



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

West Dunbartonshire Council

Annual audit report to the members and the Controller of Audit
Year ended 31 March 2010

29 October 2010

AUDIT

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of only West Dunbartonshire Council and is made available to the Accounts Commission and Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Financial statements

Following approval of the financial statements of West Dunbartonshire Council by the appropriate officer, on 30 September 2010 we issued an audit report expressing an unqualified opinion on the financial statements for the year ended 31 March 2010.

In respect of compliance with the SORP 2009, the key change to be implemented in 2009-10 was the accounting requirements for private financing initiatives and similar contracts. This resulted in the Council's new PPP schools, three of which opened in 2009-10 with a further one with handover in 2010-11, being included on the balance sheet at a value of £86 million as at 31 March 2010.

The Council had not instructed a valuation of the new assets at the commencement of our audit. We asked for a valuation to be undertaken by the estates department to support the valuation based on cost which was included within the unaudited financial statements. Following detailed discussion with management, including both finance and estates, the valuation was completed which supported the cost valuation in the audited financial statements.

The quality of information provided by the finance team has been good, in line with prior years. In our report to those charged with governance, dated 20 September 2010, we have, however, made a number of recommendations to enhance the efficiency of the financial statements production process.

Use of resources

The Council's general services expenditure budget was £243.9 million. This was a balanced budget which included a £0.4 million transfer to uncommitted reserves in order to make steps to restoring the Council's level of uncommitted reserves to its prudential level. For the year ended 31 March 2010 the outturn on the general fund balance was an increase of £1.4 million against the budgeted in year surplus.

Uncommitted reserves have increased from £0.3 million (2008-09) to £3.4 million (2009-10). This represents an increase from 5% (2008-09) to 82% (2009-10) of the Council's prudential reserve target. This change is as a result of the release of earmarked reserves, the achievement of the in year surplus and a review of the prudential reserve target.

The Council has achieved the statutory target of generating revenues not less than expenditure over a rolling three year period for its significant trading operations.

A revenue budget of £249.1 million has been set for 2010-11. This budget includes £2.1 million of management adjustment savings and £2.6 million of council approved savings in order to achieve a balanced budget. The approved savings are being monitored by the Strategic Finance Working Group and management have put in place actions to secure the full amount of savings in the year.

Management accelerated the budgeting timetable for 2011-12 to allow more time to develop saving savings options and scrutiny of those options. The budget gap is currently estimated at £10 million and savings options being considered have been communicated to staff and the general public through a series of budget road-shows. These events were also used to generate ideas of savings options.

As part of the Council's plan to achieve the Scottish Housing Quality Standard, management carried out an initial asset management strategy. Following this work plans were made which proposed a partial transfer of approximately 45% of the Council's housing stock, representing 5,100 homes. The Housing, Environment and Economic Development committee approved the partial housing stock transfer strategy in May 2010 which sets out the key objectives, risks and timeline of the transfer process.

Corporate governance arrangements

Ongoing work has been carried out during the year on proposals to integrate the NHS services provided by Greater Glasgow and Clyde NHS Board through its Community Health Partnership and the Council's social work services. In February 2010, the Council approved an integrated partnership model with the establishment of a new partnership, in shadow form from 1 April 2010 until 1 October 2010, by which point the new organisation would be established.

Audit Scotland recently published their report, as part of the improvement series for councillors and officers, "Roles and working relationships: are you getting it right?" Clarity about governance arrangements, roles and responsibilities and good working relationships are key to the success of the Council and ensuring it delivers best value and achieves the best outcomes for stakeholders. It is recognised that the member and officer checklists appended to the report have already been presented to the Improvement & Efficiency Executive, and it is recommended that these are now completed, and an action plan for improvement developed where necessary.

Our planned audit approach seeks, wherever possible, to place reliance on the work completed by internal audit to minimise duplication of effort and ensure maximum benefit from the combined audit resource. In accordance with our audit plan overview we placed reliance on the work of internal audit in a number of areas. The statement on internal control discloses weaknesses in respect of Best Value and Community Planning. The content of the statement is consistent with our understanding of the Council.

Performance management

The direction of SPIs for 2009-10 represents a significant shift in the approach, reflective of the changing environment in which local authorities operate. This change in direction has significantly reduced the number of specific indicators that councils are required to use, and placed the emphasis for ensuring their accuracy with the Council. We have reviewed the performance management framework established for 2009-10 and made recommendations to improve the format and content of reports to members to enable more effective and efficient scrutiny.

