

Dundee City Council

**Report to Members and the Controller of Audit
on the 2009/10 Audit**

October 2010



 AUDIT SCOTLAND



Dundee City Council

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on the 2009/10 Audit**

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Key Messages

We have given an unqualified opinion on the financial statements of Dundee City Council. The accounts were certified by the target date of 30 September. They are now available for publication and are an essential means by which the council accounts for its stewardship of public money.

Overall the council's spending was within the budget set. The council made significant savings on the budget for loan interest and costs.

Uncommitted general fund balances at year end were £7.4 million with a further £2.1 million earmarked for specific purposes. The overall level of cash backed reserves has fallen since 2006/07 reflecting the increasing pressure on the council's finances. Reserve levels provide some scope to manage the overall financial position in the short-term but limited opportunity to manage any significant reductions in income and recurring expenditure pressures.

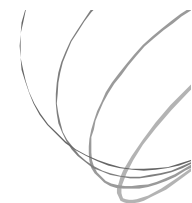
We were satisfied with the disclosures made in the annual governance statement and the process put in place by the council to obtain assurances on systems of control. We assessed key financial systems as having a satisfactory level of control for our purposes.

A pathfinder BV2 audit was concluded in March 2010. We found that the council needs to improve more quickly and that it has fair prospects for future improvement.

Outlook

The financial challenges facing the Scottish public sector are well documented. There remains uncertainty about what the financial implications for Dundee City Council will be and the settlement for local government is not likely to be finally known until early 2011. Although the council has identified some in-year savings much work still remains to be done to ensure that it can balance its budget in future years. The most recent assessment is that aggregate savings of £45 million (12.4% of the revenue budget) will be required by 2013/14. Savings of £5.3 million have already been agreed, with the requirement for further savings of £39.3 million set out in the 'Changing for the Future' report. Decisions on future budgets have yet to be made.

In establishing its financial plans the council has made an allowance for a range of inflationary and other cost pressures and considered the extent to which new developments, priorities and responsibilities can be funded. Moving forward it is important that the council has a clear understanding of what its spending priorities are, developing these in partnership with other public sector organisations where appropriate. The immediate challenge is to balance the 2011/12 budget – particularly given the extent to which cuts are frontloaded - but this needs to be achieved in a manner that best supports the council's overall objectives



and priorities. Real terms grant reductions are expected to continue until 2015/16 on current projections, and the council will continue to face tough decisions about spending and priorities.

At present the council does not have a corporate strategy for managing all assets and linking asset management and financial planning. Corporate asset management covers only a small proportion of the total asset base. Asset management plans have been produced for a number of services, but these are disjointed and reactive. The wider economic situation also has serious implications for the management of the council's property portfolio, making it difficult to capitalise on surplus assets or maximise rental income. The council was assessed as 'non -conformant' in the annual procurement capability assessment, and there is scope to do more to deliver savings from this area.

Reducing spending on staff will need to be a key component of the way in which the council responds to the challenges it face. The speed at which spending reductions are required may mean that some pragmatic solutions need to be adopted in the short term. This will need to be balanced with the need to ensure that the council has the right people in the right place to take forward its strategic objectives and priorities, and that any up-front costs represent best value for money. The council has recently operated two voluntary early retirement/redundancy schemes as part of its cost saving measures (one for teaching staff and one for other council staff). A robust corporate workforce plan would, however, support the council by identifying its workforce needs and allowing it to target the most appropriate areas for workforce reduction.

Effectively managing the council's performance will remain a key challenge as council budgets are reduced. It is unlikely that the council will be able to maintain or improve current performance levels across all of its existing services, and it will need to make difficult decisions about what areas are seen as priorities and in which areas will service levels need to be reduced. Crucially, the council will need to use its performance information to understand and manage the effect of spending decisions.

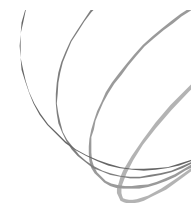
In June 2010, we submitted our final shared risk assessment and assurance and improvement plan (AIP) to the council. This document was produced by the local area network of scrutiny bodies and describes the work planned on corporate activities over the next three years. The local area network is led by Audit Scotland and we shall keep the council up-to-date with any changes to the AIP.

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



Introduction

1. This report is the summary of our findings arising from the 2009/10 audit of Dundee City Council (the council) and other relevant work carried out by Audit Scotland. A number of detailed reports have already been issued in the course of the year in which we make recommendations for improvements (see Appendix A). We do not repeat all of the findings in this report. Instead we focus on the financial statements and any significant findings that have arisen from our review of the management of strategic risks.
2. The report uses the headings of the corporate assessment framework, which we and the other scrutiny bodies used as the structure for the recent shared risk assessment and assurance and improvement plan (AIP) (<http://www.audit-scotland.gov.uk/work/scrutiny/docs/Dundee.pdf>). Where relevant, we comment on issues identified in the AIP for investigation or monitoring by the local auditor.
3. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are:
 - Improving public sector efficiency.
 - Overview of local government in Scotland 2009.
 - Protecting and improving Scotland's environment.
 - Scotland's public finances – preparing for the future.
 - Making an impact – overview of best value audits 2004-09.
 - Roles and working relationships – are you getting it right?
4. All of these reports have been sent to the council for consideration and we do not consider them in this report. They are available on our website www.audit-scotland.gov.uk.
5. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *Planned Management Action*. We do not expect all risks to be eliminated or even minimised. What we are expecting to see is that the council understands its risks and has in place mechanisms to manage them. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to be duly assured that the proposed action has been implemented, and is effective.



6. This report is addressed to members and the Controller of Audit. It will be published on our website after consideration by the council. The Controller of Audit may use the information in this report for his annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and it is also presented to the Local Government and Communities Committee of the Scottish Parliament.



Financial statements

Introduction

7. In this section we summarise key outcomes from our audit of the council's financial statements for 2009/10, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.

Audit Opinion

8. We have given an unqualified opinion that the financial statements of Dundee City Council for 2009/10 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
9. The council's financial statements include an Annual Governance Statement, which sets out the findings from the council's review of the effectiveness of its governance systems. This statement is recognised as good practice by the CIPFA publication *Delivering Good Governance in Local Government*. Overall we were satisfied with disclosures made in the Annual Governance Statement.
10. We were also generally satisfied with the process put in place by the council to obtain assurances on the governance systems, which included a review by services of their governance arrangements against the practices identified in *Delivering Good Governance in Local Government*. As part of this process service Directors are required to sign a declaration about their service's arrangements. However, not all service Directors provided the signed declaration for 2009/10.
11. Where an authority has group relationships through which it undertakes significant activities, these activities should be brought within the scope of the Statement. The council's Statement focuses on the wider governance arrangements within Dundee City Council and in terms of other group entities, reporting is restricted to the effectiveness of their internal financial controls. The council should give consideration to extending the wider governance assurances to group entities.
12. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Final accounts preparation procedures and working papers were good and this enabled the audit to progress smoothly.
13. The accounts were certified by the target date of 30 September 2010 and are now available for presentation to members and publication. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.



Accounting issues

14. 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). With effect from 2010/11, local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS). Because local government has already adopted some aspects of IFRS, we expect the transition to be fairly smooth, but there are still significant issues to be addressed.
15. The council has made progress in the transition to IFRS accounting. In line with other Scottish local authorities the council appointed CIPFA/PwC in partnership as IFRS transition consultants. An IFRS opening balance sheet for 2009/10 has been prepared and, in line with good practice, the council also requested that we review this in advance of the 2010/11 financial statements. We have carried out this review and have discussed our findings with officers.
16. The 2009 SORP requires that some elements of IFRS accounting are to be adopted early, in 2009/10. In accordance with this requirement the council has amended its opening balance sheet and the comparative information in the financial statements to reflect changes required in the Accounting treatment of PFI contracts.
17. This year councils have to account for Private Finance Initiative (PFI) projects on an IFRS basis. Dundee City Council has one such project. Under IFRS requirements, if it is considered that the council has control of a PFI/PPP asset, then the asset should appear on the council's balance sheet. Examples of control include specifying the services to be provided from a particular asset, and regulating the price paid for the services. As a result, it is deemed that the council does exert the necessary control aspects and accordingly the schools assets have been added to the council's balance sheet for 2008/09. The schools PFI valuation of £66.3 million is now included in the council's balance sheet, together with associated liabilities of £60.3 million, resulting in an increase in net assets of £6 million. The net impact on the on the restated 2008/09 income and expenditure account in relation to these schools was to reduce net operating costs by £2.5 million.
18. The council has adjusted the financial statements to reflect audit findings. As is normal practice, immaterial unadjusted errors have been reported to the Director of Finance and the members of the Scrutiny Committee.
19. The SORP states that *“The purpose of the foreword is to offer interested parties an easily understandable guide to the most significant matters reported in the accounts. It should provide an explanation in overall terms of the authority's financial position, and assist in the interpretation of the accounting statements, including the Group Accounts. It should also contain a commentary on the major influences affecting the authority's income and expenditure and cash flow, and information on the financial needs and resources of the authority”*.



