (OSCR) is responsible for facilitating and monitoring compliance with the Act and Regulations. In discussion with the CIPFA Directors of Finance section, OSCR has agreed transitional arrangements for 2006/07, highlighting a wish to adopt a proportionate approach to any remedial action taken in response to breaches of the legislation. In particular it will be sufficient that the audited accounts of the Council under the local government SORP be passed to OSCR by 31 December 2007 together with a further analysis providing a breakdown of the accounts of each registered charitable body. Discussion is continuing in relation to arrangements for the future transition toward full compliance with the requirements of the Act and Regulations.
147. There are no additional legality issues arising from our audit which require to be brought to members' attention.

## **Financial reporting outlook**

148. Overall the Council is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It has a record of responding positively to audit issues and to changing accounting rules.
149. Work will be required to improve arrangements in a number of specific aspects of accounting practice in relation to fixed assets including the application of component accounting, identification of surplus assets, improving accounting arrangements for common good and charity assets, including valuation of Fleming Trust assets for group account purposes.
150. The requirements of newly introduced charities legislation are onerous in terms of enhanced accounting disclosures. While the Regulations provide some scope to rationalise existing charitable trust arrangements, significant effort will be required to ensure that the Council complies fully with legal requirements in future financial reporting in relation to its registered charitable trusts. In the interim it is essential that the Council maintains a continuing dialogue with OSCR and meets the requirements of any transitional arrangements that may be agreed.



## **Changes to the 2007 SORP**

151. Amendments have been made to the 2007 SORP to incorporate the requirements of new accounting standards on financial instruments (FRS 25 and FRS 26). This will require any premium or discount on loans that have been re-scheduled to be charged to income and expenditure in the year it is incurred rather than being written off over the period of the replacement loan, which can be up to 40 to 50 years. The Scottish Government has issued statutory guidance which mitigates the impact on council tax by permitting authorities to reverse the entries in the statement of movement on general fund balance and replace an amount writing-off the premium or discount over the life of the replacement loan. However, the statutory guidance restricts the write-off period where replacement debt is a variable interest loan, or has an option or condition which allows the lender to vary the interest rate (known as LOBOs), to a maximum of 20 years.
152. The effect of this change will be to significantly increase the annual charge to the income and expenditure account in the year that any future loan restructuring takes place, with an adjustment being made to the charge to the general fund. Where the replacement debt is subject to a variable interest rate or is a LOBO the annual charge to the general fund will typically be greater than currently experienced (broadly about twice as much). In other cases there will be no change to the impact on the general fund compared to current practice. Existing balances may continue to be written off over current periods.
153. From 1 April 2007 the Fixed Asset Restatement Account and Capital Financing Account will be replaced by a Revaluation Reserve and a Capital Adjustment Account respectively. It should be noted that this change will be a change of accounting policy and will require a prior year adjustment. Appropriate steps should be taken in preparation for this change that will impact on the 2007/08 financial statements

## **International Financial Reporting Standards**

154. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IFRS) with effect from 2008/09. The government also announced its intention to publish whole of government accounts on an IFRS basis from 2008/09.
155. After discussion, CIPFA/LASAAC has agreed for 2008/09 to continue to adopt IFRS within the SORP through the application of UK GAAP. It is considered that the accounts are likely to be materially similar to those prepared under IFRS because the SORP has been following the Accounting Standards Board's international convergence agenda. This option also allows for consideration of the long term future of the due process for the development and maintenance of proper accounting standards for local government.





156. CIPFA/LASAAC will also work with the Treasury to ensure that consolidation information, appropriate to the sector, is available in 2008/09 for local government whole of government accounts.

157. A move toward full IFRS compliance is anticipated in 2009/10. Any future move to IFRS in local government is likely to have a significant impact in two primary areas:

- Accounting for fixed assets, particularly in relation to infrastructure and heritage assets. The first significant practical implication is that councils will need information systems to identify sufficient data, such as road lengths, to support new valuation models to be used in whole of government accounts from 2008/09. Comparative information will be required as at 31 March 2008.
- Accounting for Public Private Partnership (PPP) schemes.

158. Existing IFRS do not address PPP accounting in the public sector, although they do address how these transactions should be accounted for in the private sector. The existing accounting practice in the public sector is significantly different from that indicated in the IFRS for the private sector. Current practice is based on an assessment of relative risk borne by either party to the PPP contract. The IFRS is based on who controls the services to be provided, to whom and at what price; and who controls the residual interest at the end of the PPP. The Treasury is considering the appropriate form of accounting for the public sector side of PPP transactions over the summer and expect to bring proposals to the Financial Reporting Advisory Board in the autumn.