The Scottish Housing Regulator carried out a re-inspection of the Council's housing management service and reported on their findings in March 2010. The Council's service was rated as 'fair', noting that the service has some strengths but that these are set against a number of weaknesses, some of which are significant. The report recognises that the Council has increased the pace of improvement since the previous inspection, and has made good progress in developing a culture of improvement.

In February 2010, the Accounts Commission updated their findings on the Best Value progress report from July 2009. This report found that the Council had not made sufficient progress on the initial Best Value findings. The Accounts Commission held a meeting in April 2010 with the elected members and the Chief Executive. In June 2010, Council approved a revised and more streamlined best value and improvement plan for 2010-11 based on elected members' requests for this to be focused on key actions to improve the pace of change.

The Accounts Commission has also approved a new approach to the audit of Best Value. As part of this, audit and inspection bodies have published a joint assurance and improvement plan which sets out the planned scrutiny activity for the period April 2010 to March 2013. This plan identified three areas of significant risks for the Council, related to: economic regeneration in the area; the strategic leadership of the Council and the Council's financial resources.

In line with the other local authorities in Scotland, the Council was graded as non conformant by the procurement capability assessment exercise undertaken in 2009. Management recognise that a Council wide approach to procurement is necessary to improve performance and work is underway to review the procurement operating model combined with restructuring of the Council's procurement functions.

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the *Code*"). This specifies a number of objectives for our audit.

Audit framework

This year was the fourth of our five-year appointment by the Accounts Commission as external auditors of West Dunbartonshire Council. This report to the members and Controller of Audit provides our opinions and conclusions and highlights significant issues arising from our work. We outlined the framework under which we operate, under appointment by the Accounts Commission, in the audit plan overview discussed with the audit and standards committee earlier in the year.

The purpose of this report is to report our findings as they relate to:

- the **financial statements** and significant accounting matters and decisions;
- **use of resources**, including financial outturn for the year ended 31 March 2010 and financial plans for 2009-10 and beyond;
- arrangements around **governance and accountability**, including risk management, systems of internal control, partnership working and our consideration of the work of internal audit; and
- **performance management arrangements**.

Best Value

The Local Government in Scotland Act 2003 introduced statutory duties for local authorities relating to Best Value and community planning. At the request of the Accounts Commission, the Council was the subject of a follow-up audit Best Value review during 2008-09 and we have reflected on its findings in this report.

The timing, nature and extent of further Best Value audit work is determined following the assessment of risk, undertaken in partnership with other scrutiny bodies as part of the new shared risk assessment process. A key component of the shared risk assessment is the extent to which implementation of an existing Best Value Improvement Plan has had the anticipated impact.

Responsibilities of the Council and its auditors

External auditors do not act as a substitute for the Council's own responsibilities for putting in place proper arrangements to account for the stewardship of resources made available to it and its financial performance in the use of those resources, to ensure the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the effectiveness of those arrangements and to make arrangements to secure Best Value.

Action plan

This report includes an action plan containing areas for development or improvement identified during our financial statements audit fieldwork. We have not repeated recommendations raised in reports issued during our earlier work in respect of our 2009-10 audit. Responsibility for taking action and monitoring progress in response to all our recommendations lies with management.

Acknowledgement

We wish to record our appreciation of the continued co-operation and assistance extended to us by your staff during our work. In particular we wish to thank the executive director of corporate services, the head of finance and ICT, and the manager of accounting for their assistance during the audit.

Accounts – summary of key findings

On 30 September 2010 we issued an unqualified opinion on the accounts of West Dunbartonshire Council and its group. The quality of information provided, on request, by the finance team has been good. In our report to those charged with governance, dated 20 September 2010, we did, however, make recommendations to enhance the efficiency of the accounts production process further.