20. The council, through the Foreword by the Director of Finance, provides a comprehensive financial commentary to assist the understanding of the financial statements by users of the accounts. The impact of the economic climate is referred to at the end of the Explanatory Foreword. The commentary could have been enhanced with more detail, in particular giving a wider range of specific examples of where and how the economic climate and the reduction in available funding has impacted significantly on the accounts. Looking ahead, the Foreword provides a valuable opportunity to explain the implications of reduced funding and set out how the council has managed this.

Audit testing

21. As part of our work, we took assurance from a number of the council's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:

- Payroll
- Housing rents
- Main accounting system
- Accounts receivable
- Accounts payable
- Council tax
- Non-domestic rates
- Pensions.

22. Last year we reported a number of weaknesses in the council's cash management arrangements. During our work on the financial statements we confirmed that some progress had been made. We will undertake a full implementation review in 2010/11.

Group accounts

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

24. The council has interests in a total of seven associates, joint ventures and joint arrangements:

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

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



26. The Group Balance Sheet at 31 March 2010 has an excess of liabilities over assets of £59.161 million due to the accrual of pension liabilities in accordance with Financial Reporting Standard (FRS) 17 (retirement benefits). The Group net worth reflects both the FRS 17 liability for the council and for the unfunded pension schemes in its associate bodies, Tayside Joint Police Board and Tayside Fire and Rescue Board. The Council and its group have adopted a 'going concern' basis for the preparation of the financial statements as future actuarial valuations of the pension fund will consider the appropriate employers' rates to meet the funds' commitments.
27. To comply with recommended accounting practice, accounting policies within the group for significant items, such as pension costs and the valuation of fixed assets, should be aligned with those of the council. Plant and Equipment leased to Dundee Energy Recycling Limited (DERL) is recognised on the balance sheet of both DERL and the council on different bases and an adjustment was made to compensate for this in the group accounts. The introduction of IFRS will require the council to review how it accounts for all leases.

Trust funds

28. Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. This means that a Trustees' Annual Report, including a full set of financial statements, is required for each trust fund. However, the Office of the Scottish Charities Regulator (OSCR) has deferred the date of full implementation until 2010/11. This means that reliance can be placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.
29. The council acts as trustees for 33 charitable trusts and endowments of which 29 are registered as charities with OSCR. The council has indicated that it may prove difficult to make the necessary resources available to prepare an individual Trustees' Annual Report for each fund in 2010/11 as required by the Regulations. Work is in hand with the legal department to rationalise/combine trusts and in the long term this will facilitate reporting but it is unlikely that there will be any marked reduction in numbers by next year.

Common good fund

30. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The guidance requires the common good fund to be disclosed within the financial statements and a separate common good asset register to be in place by March 2009.
31. A separate account for the common good is disclosed in the council's financial statements. Assets totalling £3.356 million have been included in the Common Good Accounts. These represent the investments held by the common good funds. The guidance says that local authorities should take reasonable steps to ensure that common good fixed asset registers support the assets shown in the



common good balance sheet. The only assets currently held on the Common Good Fund relate to investments. Further, when any asset is identified for disposal by the council the title deeds are checked to see if there are any conditions or burdens attached to the property. This would indicate whether or not it is an asset of the common good fund, enabling appropriate action to be taken. The council's view is that reviewing the title deeds at point of sale represents reasonable steps for maintaining the fixed asset register - a title deeds search of all council assets would be time consuming and expensive and as such would not represent best value.

32. We are content that the approach adopted does not present any significant risk of material misstatement of the council's accounts or that of its group. The council should, however, keep its approach under review to ensure that it fully supports its responsibilities for the stewardship of common good assets.

Legality

33. Through our planned audit work we consider the legality of the council's financial transactions. In addition the Director of Finance confirmed that, to the best of her knowledge and belief, and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

Compliance with International Financial Reporting Standards (IFRS)

34. As noted above, the council has been working to prepare a shadow set of IFRS-compliant statements, in preparation for full implementation in the 2010/11 financial statements. Overall the council has made progress in this area. However, there are a number of key issues that most councils have yet to address:
 - restate the 2009/10 accounts on a full IFRS basis
 - prepare a framework for the preparation of the 2010/11 accounts
 - ensure that appropriate information systems and processes are in place to support component accounting
 - ensure that all leases have been reviewed and are correctly accounted for.
35. The Scottish Government is currently in discussion with local government about areas where statutory adjustments are required to mitigate the impact on the general fund.

Action plan 1



Pension funds

36. The Scottish Government is consulting on the requirement for a separate pension fund audit from 2010/11. This is a significant change from the current approach, where the pension fund accounts are audited as part of the administering council's audit. Audit Scotland, working with officers and committees, have already started to separate the internal and external planning for the pension fund from the administering authority and shall further refine our audit approach following the outcome of the consultation.

Action plan 2

Carbon trading

37. From April 2010 a new and complex system for charging for carbon emissions was introduced. The October 2010 Comprehensive Spending Review states that the system is to be simplified to reduce the burden on businesses. The council will be reviewing its approach to the use of allowances under the scheme once further information is available.
38. In April 2009 the Policy and Resources Committee approved the council's Carbon Management Plan 2009-2013 which presents the scope, timescales, targets and actions over this period. The Plan aims to reduce carbon emissions by 10% by 2013 and identifies potential cost savings of £5.25m associated with these projects. The plan also provided for interim and annual progress reports. However, the council has yet to receive and consider these.



Use of resources

Financial results

39. In 2009/10, Dundee City Council spent £662 million on the provision of public services. £591 million was on revenue services and £71 million on capital projects. The council's net operating expenditure in 2009/10 was £407.4 million. This was met by central government and local taxation of £348.7 million, resulting in a deficit of £58.7 million for the year on the income & expenditure account, 1.5% of the net expenditure for the year.
40. As the council is required to set the council tax on a different accounting basis this deficit is subject to further adjustments. The main adjustments are to ensure that capital investment is accounted for as it is financed rather than when fixed assets are consumed, and that retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as future benefits are earned. The impact of these adjustments in 2009/10 is to reduce the deficit by £58.6 million meaning that general fund balances of £0.1 million were used during the year. A further £2.1 million was appropriated to the general fund from other cash backed reserves, including £1.5 million from the capital fund to cover debt repayments, meaning that the general fund increased by £2.0 million during the year.
41. While the general fund surplus or deficit is a key measure in managing the council's annual budget the income and expenditure position indicates the underlying level of resources the council has consumed or built up during the year. The effect of this will ultimately impact on future revenue and capital budgets as assets are maintained and replaced and pension commitments met.
42. The budget set for 2009/10 was based on a Band D council tax level of £1,211 with planned contributions of £4.3 million from reserves. Overall, therefore, the council spent around £4 million less than planned principally due to significant savings on interest costs (£2.5 million) and reduced pension contributions (£1.1 million).
43. The council made significant savings on the budget for loan interest and costs. As the public sector enters a period of significant financial constraint it is likely that interest budgets are likely to be under significant pressure, reducing the scope to use these areas to help manage the overall financial position of the council.