159. Looking ahead, if IFRS principles are applied in the public sector then many PPP assets may well be brought onto public sector balance sheets.



# Final Remarks

160. Attached to this report is an action plan setting out the key risks identified in the course of this year's 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.

161. Appropriate mechanisms should be considered and agreed by members for monitoring the effectiveness of action planned by officers. We will review the implementation of agreed actions in the course of future audits.

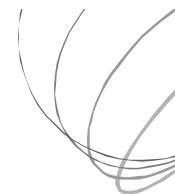
162. The co-operation and assistance given to us by Dundee City Council members and staff is gratefully acknowledged.



# 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	21	<p><b>Reliability of performance information</b></p> <p>Our review of the reliability of the Council's arrangements to prepare Statutory Performance Indicators (SPIs) identified that while overall the quality of working papers provided to support the SPIs was adequate, there was scope for improvement.</p> <p>Given the increasing role that corporate and departmental performance scorecards will play it is important that appropriate arrangements are in place to ensure that quality and reliability of the information reported.</p> <p><b>Risk: Performance measures used by the Council and reported publicly are unreliable.</b></p>	<p>New assurance sheets will be issued to Departments by the Head of Finance, aimed at improving the overall reliability of SPIs. These will also be discussed with departmental SPI co-ordinators and other relevant staff.</p>	Head of Finance	31 March 2008
2	47	<p><b>School capacity</b></p> <p>The December 2006 HMIE report "<i>Inspection of the education functions of local authorities – Dundee City Council</i>" noted that the decreasing trend in population created challenges for the Council, for example, in addressing the over-capacity in its schools.</p> <p>Whilst this was beginning to be addressed through the Council's PPP programme, it could impact on the Council's ability to demonstrate best value in its educational expenditure.</p> <p><b>Risk: Assets are not being effectively and efficiently managed and potential savings are not being realised.</b></p>	<p>School rolls do not decrease proportionately in line with population and take time to impact on school assets held by the Education Department. We would also need to consider the implications of the Scottish Government's aspiration to reduce class sizes in P1 - P3.</p>	Director of Education	2011



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	87	<p><b>Single status</b></p> <p>The Council remains to implement the single status agreement.</p> <p><b>Risk: Initial and continuing costs are considerably in excess of expected levels.</b></p> <p><b>Industrial relations difficulties restrict the ability to deliver on key objectives.</b></p> <p><b>The Council may be judged to be contravening the equal pay act.</b></p>	<p>The Single Status Agreement will be implemented by 1 April 2008.</p>	<p>Assistant Chief Executive (Management)</p>	<p>1 April 2008</p>
4	93	<p><b>Efficiency programme</b></p> <p>In a tightening fiscal environment and in pursuance of best value objectives there is a need to identify and release efficiencies on an ongoing basis.</p> <p><b>Risks: the Council is unable to achieve the efficiencies necessary.</b></p> <p><b>It is unclear the extent to which savings comply with definitions of efficiency.</b></p> <p><b>Savings achieved impact on service quality and outputs to a greater extent than intended.</b></p>	<p>The revised guidance on Service Planning contains specific references to identifying and recording efficiencies.</p> <p>In addition, the recently approved Council Plan for 2007-2011 contains various references to the Council's efficiency plans, including :</p> <p>1) prepare an annual efficiency statement and forecast based on projects proposed to deliver efficiencies</p> <p>2) deliver a corporate procurement strategy that includes more joint procurement and efficient processes</p> <p>3) develop a programme that applies whole system thinking (lean service) principles to service reviews</p>	<p>Head of Finance</p> <p>Depute Chief Executive (Finance)</p> <p>Assistant Chief Executive (Management)</p>	<p>June 2011</p> <p>May 2009</p> <p>2011</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	135	<p><b>Component accounting</b></p> <p>In applying component accounting to capital expenditure on housing in areas such as replacement windows and kitchens, no adjustment has been made to the carrying value of asset values or to the component element for subsequent disposals.</p> <p><b><i>Risk: the carrying value of council houses is overstated.</i></b></p>	<p>This matter will be reviewed by the Final Accounts Working Group and appropriate guidance will be issued prior to work commencing on the Council's 2007/08 accounts.</p>	<p>Head of Finance</p>	<p>31 March 2008</p>