Key issues arising from our audit of the accounts were:

- In respect of compliance with the SORP 2009, the key change to be implemented in 2009-10 was the accounting requirements for private finance initiatives and similar contracts. This resulted in the Council's new PPP schools, three of which opened in 2009-10 with a further one with handover in 2010-11, being included on the balance sheet at a value of £86 million as at 31 March 2010.
- As operational assets were not part of the rolling valuation programme for 2009-10, the Council had not instructed a valuation of the new assets at the commencement of our audit. Given the significance of the asset additions, we requested a valuation be undertaken by the estates department to support the valuation based on cost which was included within the unaudited financial statements. Following detailed discussion with management, including both finance and estates, the valuation was completed which supported the cost valuation in the audited financial statements.
- Implementation of the SORP 2009 required a further change to the accounts in respect of non-domestic rates. Local authorities now recognise a creditor or debtor for cash collected from NDRI debtors as agent of the Government but not paid to the Government, or overpaid to the Government at the balance sheet date.
- We have discussed with management their progress to date in preparing for transition to IFRS and have agreed a timetable for the preparation of restated 2009-10 financial statements in accordance with the new SORP. These will be subject to internal review and we will undertake work on the restated financial statements as part of our planning for the 2010-11 audit. We note from experience that this conversion process can be difficult and will be time consuming and so it is important that management ensure that the finance department continues to have the resources in place to ensure this change is carried out effectively.

Reporting arrangements and timetable

In accordance with statutory requirements, unaudited financial statements were submitted to the Accounts Commission by 30 June 2010. These were complete, allowing the financial statements to be made available for public inspection.

The quality of information provided, on request, by the finance team has been good. In our report to those charged with governance, dated 9 September 2010, we did, however, make recommendations to further enhance the efficiency of the accounts production process. We continue to work in partnership with the finance team to improve the efficiency of the process for the preparation and audit of the financial statements.

Audit opinion

We have given an unqualified opinion that the financial statements of the Council for 2009-10 give a true and fair view of the financial position of the Council and its group as at 31 March 2010 and its income and expenditure and income for the year. We also certify that the financial statements have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

Group accounts

The council has interests in five other entities, all of which are treated as associates and therefore their results have been included in the group accounts. Audit assurances were obtained through unaudited accounts supplemented by confirmation from audited bodies of adjustments to their accounts which had been agreed with their auditors. This provided useful context to enable us to conclude our audit of the group.

We note that all bodies received unqualified audit opinions and in accordance with recommended accounting practice it has been confirmed that key accounting policies for component bodies such as pension costs and the valuation of fixed assets have been aligned with the council.

The overall effect of inclusion of all of the council's associates on the group balance sheet is to reduce total net assets by £302.7 million, mainly because of pension liabilities in subsidiary entities. This results in the group reporting negative total net assets of £121 million (2008-09, positive £90 million). All group bodies' accounts have, however, 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. The Council has included appropriate disclosure of this position within the group accounts.

Trust funds and common good funds

Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. However the 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.

In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners on the common good fund. 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. The Council has complied with the guidance.

Key issues arising during our audit of the financial statements

Our audit plan overview and interim management reports highlighted potential key risk areas and we identified further key risk areas during our audit of the financial statements. We have concluded our work in each area and summarise our findings below.

Accounting for PFI/PPP

The key change in the Statement of Recommended Practice for 2009 ("SORP 2009") was the accounting requirements for private financing initiatives and similar contracts. These are no longer based on Financial Reporting Standard 5 but on an interpretation of International Financial Reporting Interpretation Council 12: *Service concession arrangements* contained in the Government's Financial Reporting Manual. The change required that PFI / PPP properties used to deliver services would generally be recognised on the local authority's balance sheet along with a liability for the financing provided by the operator.

The Council's new PPP schools, three of which which opened during 2009-10, and one for which handover is in 2010-11, all fall under the above accounting requirements. We note that management's process to determine the correct accounting treatment followed a number of best practice steps:

- ✓ compilation of relevant guidance from the Scottish Government, SORP and Audit Scotland;
- ✓ appointment of advisers to assist in calculation of the PPP asset and liability through a standard model;
- ✓ liaison between finance, the Council's valuer, external advisers and KPMG; and
- ✓ preparation of detailed workpapers to support the calculation of accounting entries.

We reviewed the model used by management together with the various inputs entered to the model which calculated the accounting entries required under IFRIC 12. The information entered to the model was consistent with our understanding of the PPP scheme which the Council has entered into with the operator.