Financial position

44. Exhibit 1 shows the balance in the council's funds at 31 March 2010 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets. At 31 March 2010, the council had total cash-backed funds of £21 million, a



decrease of £6 million on the previous year. The decrease is largely due to the utilisation of capital funds towards the new Dundee House.

Exhibit 1

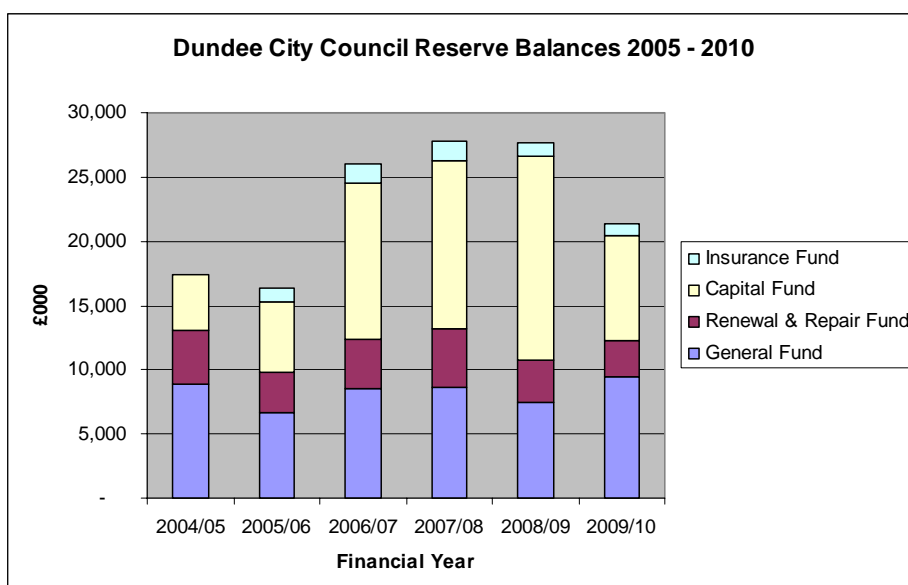
Reserves

Description	31 March 2010 £ Million	31 March 2009 £ Million
General Fund	9.5	7.4
Capital Fund	8.1	15.9
Repair and Renewal Fund	2.9	3.3
Insurance Fund	0.9	1.0
	21.4	27.6

45. The general fund increased by £2 million during the year to a balance of £9.5 million which equates to 2.5% of the council's net annual expenditure. Of this balance £2.2 million has been earmarked for existing expenditure commitments (£0.6 million), the devolved education management balances held by individual schools (£0.2 million), car parking (£0.6 million) and supporting the council tax (£0.8 million). The council's reserves policy does not specify a minimum level of balances but requires the Director of Finance to review the reserve position annually when setting the budget.

Exhibit 2

Dundee City Council cash backed reserves





46. Setting aside the capital fund which is being used to finance Dundee House ,the council has managed its overall financial position tightly over the past five years. and reserve balances have remained relatively stable. The council has seen increasing financial pressure while it has managed its overall financial position during this period. Reserve levels provide some scope to manage the financial position in the short term, should this be required, but the council has limited opportunity to use its balances to manage any significant reductions in income and recurring expenditure.
47. Exhibit 3 provides some information about the council's financial position compared to other Scottish mainland councils.

Exhibit 3

Financial position indicators

Ratio	Description	Dundee City Council		All mainland Councils
		2008/09	2009/10	2009/10
Working capital (Current assets as a ratio of current liabilities)	This is an indicator of the council's ability to pay its current liabilities in the short term.	95%	71%	33% - 191%
Useable reserves as a percentage of general revenue expenditure	This shows the proportion of revenue expenditure that could be met from reserves.	6.6%	5.3%	3.7% - 19.6%
Long term borrowing compared to tax revenue	This ratio illustrates the proportion of a council's tax related income that would be needed to pay off long term debt.	275%	270%	107% - 295%
Long term assets as a percentage of long term borrowing	This gives an indication of the ability to borrow to replace or repair assets.	405%	411%	200% - 755%

48. These ratios indicate the liquidity and financing position of the council. In making comparisons between councils, there are a number of factors which affect the indicators. These include the asset management arrangements, (e.g. housing stock transfers) and financial strategies. We have compiled this information for the first time this year and it establishes a starting point to enable the council's financial stability to be monitored in the future. The council should consider whether the ratios indicate any areas for further consideration within the context of its financial strategies.

Group balances and going concern

49. The overall effect of inclusion of all of the council's subsidiaries, associates and joint ventures on the group balance sheet is to reduce net assets by £413 million, mainly because of pension liabilities.



50. 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 2010 due to the accrual of pension liabilities. In total these deficits amounted to £910 million (2008/09 £561 million), with the council's share being £425 million (2008/09 £261 million). All group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.

Capital performance 2009/10

51. The council's prudential indicators for 2009/10 were set in February 2009. Net capital expenditure in 2009/10 totalled £71million, an increase of £25 million from 2008/09 and £5.6 million less than budget. The shortfall is mainly due to slippage in the capital programme, the most slippage occurring in relation to the housing refurbishment projects and an underspend of £1.4 million on completion of the Kingspark Special School project.

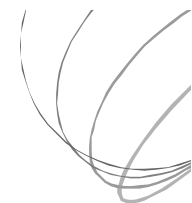
Exhibit 4

Sources of finance for gross capital expenditure 2005/10

	2005/06 Actual £M	2006/07 Actual £M	2007/08 Actual £M	2008/09 Actual £M	2009/10 Actual £M
Borrowing	25.4	28.4	15.1	23.3	41.0
Fixed Asset Disposal	10.0	14.0	14.8	4.8	9.5
Government Grants	16.6	15.9	20.0	20.0	20.1
Revenue	2.2	3.1	1.4	*(2.7)	0.7
Other	0.3	0.3	0.3	0.7	0.1
Total	54.5	61.7	51.6	46.1	71.4

* - income due to receipts against capital projects financed from revenue

52. The trend in capital investment and sources of funds is reflected in exhibit 4 which shows a decline in the funds from disposal of fixed assets and trend towards increased borrowing as funds from other sources decline. The council has some significant capital projects on the horizon and will need to ensure that any future borrowings remain affordable and sustainable as it seeks to make substantial reductions in its expenditure over the next few years. Government finance has increased mainly due to extra funds received as part of the concordat agreements and specific funding for various capital initiatives.

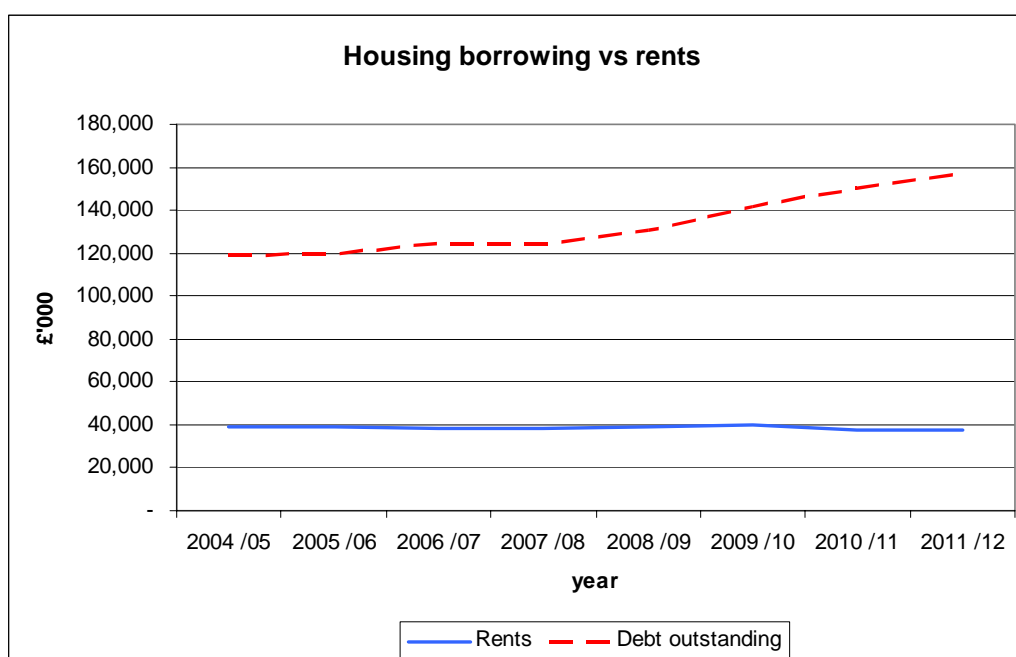


Treasury management

53. As at 31 March 2010, the council held cash and temporary investments totalling £13.8 million, a drop of £22.5 million from the prior year total of £36.3 million. This was largely due to debt restructuring early in 2009/10, when the council repaid debt of some £21.5 million.
54. The current economic climate means that interest rates on investments are low – the council received £0.8 million in investment income this year compared to £3.4 million last year. Borrowing rates are also low. The Council has more than 90% of its debt at fixed rates and the average cost of external borrowing for the entire loans portfolio was 5.7%. Through investment income and internal borrowing the Council was able to reduce its actual interest rate to 4.74%
55. As at 31 March 2010, the council's borrowing totalled £415.7 million, an increase of £32.8 million from the prior year total borrowing of £382.9 million. Of this increase, £25.2 million related to new PPP school debt and the remaining £7.6 million relates to net new borrowing in the year.
56. Although the council takes a prudent approach to general fund borrowing and investments, borrowing undertaken to fund housing stock improvements is increasing from already high levels. Housing debt makes up 40% of the council's debt. Decreasing housing stock coupled with increased borrowing to fund delivery of the Scottish Housing Quality Standard (SHQS) and relatively flat housing rents mean that housing revenue account debt as a multiple of rents has increased from a factor of 3 in 2004/05, to a projected factor of 4 by 2011/12, (as shown in exhibit 5 below). The council will need to keep the affordability of its current approach under review.

Exhibit 5

Housing debt versus of rental income





Pension funds

57. The council is responsible for the management and administration of two pension funds: the Tayside Superannuation Fund and the Tayside Transport Superannuation Fund. The investment assets for both funds are under the management of external fund managers. The value of the investment assets are illustrated in exhibit 6.

Exhibit 6

Pension Fund Investments

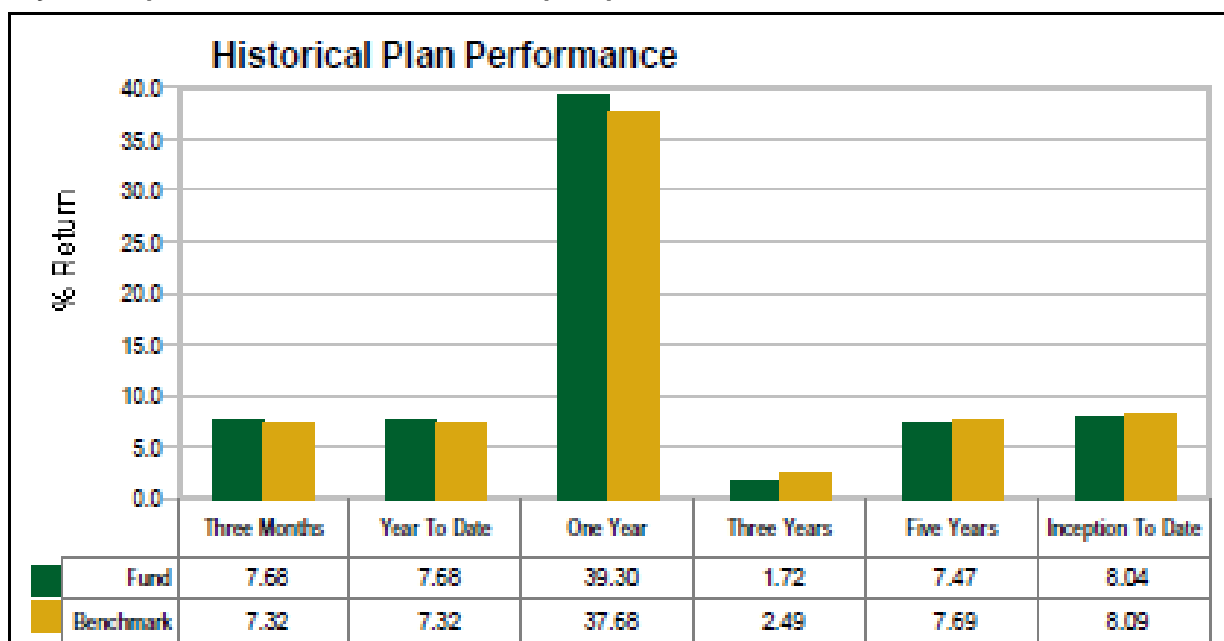
	31/03/06 £000	31/03/07 £000	31/03/08 £000	31/03/09 £000	31/03/10 £000
Tayside Superannuation Fund*	1,433	1,571	1,544	1,241	1,749
Tayside Transport Superannuation Fund	40.6	41.9	40.0	32.7	42.3

* The council's share of the assets at 31 March 2010 amounted to 38% of the Fund's net assets.

58. By the end of 2009/10, indications were that the worst of the global financial and economic crisis had passed. Low interest rates supported a rally in markets. All major asset classes rose significantly and improved manufacturing, economic and consumer confidence data suggested the world economy was recovering, although concerns remain over the sustainability of the recovery. This has resulted in the total investment value of the pension fund increasing during 2009/10. However, the dynamic nature of the current market does not lend itself to a reliable long term estimate of asset values.

Exhibit 7

Tayside Superannuation Fund – historical plan performance





59. Exhibit 7 summarises the performance of the fund over its history. In 2009/10 the fund returned 39.3% compared to a benchmark of 37.68% showing an improvement on recent years when the fund has underperformed against the benchmark. The challenge of maintaining this improvement in the current economic climate should not, however, be underestimated.
60. The long term impact of these fluctuations will be monitored on an ongoing basis by the council. The effect on the asset values of the pension fund and the future outlook for employer's contributions was assessed at the triennial valuation of the pension fund as at 31 March 2008. The result was a slight reduction in employers' contribution for 2008/09 to 2010/11 from 315% to 310%.
61. In establishing contribution rates the actuary is required to have regard to the existing and prospective liabilities of the fund and to the desirability of maintaining as constant a rate as possible. Actuarial figures included in the accounts are based on data provided by the council during the year which is projected by the actuary using a number of assumptions and rates, for example, demographic assumptions, estimated investment returns, estimated liabilities, price and salary increases, to calculate the required contribution rates to meet future liabilities. We are not aware of the council undertaking any confirmation that the assumptions applied are appropriate to local circumstances. We would highlight that actuarial reports are only advisory and the council should confirm it is satisfied with the assumptions/rates used in these reports.

Action plan 3

Outlook

Financial planning

62. The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. In June 2010 the new UK Government set out an Emergency Budget, planning for a period of significant fiscal consolidation. It immediately implemented £6 billion of UK budget reductions. The Scottish Government agreed that it would defer its share of these 2010/11 cuts (estimated and £332 million) until 2011/12, and will have to implement these alongside continuing reductions in the Scottish budget.
63. There remains uncertainty about what the financial implications for Dundee City Council will be. The UK government published its comprehensive spending review on 20 October and the Scottish Government will publish the results of its own review in late November. A key issue will be the extent to which some priority services, particularly health, may be protected from budget reductions. The settlement for local government is not expected to be finally known until the early part of 2011. Negotiations are continuing, but Scottish Government ministers have announced proposals to extend the council tax freeze.