As operational assets were not part of the rolling valuation programme for 2009-10, the Council had not instructed a valuation of the new assets at the commencement of our audit. Given the significance of the asset addition, we requested a valuation be undertaken by the estates department to support the valuation based on cost which was included within the unaudited financial statements. Following detailed discussion with management, including both finance and estates, the valuation was completed which supported the cost valuation in the audited financial statements. As a result, assets of £86 million, and an associated liability to pay for those assets, were reflected in the Council's balance sheet relating to the new PPP schools. There was no requirement to restate comparative figures as the PPP schools were only completed during 2009-10.

Non-domestic rates

Implementation of SORP 2009 required a further change to the financial statements in respect of non-domestic rates. The previous practice was to carry national non-domestic rate income ("NDRI") debtors on the local authority's balance sheet. However, the revised CIPFA/LASAAC interpretation is that the local authority is only acting as an agent for the Government in respect of NDRI and should not therefore recognise the NDRI debt from taxpayers in their balance sheet. Local authorities now recognise a creditor or debtor for cash collected from NDRI debtors as agent of the Government but not paid to the Government, or overpaid to the Government at the balance sheet date. The financial statements have been prepared to reflect this change, including disclosure of the prior period adjustment required to reflect this change in accounting policy.

Debtors and bad debt provision

In 2008-09 we reported that we had considered the bad debt provision against amounts included in the financial statements and confirmed the methodology used to calculate the provision was reasonable given our understanding of the debt recovery process. Since last year the Council has made good progress in the recovery of outstanding debts assisted through a more integrated debt recovery process.

Rent arrears as at 31 March 2010 totalled £2.2 million and represent 7.3% of gross rental income for the year. A bad debt provision of £1.4 million has been set, with current tenant arrears provided against between 0% and 80% based on the amount outstanding and former tenant arrears provided against at 80% regardless of age. We discussed with management the appropriateness of the methodology and, based on the demonstrated level of recovery being obtained, have concluded that the provision is adequate.

Deferred capital grants

We previously requested that an exercise is completed to match the carrying value of deferred capital grants to net book value of the asset they fund in order to identify any difference in the accounting for fixed assets and their associated capital grants. A detailed exercise was carried out to match all deferred capital grants to specific assets to identify any discrepancies. As a result of this work a one off release of £8.5 million has been recognised from deferred capital grants to the income and expenditure account, matched by a transfer to the capital adjustment account through the statement on the movement on general fund balance.

Legality of transactions

Through our planned audit work we consider the legality of the council's financial transactions. We have considered the processes in place at the council, through its scheme of delegation and the role of the monitoring officer, to ensure that all decisions taken in committee are in accordance with the standing orders of the council and its wider statutory powers. In addition the executive director of corporate services 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 issues arising from our audit surrounding the council's compliance with laws and regulations which require to be brought to members' attention.

Financial reporting outlook**Application of International Financial Reporting Standards (IFRS)**

The Council will prepare its financial statements for the year ending 31 March 2011, in accordance with the IFRS-based Code of Practice on Local Authority Accounting. This will necessitate development of revised accounting policies and significant changes in the presentation of the financial statements.

Management restated the Council and group balance sheet as at 1 April 2009, which represents the start date of the comparative period. In doing so, the impact of the required annual leave accrual and the capital implications of the change have been assessed. A number of accountancy staff are undertaking specific training in conjunction with the Chartered Institute of Public Finance and Accountancy (CIPFA) on this conversion process and the requirements of IFRS based standards. Internal audit have conducted a review of the arrangements for the implementing IFRS and found "the systems examined are working effectively" with two minor recommendations noted.

Management must now restate the 2009-10 accounts in IFRS format in order to provide comparative information for the 2010-11 accounts. It is important that the Council has sufficient resources and time to manage this significant change which is likely to put considerable pressure on the already stretched accountancy department. We have agreed with management that we will carry out an audit of this information in late 2010.

Carbon trading

From April 2010 the Carbon Reduction Commitment (CRC) has been introduced by the European Union with full adoption deferred until 2011-12. The Council is required to purchase and account for carbon credits to cover all of its non-transport related energy usage. Incentives and penalties will be built into the system to encourage a reduction in carbon emissions. Management is in the process of considering the use of a specialist consultant to act in this matter on their behalf.