64. While recognising this uncertainty, all Scottish councils have been working with the Centre for Public Policy and the Regions (CPPR) to estimate the potential impact on the government funding they receive. This provides a basis for financial planning and understanding the level of savings that they will require to make to balance future budgets. Current projections are that a 14% real terms reduction will be experienced over 2011/14, heavily weighted toward 2011/12 reflecting the deferral of 2010/11 cuts.
65. The council has acted in response to the financial challenges it faces and has made early progress in addressing these. In setting its 2010/11 budget the council agreed to freeze its council tax, identifying savings of £5.3 million to meet known spending pressures and planned growth. The most recent revenue monitoring statement anticipates an overspend of £0.468m on the revenue budget, with the Housing Revenue Account revenue budget set to break even, although the council is making continuing effort to curtail spending and ensure planned saving levels are delivered.
66. The council's *Changing for the Future* strategy aims to support the delivery of savings options through, voluntary early retirement/redundancy schemes, departmental savings submissions of 5%, a corporate improvement programme and the Tayside Collaborative Opportunities programme (with the other Tayside councils). Its most recent assessment is that aggregate savings of £44.7 million will be required by 2013/14. Although the council has through its budget setting process identified in-year savings of £5.3 million for 2010/11 much work still remains to be done to ensure that it can balance its budget in future years.
67. As well as addressing the anticipated reduction in funding, councils also have to manage a range of cost pressures and consider the extent to which they can fund new developments, priorities and responsibilities. In establishing its financial plans the council has made allowance for these factors. This means that savings targets need to be greater than would be required to simply offset the anticipated reduction of grant.
68. Moving forward it is important that the council has a clear understanding of what its spending priorities are, developing these in partnership with other public sector organisations where appropriate. The immediate challenge is to balance the 2011/12 budget – particularly given the extent to which cuts are frontloaded – but this needs to be achieved in a manner that best supports the council's overall objectives and priorities. Real terms grant reductions are expected to continue until 2015/16 on current projections, and the council will continue to face tough decisions about spending and priorities.

Asset Management

69. The pressure to get the best out of the council's asset base and the money that is invested in it is greater than ever in the current financial circumstances. Effective management of council assets is essential to help the council achieve its objectives and priorities, while getting best value from its reducing resources. The wider economic situation also has serious implications for the management



of the council's property portfolio, making it difficult to capitalise on surplus assets or maximise rental income.

70. In 2009, we published *Asset Management in Councils*. This national study found that strategic asset management was not well developed in most councils. For Scottish councils as a whole, over a quarter of all properties were in poor condition and slightly less than that were not suitable for the services being delivered from them.
71. The recent slowdown in capital receipts is expected to continue, this together with the financial constraints being imposed on the public sector will limit the council's capacity to fund capital projects. Corporate asset management processes are poorly developed and there is evidence to suggest that the council is struggling to maintain an appropriate and fit for purpose asset base. A best value review of asset management is a component of the Corporate Improvement Plan, but at present the council does not have a corporate strategy for managing all assets and linking asset management and financial planning. Corporate asset management covers only a small proportion of the total asset base, asset management plans have been produced for a number of services, but these are disjointed and reactive.

Action plan 4

Managing people

72. The significant reduction in funding in the years ahead will clearly have implications for the council's workforce. Reducing spending on staff will need to be a key component of the way in which the council responds to the challenges it faces. The speed with which spending reductions are required may mean that some pragmatic solutions need to be adopted in the short term. This will need to be balanced with the need to ensure that the council has the right people in the right place to take forward its strategic objectives and priorities, and that any up-front costs represent best value for money.
73. The council's human resources strategy is underdeveloped, with progress in improving it much slower than planned. Staff are generally well motivated and committed, with high levels of morale and good relationships between the council and the trade unions. This will clearly be important to maintain going into the difficult period ahead.
74. The council has recently operated two voluntary early retirement/redundancy schemes as part of its cost saving measures. One for teaching staff which has resulted in 90 teachers being offered and accepting terms and one for other council staff for which the council has received 450 applications. A robust corporate workforce plan would, however, support the council by identifying its workforce needs and allowing it to target future early retirements/ redundancies at areas where efficiencies can be achieved and without diluting the available skill base.

Action plan 5



Procurement

75. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement and to deliver value for money and increased efficiency through improved structures, capability and processes. In 2009, the Scottish Government promoted the use of an annual procurement capability assessment (PCA) to assess procurement performance in all public sector bodies and as a basis for the sharing of best practice and continuous improvement. Results are summarised as non-conformance, conformance, improved performance and superior performance.
76. Many councils have been assessed by Scotland Excel and scored as non-conformant. This means that councils are not achieving best value across their procurement activities. In response, in December 2009, councils agreed to participate in a national procurement improvement programme. The programme addresses the following areas:
- the role of procurement in the organisation: the key issue facing most procurement functions is lack of influence across the organisation.
 - getting the right people doing the right things: there is a need to be clear on the structure of procurement across the organisation and its accountability to the procurement leader.
 - adoption of a strategic approach to sourcing: this means making money out of all aspects of the contract life cycle, not just by getting the best price.
 - embedding new systems and processes.
 - conformance: councils with the lowest scores can access an experienced procurement professional to help work with their procurement leader on the improvement plan for their council.
77. Dundee City Council scored 23% which is a non conformant score. Most Scottish councils were non-conformant. The council (the PCA is an assessment of the whole organisation not just the procurement team), scored higher in areas such as procurement leadership & governance (33%), procurement strategy and objectives (38%), and sourcing strategies and collaborative procurement (31%). The council had lower scores in areas such as specification of goods and services (7%), contract and supplier management (13%), performance measurement (17%). PCA scores across Scotland indicate that councils need to take action to view procurement as a strategic process which is embedded in (for example) service redesign decisions, rather than an operation/tactical process.
78. The level of change required to achieve conformance and higher levels of performance is likely to require significant effort and active senior management support. We will monitor the situation and the ongoing commitment by the organisation to improving the situation.



79. In August 2008 the three Tayside local authorities created a shared procurement service, the Tayside Procurement Consortium, to deliver a procurement reform programme across the councils through the implementation of the Tayside Procurement Strategy 2008-2011. The PCA score reflected the relative immaturity of this arrangement and the council's internal arrangements.
80. In August 2010 the Director of Finance reported progress against the five objectives set out in the procurement strategy and in the council's own arrangements, in particular the ongoing roll-out of e-procurement and the use of collaborative contracts. It is estimated that the use of collaborative contracts generated cash savings of £634k in 2009/10.

Action plan 6

ICT

81. A key element of the Council Improvement Plan is the introduction of the Corporate Electronic Records and Document Management System (CeRDMS). This system, when implemented, will facilitate the introduction of flexible working practices such as "hot desking" and home working from which it is intended that the council will achieve significant savings and efficiencies. The system will also enable the council to reduce its reliance on the costly storage of paper files.
82. We carried out a review of the CeRDMS implementation programme and we found a number of elements of good practice, for example a project board including representatives from the IT section and users was in place. The project had also been assigned a sponsor at directorate level who chaired the project board. A project manager with experience in the implementation of IT solutions has been appointed and a project initiation document was prepared and risks relating to the project were documented. We also highlighted a number of risks to the council and work is currently underway to complete the actions needed to mitigate the risks identified.

Shared Services

83. Shared services is one of the ways open to local authorities for reducing spending and sustaining essential public services. The council has recognised the need to consider joint working and shared service arrangements in its "Changing for the Future" programme. However, progress is at an early stage and much work remains to be done before viable options and proposals are identified.



Governance and accountability

Introduction

84. Corporate governance is about direction and control of organisations. Councils are large complex organisations and so good governance is critically important. The council undertakes an annual review of its Local Code of Corporate Governance against the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government* and the accompanying Guidance Notes for Local Authorities. The 2010 review, reported to the Policy and Resources Committee in June 2010 suggests that the council has continued its high level of compliance with an overall score in excess of 90% compliance. The review also noted some areas where improvement could be made and an action plan has been formulated to take this forward. The assurance and improvement plan assessed the council as having no significant risks in this area.

Scrutiny

85. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. The Best Value 2 report highlighted that member scrutiny of decision making and performance needs to improve. In response the council has reviewed its scrutiny arrangements with a single Scrutiny Committee taking on the roles of the Scrutiny, Audit and Risk Management and Improvement and Efficiency sub-committees. The council also reviewed its timetable of meetings and moved to a monthly cycle of meetings for a number of committees to allow members more time to read and consider the reports presented to them. We will continue to monitor the effectiveness of these new arrangements.

Partnership Working

86. The council shows evidence of good partnership working at the operational level with strong relationships between the partners and many examples of effective joint working on individual projects. However, whilst operational level working is good there is no real evidence of a strategic approach. Current plans lack specifics on who is doing what and resource commitments and partnership governance arrangements are often overly complex, inhibiting effective performance management and clear accountability.

87. A fitness for purpose review of all partnership theme groups is underway, and the SOA delivery plan will ensure that each group has a clear plan to deliver, monitor progress and measure its impact. The council also intends to review the partnership structure. These improvement will support the partnership in focussing on achieving its desired outcomes more effectively



88. The Single Outcome Agreement (SOA) has brought more purpose to community planning and the process will result in a new Community Plan in 2011. The links between the SOA and the council's current operational plans are, however, less clear. The council has recognised a need to establish a clearer connection between service plans and the themes of the SOA, community plan, Council Plan and other key strategies. Work is underway to address this to ensure that the council's activity supports delivery of the desired outcomes.

Community engagement

89. The council has a strong track record of working with local communities and taking a systematic approach to defining their needs. Local Community Planning Partnerships are well regarded by those involved and have a good track record of delivering local plans. The development of Cluster Support Teams has led to local issues being addressed and closer involvement of families and the wider community with schools.

Public performance reporting

90. Members review the council's performance indicators through quarterly and annual reports to the Policy and Resources Committee. These reports show clearly where performance is improving and also highlight the areas where improvement is required. Further performance monitoring is undertaken through the Scrutiny Committee which has the remit to review reports and action plans relating to service delivery and to examine and review reports from external bodies such as Audit Scotland, HMIE and the Care Commission. The minutes of meetings and reports to these committees are made available to the public both electronically and in hard copy.
91. The council produces an annual performance report. It is published on the council's website and available in hard copies in public libraries and council offices and is available in a number of languages and alternative formats. Although the report does present a balanced picture of the council's performance through the reported performance indicators the main body of the report tends to accentuate the positive. The report also highlights the initiatives the council has underway to improve performance in a number of areas, for example carbon emissions, but misses the opportunity to report the impact these have had.

Action plan 7

Governance and internal control

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



93. During the year we reviewed the Internal Audit structure and function in accordance with International Standard on Auditing 610 and concluded that Dundee City Council's audit service was well managed and operated to acceptable standards. In our Annual Audit Plan we indicated that we planned to place reliance upon some areas of the internal audit work programme for 2009/10. However, the scope of the exercises, whilst providing adequate assurance for the council's purposes, did not provide sufficient coverage for our financial statements work.

Prevention and detection of fraud and irregularities

94. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy and response plan; a whistle blowing policy; codes of conduct for elected members and staff; and defined remits for relevant regulatory committees. There were no referrals to the Standards Commission during 2009/10 in respect of members of Dundee City Council.

NFI in Scotland

95. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant outcomes for Scottish public bodies (£21 million during the 2008/09 NFI cycle and £58 million cumulatively up to end March 2010). If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.
96. The most recent data matching exercise collected data from participants in October 2008 and the national findings were published by Audit Scotland in May 2010. The council's involvement generated 5,768 matches of which 2,841 were investigated, including all "high risk" data matches. As a result of the work undertaken the council identified £85,994 of wrong payments, £69,768 in respect of housing benefits and £16,226 relating to pensions arising from 5 cases of error and 5 of alleged fraud.
97. Instructions for the 2010/11 NFI exercise were issued by Audit Scotland in June 2010 and participants should be preparing to provide the requested data by early October. The national report published in May 2010 included a self-appraisal checklist that all participants were recommended to use prior to NFI 2010/11. The council remains fully committed to NFI as a means of detecting and deterring fraud and is fully involved in the 2010/11 exercise.



Housing Benefit

98. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Our specialist team are carrying out a programme of risk assessments of benefits services in all councils over a two year period.
99. The risks to Dundee City Council's benefits service were initially assessed in November 2008 and a detailed report was issued. The council responded to the 27 risks we identified with an action plan. A follow up inspection in May 2010 identified that the council had made significant progress addressing 16 of the identified risks but that completion of the action to address 11 of identified the risks remains outstanding. The May 2010 review also identified a number of new risks.
100. A report was submitted to the council's management in September 2010. The council continues to demonstrate an awareness of what constitutes an effective, efficient and secure benefits service but in order to continue to deliver continuous improvement across all aspects of the service it needs to focus on completing the outstanding actions from the previous risk assessment, and address the new risks identified from this risk assessment.

Outlook

101. Governance and accountability issues are likely to be prominent as the council's operating environment and economic position becomes more difficult and the development of working in partnership with others increases.
102. We recognise the challenges posed by the SOAs. The Accounts Commission acknowledges that SOAs are still at an early stage of development. At this stage in the evolution of this new approach to planning, we are interested in the processes rather than just the outcomes. Partnership working is critical to the council's success and this has been recognised by the council which has included its partners from the beginning of the SOA process. We are developing our approach to the audit of partnerships and will be increasingly looking at the contribution of partners as well as the councils own contribution to the delivery of outcomes.



Performance management and improvement

Introduction

103. We believe that an effective council has a clear and ambitious vision for what it wants to achieve for its locality and communities to secure high quality services and effective outcomes for local people. The vision is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective council has a performance management culture which is embedded throughout the organisation. The assurance and improvement plan concluded that whilst the council did not have any significant weaknesses in this area there were a number of areas of uncertainty. This section provides a high level overview of performance management in Dundee City Council.

Best value 2

104. Best value 2 (BV2) is the next phase of Best Value audit. Its approach has moved on significantly from the first phase, which provided a baseline for how Scottish councils are performing. A BV2 audit is more proportionate and risk based being founded on a shared risk assessment process involving other inspectorates. It is more focused on impact and outcomes and designed to provide a more rounded view of partnership working in a local area, and the difference it is making. BV2 forms an important part of the wider scrutiny arrangements for councils in Scotland.

105. Dundee City Council was chosen as one of five 'pathfinder' sites where various aspects of its proposed approach to BV2 were tested and the results of the work carried out was used to provide judgements on the council's:

- pace of change and direction of travel
- prospects for delivering future improvements.

106. The BV2 review concluded that the council needs to improve more quickly and that it has fair prospects for future improvement. The council still needs to embed a culture of continuous improvement throughout its business and increase the pace of change. Where improvement has not been stimulated by external inspection change has been too slow. However, services are generally improving and there is evidence that citizens are more satisfied with the council's overall performance.



107. The review highlighted a number of areas for improvement:

Best Value 2 : Improvement actions	
The council	<p><i>The council needs to :</i></p> <ul style="list-style-type: none"> • continue to implement improvement actions agreed following the recent inspection of housing. • put in place an effective approach to elected member scrutiny of decision-making and performance. • ensure that it is more open and transparent, with better discussion of key issues in public meetings. • implement a more coordinated approach to improvement and efficiency in order to create more corporate capacity for improvement and change, including. • target efforts better and implement more robust planning and monitoring of progress, implementation and impact. • make greater and more robust use of benchmarking, cost comparison and option appraisal considering the scope for alternative approaches and more joint working. • strengthen corporate working and internal partnerships, building more collaborative working and ensuring learning and best practice is identified and shared more widely. • improve its strategic management of resources, improving longer term financial planning and developing more active planning for the use of assets and people. • increase ownership and improve leadership in promoting equalities; engage more effectively with equalities groups. Develop a more effective approach to Equalities Impact Assessment and better monitoring of impact.
Elected Members	<p><i>Elected Members need to:</i></p> <ul style="list-style-type: none"> • increase their contribution and ownership of key subjects – leading community planning at a strategic level, policy development, risk management, efficiency and improvement. Council officers need to provide better support to enable members to do this.
The council and its partners	<p><i>With its partners, the council should:</i></p> <ul style="list-style-type: none"> • continue to implement improvement actions to ensure effective services to protect children. • establish shared and clearly understood priorities for spending that reflect the anticipated reduction in available resources in a collaborative manner that brings together the political choices of local elected members and the nationally led policies and priorities of other public sector partners. • ensure that meetings at all levels of the partnership are better focused on coordinating partnership activity, deciding on priorities and who does what and monitoring progress and impact. • review partnership structures to ensure that the respective roles and responsibilities of different groups are clear, minimising overlap. • ensure that partnership aims are specified at an appropriate level and are supported by relevant indicators and measures of impact and progress.