Use of resources – summary of key findings

- The Council's general services expenditure budget was £243.9 million. This was a balanced budget which included a £0.4 million transfer to uncommitted reserves in order to make steps to restoring the Council's level of uncommitted reserves to its prudential level. For the year ended 31 March 2010 the outturn on the general fund balance was an increase of £1.4 million against the budgeted in year surplus.
- Uncommitted reserves have increased from £0.3 million (2008-09) to £3.4 million (2009-10). This represents an increase from 5% (2008-09) to 82% (2009-10) of the Council's prudential reserve target. This change is as a result of the release of earmarked reserves, the achievement of the in year surplus and a review of the prudential reserve target.
- The Council has achieved the statutory target of generating revenues not less than expenditure over a rolling three year period for its significant trading operations. The housing revenue account recorded a surplus of £803,000.
- A revenue budget of £249.1 million has been set for 2010-11. This budget includes £2.1 million of management adjustment savings and £2.6 million of council approved savings in order to achieve a balanced budget. The approved savings are being monitored by the Strategic Finance Working Group and management have put in place actions to secure the full amount of savings in the year.
- Management has accelerated the budgeting timetable for 2011-12 to allow more time to develop savings options and scrutiny of those options. This has included a recent special Council meeting on 14 October 2010 to conduct a mid-year spending review. The budget gap is currently estimated at £10 million and savings options being considered have been communicated to staff and the general public through a series of budget road-shows. These events were also used to generate ideas of savings options.
- As part of the Council's plan to achieve the Scottish Housing Quality Standard, management carried out an initial asset management strategy. Following this work plans were made which proposed a partial transfer of approximately 45% of the Council's housing stock, representing 5,100 homes. The Housing, Environment and Economic Development committee approved the partial housing stock transfer strategy in May 2010 which sets out the key objectives, risks and timeline of the transfer process.

Financial position

The Council's general services budget was approved by elected members on 12 February 2009 at £243.9 million, to be financed by income from council services, including the budgeted surplus on the Council's trading operations, with the balance met by revenue support grant, non-domestic rates and council tax. The actual general services position is monitored throughout the year in order to manage any significant under / over spends by departments.

Income and Expenditure account for 2009-10	£'000
Net operating expenditure	247,342
Income: funding from revenue support grant, council tax and non-domestic rates	(237,839)
(Surplus) / deficit to be met from balance brought forward	9,503
Net additional amount required by statute to be debited or credited to the general fund balance for the year	(11,115)
Result for the year: (increase) / decrease in general fund balance for the year	(1,612)
General fund balance brought forward	(5,036)
General fund balance carried forward	(6,648)

Updated financial position	£'000	£'000
Un-earmarked balance at 31 March 2009		258
Plus:		
Release of residual single status reserve	500	
Release of earmarked single status reserve	1,000	
Budgeted surplus for the year	400	
In year surplus against budget	<u>1,380</u>	<u>3,280</u>
		3,538
Less:		
Revision of bad debt provision		(162)
Un-earmarked balance at 31 March 2010		3,376

We highlighted in our 2008-09 annual audit report that the Council had very low levels of uncommitted free reserves, as these represented only about 5% of prudential target. On 24 March 2010, Council approved the release of two earmarked reserves in respect of the current and future cost of single status as following reviews of the currently forecast costs, management assessed that sufficient amounts had been set aside in the budget to cover the cost of these liabilities. We also previously recommended that Council and management review the appropriateness of the basis of the prudential reserves target. During the year management carried out this review using comparison to guidance and other authorities. As a result the Council approved a revised prudential reserves limit of 2% of net expenditure, excluding requisitions, which equates to £4.1 million of uncommitted general fund balances.

The in-year surplus against budget was achieved through strict expenditure control and close budget monitoring. In October 2009 the council approved a £1 million spending freeze and a recruitment freeze which was applied to all directorates budgets. Further savings of £0.5 million were achieved from debt rescheduling.

These actions have resulted in a significant improvement in the Council's unrestricted reserves. The un-earmarked balance at 31 March 2010 therefore represents 82% of the prudential target, and demonstrates commitment to establishing an appropriate contingency in light of challenging financial circumstances.

The balance of the total general fund carried forward relates to commitments of £3.3 million (2008-09: £4.8 million), primarily in relation to grant funding for PPP (£1.4 million) and commitments to the 2010-11 budget (£1.3 million).