108. A BV Improvement Plan to address these areas has been developed and the council is working towards achieving the proposed actions within the agreed timescales.

Action plan 8

Vision and strategic direction

109. The council and its partners have established a clear vision for Dundee. Their key objectives reflect the underlying issues that need to be addressed in the city and are reflected in the themes and 11 desired outcomes within the Dundee Partnership's Single Outcome Agreement (SOA). The members of the partnership have agreed that the SOA will be the key strategic document which underpins their own plans.

110. A new Council Plan 2010 – 2012 setting out the councils priorities for the next two years was published in May 2010. There is evidence of progress against the strategic priorities agreed by the council and its partners. Some progress has been made in tackling poor educational attainment, developing a more broad based knowledge economy for Dundee, improving the built environment and reducing crime. However, success in reducing health and significant social inequality has been more limited. A SOA Delivery Plan has recently been published; however this lacks details of performance indicators and targets for a number of outcomes meaning that progress cannot be measured.

Action plan 9

Performance management

111. There has been a general improvement in overall service performance, as measured by available indicators. This has been coupled with good and increasing customer and resident satisfaction. This has been achieved from a modest real terms rise in the resources applied by the council each year. However, it is noted that not all key services have been performing well and, much of the improvement that has been made to ways of working has been in response to external pressure.

112. The council is aware of where it needs to improve its ways of working, but progress in some areas has been too slow. It has managed its resources prudently over recent years and has made some efficiency savings. However, the previous incremental approach will not be sufficient to meet the significant financial challenges that lie ahead for all public services. In the face of significant reductions that are expected in available resources, elected members and officers will be required to take difficult decisions in future to ensure services and outcomes are delivered for local communities.



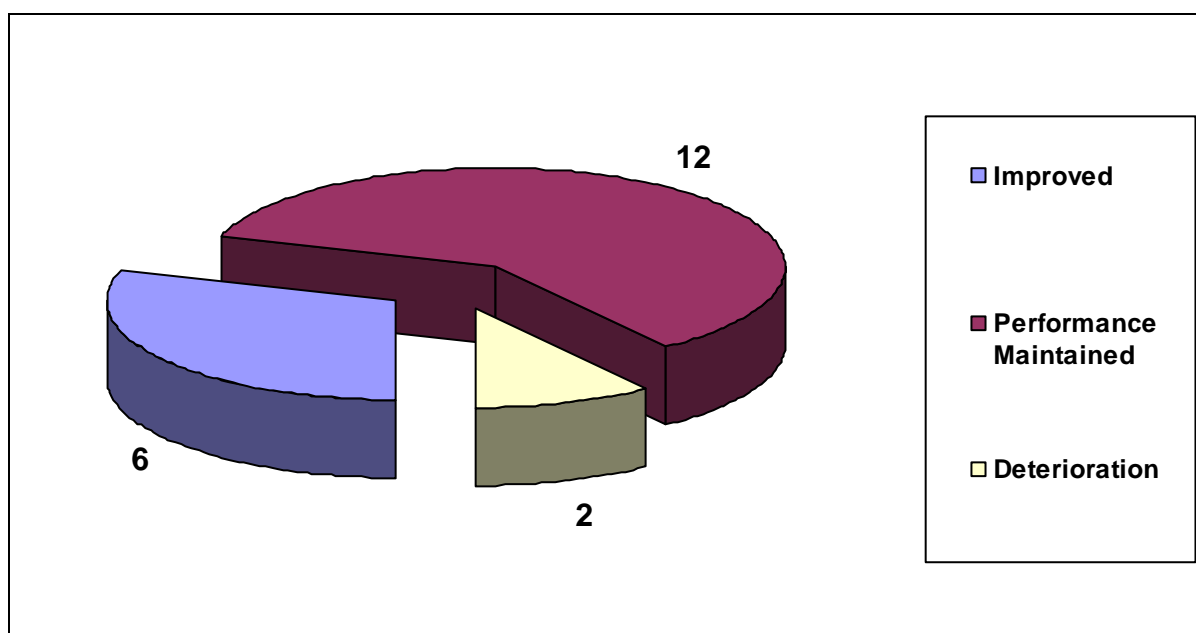
Overview of performance in 2009/10

113. The council's performance measures are recorded within an on-line performance database which provides trend information over time and comparison with neighbouring and similar councils. A corporate performance scorecard is reviewed by both senior officers and members quarterly. This draws on a number of statutory performance indicators and elements of self assessment. A process which the council aims to expand. The scorecard is seen to be an essential tool in maintaining and improving performance.

114. Exhibit 8 summarises progress in 2009/10 against the 20 indicators measured through the corporate balanced scorecard which were reported in the Performance Report.

Exhibit 8

Corporate performance scorecard 2009/10 – direction of travel



115. During the year there have been some significant operational achievements, for example an increase in the number of museum visits, largely due to the re-opening of the refurbished McManus Galleries, a 22% reduction in the amount of municipal waste sent to landfill and a 9% reduction in the level of rent arrears. The council also faced a range of challenges including, an increase in the average time taken to process new benefits claims and a decline in the processing of planning applications. Rent lost on empty homes remains a problem area having seen performance decline in both 2008/09 and 2009/10.

Equality and Diversity

116. The AIP highlighted Equalities and Diversity as an area where the scrutiny partners identified that significant concerns and weaknesses exist. The council has made relatively slow progress in



eliminating discrimination and promoting equalities and needs to do more to mainstream equalities and diversity and to demonstrate that it delivers equalities more widely in its services.

117. The council Single Equality Scheme 2009-2012 reflects the council's commitment to achieving the highest standards of equality and ensuring that all communities are involved in the development and delivery of equality and diversity. Through having a Single Equality Scheme the council aims to minimise duplication and to provide a coherent approach to tackling equality and diversity across all the various strands by focussing on the strategic priorities.

118. In its Performance Report 2010 the council reports the steps it has taken to deliver improvements in this area. This document highlights the three key equality actions that the council needs to address:

- meeting statutory and regulatory duties with regard to equality and diversity
- involving communities of interest in the delivery of the council's Single Equality Scheme
- mainstreaming and sustainability of equalities in Dundee City Council.

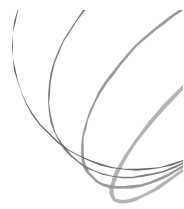
119. The Performance Report identifies that the council has set up a series working groups; the Equality and Diversity Core Group, the Equality Champions implementation Group and a series of themed Equality Action Groups, to drive the initiative forward.

120. During 2009/10 service departments undertook a range of equality impact assessments to demonstrate that they have given due regard to the elimination of unlawful discrimination during the planning and review of relevant policies and practices and the way they carry out their functions and whenever possible have identified and put into place measures that will reduce any potential barriers and enhance equality. The completed assessments have been made available on the council's website.

Change management and efficiency

121. The Council's Corporate Improvement Plan was approved by the Policy and Resources Committee in April 2010. Subsequently it was consolidated into the council's 'Changing for the Future' programme (August 2010). Changing for the Future is the council's long term strategy to address the difficult financial environment that it will be operating in for the foreseeable future. The strategy has been developed on the basis of four discrete workstreams:

- voluntary early retirement/ redundancy scheme
- departmental savings submissions of 5%
- the corporate improvement programme



- the Tayside Collaborative Opportunities programme.

122. The management team has worked to consolidate these 4 workstreams into a single programme with four main sub-programmes:

- service prioritisation
- reshaping the service delivery model
- assets
- enabling the change.

123. Within these sub-programmes there are a total of 33 projects underway.

124. In his report to the Policy and Resources Committee in August 2010, the Chief Executive highlighted that the overall governance and management of the Changing for the Future programme and the revenue budget savings exercise is 'critical'. It was proposed that a Changing for the Future Board comprising of officers and elected members from all political parties be set up. The Changing for the Future Board met on 21 September 2010 and the next meeting will be scheduled for after the Scottish Spending Review announcement in November 2010.