Financial position (continued)

Significant trading operations

Local authorities have a statutory target of generating revenues not less than expenditure over a rolling three year period for each significant trading operation. The summarised financial positions of the trading financial statements maintained by the Council for the three year period ended 31 March 2010 are shown below. This demonstrates that the Council achieved its statutory objective for both of its significant trading operations.

Significant trading operations surpluses	2007-08 £000	2008-09 £000	2009-10 £000	3-year cumulative £000
Housing property maintenance	566	1,211	1,427	3,204
Grounds maintenance and street cleaning	799	358	835	1,992

Housing revenue account

The Council's HRA returned a surplus of £803,000. The 2009-10 budget estimated utilisation of £380,000 of HRA funds from 2008-09. The un-earmarked balance on the housing revenue account fund at 31 March 2010 was £2.6 million, significantly in excess of its prudential target level of £638,000.

Treasury Management

During the year the Council prematurely repaid loans of £6.5 million and raised a new long term loan for the same amount at a lower interest rate. Early repayment generated a discount of £0.2 million and savings of £0.3 million due to the lower interest rate. The Council also carried out debt rescheduling of £20 million that generated a discount of £0.1 million and interest savings of £0.6 million within the year. As a result of these steps the overall cost of finance debt reduced by 0.43% for loans held in the year.

Management provided the annual treasury management report to Council on 29 September 2010 and it incorporated the following information:

- the treasury strategy for 2009-10;
- analysis of movement in the Council's net borrowing position, which was an increase of £17 million over the previous year. This was principally due to the reduced short-term investments held;
- commentary on the interest rate on debt held and the risk associated with borrowing; and
- the main prudential indicators and compliance with limits.

To ensure that borrowing levels are prudent, over the medium term the Council's external borrowing, net of investments, must only be used for capital purposes. The net capital financing requirement for the year was £303.1 million compared with adjusted net borrowing of £290.2 million. This includes £86 million in respect of the public private partnership schools liability.

The Council's working capital ratio at 31 March 2010 is 0.72 (2009: 0.85). The Council's long term borrowing is 5.1 times its council tax income with total borrowing at 5.7 times council tax income, compared to multiples of 5.2 and 5.9 respectively at 31 March 2009. These figures exclude the £86 million long term liabilities in respect of the PPP contracts which were also added in 2009-10.

Financial management (continued)

Capital position and plan

Total expenditure in support of the capital programme amounted to £36.7 million plus schools assets procured under a public private partnership (PPP) contract of £86.5 million. Three new high schools were handed over during the year as part of the PPP contract with one further primary school handed over in 2010-11. The programme was funded by capital receipts, government grants and contributions from revenue. Major capital works undertaken in year included work on the schools refurbishment programme and major road upgrades.

General fund services capital expenditure	2009-10 Budget £000	2009-10 Actual £000	2010-11 Estimate £000
Expenditure	25,776	20,525	25,617
Financed by:			
Borrowing	10,531	10,516	8,831
Capital grants	8,800	8,925	7,574
Capital receipts	7,445	2,084	9,212
Contributions to Capital Fund	(1,000)	(1,000)	-
	-	-	-

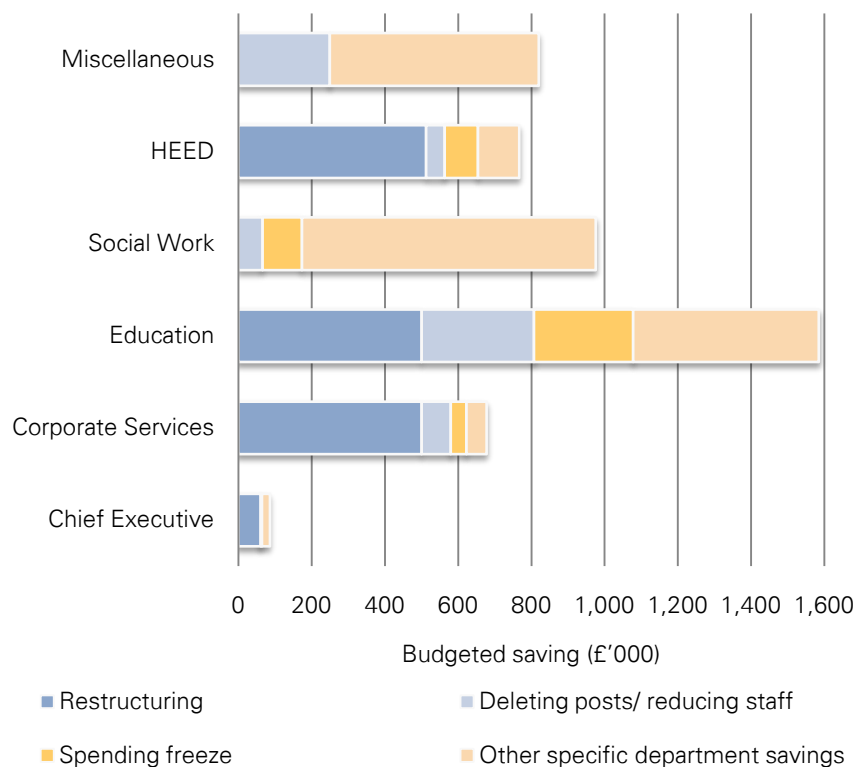
Housing revenue account capital expenditure	2009-10 Budget £000	2009-10 Actual £000	2010-11 Estimate £000
Expenditure	16,595	16,099	20,592
Financed by:			
Borrowing	13,758	14,421	18,092
Capital grants	-	115	-
Capital receipts	2,837	1,563	2,500
Contributions to Capital Fund	-	-	-
	-	-	-