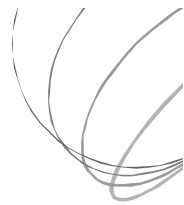
Action plan 10

Risk Management

125. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance. In February 2009 the council approved its first corporate risk register as part of its Risk Management Strategic Plan and Strategic Risk Register document. The Council had planned to review this annually. However, members have not been informed of the outcome of the review. The process of reviewing the Strategic Risk Register has been remitted to the Council's Corporate Governance Group. It is likely that the outcome of the review will be reported to the Scrutiny Committee and the Policy & Resources Committee early in 2011.

Outlook

126. Effectively managing the council's performance will remain a key challenge as council budgets are reduced. It is unlikely that the council will be able to maintain or improve current performance levels across all of its existing services, and it will need to make difficult decisions about what areas are seen



as priorities and in which areas service levels will need to be reduced. Crucially, the council will need to use its performance information to understand and manage the effect of spending decisions.

127. The long term and complex nature of many of the outcome targets established through the SOA process also poses many challenges for performance management. In responding to short term and more structural funding difficulties, the council and its partners will need to be clear how they will continue to contribute to shared objectives and priorities – maximising impact from the funds available.



Appendix A: External audit reports and audit opinions

Title of report or opinion	Date of issue	Date presented to Scrutiny Committee
Annual Audit Plan	07/05/10	07/07/10
Shared risk Assessment/Assurance and Improvement Plan	14/06/10	23/08/10 (P&R Committee)
Follow Up of Change Management and Application Systems	06/05/10	07/07/10
Corporate Electronic Records and Document Management System implementation	01/07/10	20/10/10
Corporate Governance	29/10/10	08/12/2010



Appendix B: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	34&35.	<p>IFRS</p> <p>Overall the council has made progress toward readiness for the introduction of IFRS. However, much work remains to be done.</p> <p><i>Risk: Insufficient attention is paid to the introduction of IFRS, meaning that the council is unable to prepare compliant accounts in time.</i></p>	<p>The Council has established a working group to oversee the introduction of IFRS, in line with an agreed implementation plan. The first phase of this major project was recently completed, with the preparation of an opening IFRS Balance Sheet as at 1 April 2009. The second phase of the project, involving the restatement of the 2009/10 accounts on an IFRS basis, is now underway and is due to be completed by 31 December 2010. The third and final phase of the project will involve the preparation of the Council's 2010/11 accounts on an IFRS basis, by 30 June 2011.</p>	Director of Finance	30 June 2011
2.	36.	<p>Pension funds audit</p> <p>The Scottish Government may decide, following consultation to introduce a separate audit requirement for the Pension Funds.</p> <p><i>Risk: The arrangements to support this change may not be in place.</i></p>	<p>The Council already prepare and publish a separate Annual Report and Accounts for Pension Fund. Whilst some changes to the timetable may be required, these processes are already in place.</p>	Director of Finance	30 Sept 2011
3.	61.	<p>Actuarial assumptions</p> <p>The council does not consider and confirm whether actuarial assumptions are appropriate to local circumstances.</p> <p><i>Risk: Future contribution rates are not based on the local experience and circumstances of the council.</i></p>	<p>The Council does review actuarial assumptions used both in FRS17 reports and the triennial valuation. It should be noted that the triennial valuation (which sets future contribution rates) is not advisory but is a regulatory requirement. The assumptions in this do consider the specific mortality experience of the Tayside</p>	Head of Financial Services	Not applicable



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			Fund. The investment returns are related to the asset allocation of the Tayside Fund although the returns per asset class are based on standard assumptions. The price and salary increases should not be particularly affected by local circumstances.		
4.	69-71.	<p>Asset management</p> <p>The council needs to improve its approach to asset management to help ensure that its assets are necessary and fit for purpose and that property management is clearly linked to financial planning.</p> <p>Risk: The council's asset base may not be fit for future purposes and the council will not achieve best value.</p>	The Council is currently producing a Strategic Asset Management Plan (AMP) whereby the management of all assets will be rigorously scrutinised through a formal structure of asset management governance. It is the intention that the Strategic AMP will be considered by Committee by 31 January 2010 and then reviewed on an ongoing basis thereafter.	Director of City Development	31 Jan 2011
5.	72-74.	<p>Managing people</p> <p>The council develop its approach to workforce management to help ensure that its workforce is of appropriate size and includes the necessary skills to meet its future needs.</p> <p>Risk: The council's workforce and skills base may not be fit for future purposes and the council will not achieve best value.</p>	<p>Rationalise the Council's departmental structure to produce fewer, larger departments with a consequent reduction in posts.</p> <p>Assess workforce required to fulfil future needs by workgroups, numbers and skills base. Put in place measures to ensure that employees with necessary skills are available and employed where and when needed.</p>	<p>Chief Executive</p> <p>Head of Personnel</p>	<p>30 June 2011</p> <p>31 Dec 2011</p>
6.	75-80.	<p>Procurement</p> <p>The council was assessed as "non-conformant" in the annual procurement capability assessment. The council is taking steps to improve this however there is scope to do</p>	<p>The Council will continue to implement the Corporate Procurement Strategy to deliver best value for money:</p> <ul style="list-style-type: none"> implement improvements 	Director of Finance	Complete



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>more to deliver savings in this area.</p> <p>Risk: Procurement approaches do not deliver best value for money.</p>	<p>to improve PCA performance.</p> <ul style="list-style-type: none"> develop Purchase to Payment procedures and systems to improve control and efficiency. <p>review organisation of the Procurement Function to ensure effective impact across the Council.</p>		<p>July 2011</p> <p>March 2011</p>
7.	91.	<p>Public performance reporting</p> <p>The council's annual report accentuates the positive and could increase its scope.</p> <p>Risk: The council does not provide citizens with a full and balanced picture of how the council is performing.</p>	<p>Officers will review 'Best Practice' models in designing the 2010/11 Performance Report.</p>	<p>Director of Finance</p>	<p>30 Sept 2011</p>
8.	104-108.	<p>BV improvement plan</p> <p>The council has developed an improvement plan to address the areas for improvement highlighted in the recent BV2 report.</p> <p>Risk: Planned improvements are not completed when planned or are ineffective.</p>	<p>The BV 2 improvement plan progress is on the online monitoring database and progress will be reported twice per year to elected members.</p>	<p>Performance & Improvement Manager</p>	<p>31 January 2011</p>
9.	110.	<p>SOA delivery plan</p> <p>The SOA delivery plan lacks details of performance indicators and targets for a number of outcomes meaning that progress against outcomes cannot be measured..</p> <p>Risk: Desired outcomes may not be delivered.</p>	<p>The SOA Delivery Plan is on the online plan and performance monitoring database and is being reviewed quarterly by theme by the Dundee Partnership Management group and subject to an annual report to the City Council and Scottish Government.</p>	<p>Community Planning Manager</p>	<p>30 Sept 2011</p>
10.	124.	<p>Delivering savings</p> <p>Moving forward it is important that the council has a clear understanding of what its spending priorities are, developing these in partnership with other public sector organisations where appropriate.</p>	<p>The Council is acutely aware of the severe financial constraints facing it over the 2011-2014 Spending Review period and beyond. The Council's strategy for delivering the level of savings required is set out in the</p>	<p>Chief Executive / Director of Finance</p>	<p>Feb 2011</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>Effectively managing performance will remain a key challenge as budgets are reduced. Crucially, the council will need to use its performance information to understand and manage the effect of spending decisions.</p> <p>A new monitoring process has been implemented to monitor delivery of planned savings. The value of savings required is extremely challenging.</p> <p><i>Risk: the council is unable to meet expenditure commitments from available income.</i></p> <p><i>Available funding is not effectively directed to priorities.</i></p>	<p>approved Changing for the Future work programme. Spending priorities will continue to be identified and reviewed through the key corporate planning processes, including: the Council Plan, Community Plan, BV Improvement Plan, SOA Delivery Plan, Capital & Revenue Budgets etc. The Council is also acutely aware of the potential impact of significantly reduced resources on service performance. This will be closely monitored through the established systems and corrective action taken, where appropriate.</p>		