The 2009-10 general fund services capital plan saw considerable under spend from the time the original budget was set. This was primarily due to fire risk and remedial works being under spent by £1.1 million due to delays in allocating funds to appropriate bids. In addition, further under spends of £1.4 million were seen on the schools regeneration programme due to delays in the rebuilding of Bonhill and Goldenhill primary schools.

Financial planning

A revenue budget of £249.1 million for 2010-11 was agreed at the special meeting of the council on 28 January 2010. This budget has been set on the basis that there will be no increase to the rate of council tax. The Council used an incremental approach to budgeting, starting from the 2009-10 probable outturn for the year and factoring in inflationary and pay increases. The corporate management team will apply savings that fall within their remit as 'management adjustments'. Further savings options are presented to members to agree to meet the budget gap.

The 2010-11 budget included approximately total of approximately £2.1 million of management adjustment savings and £2.6 million of council approved savings. The main composition of these combined savings is illustrated below. When this budget was set not all the savings were allocated to specific departmental budget lines. The Education department had budgeted restructuring savings of £0.5 million and these savings would be obtained by implementing the recommending of special review that was commissioned.



Source: West Dunbartonshire Council, accountancy department

Similar to prior years, performance is being monitored by the appropriate departments and on a monthly basis by council. In addition, for the first time savings options agreed by Councillors are also being monitored by the Strategic Finance Working Group.

Management reported that action has been taken to secure all council approved savings by the year-end. The period three budgetary control report showed that the Council had underspent by £260,000 to date. The corporate management team also agreed to extend the originally budgeted spending freeze to cover the full financial year. This requires further savings of £0.5 million across the Council to be achieved during the last six months of 2010-11. These savings have been allocated to all departments which have had to devise specific plans to achieve them.

The financial position to date is encouraging and shows a clear commitment across the Council to achieve the necessary savings. Management and members must remain conscious of the fact that it is likely to be more difficult to achieve the same results in future.

Also included in the 2010-11 budget was a transfer to reserves of £250,000 as a further step to achieving the desired level of reserves. Taken together with the financial measures and performance to date, will likely result in the Council managing to fully restore its un-earmarked reserves to its prudential target by 31 March 2011.

Consent to borrow for equal pay

In November 2009 Ministers agreed to introduce a scheme to allow local authorities to borrow to help them manage equal pay costs. The Council applied for consent to borrow £9.8 million and in February 2010 were given consent to borrow up to £4.4 million. This approval covers costs of approximately £2.2 million as incurred in 2009-10 and 2010-11, with the balance approved in respect of costs incurred prior to these years. Management has not yet exercised this consent but intends to borrow the full amount in 2010-11 in order to fund a significant business transformation process to ensure that the Council's systems and operations are modern and fit for purpose. The Council does not yet have detailed plans in place for utilising these funds but is currently reviewing options.

2011-12 and beyond

Given the tough economic operating environment which is affecting all authorities the Council has brought forward the timetable for the 2011-12 budgeting process to allow for more time to develop and consider the necessary savings options. Management currently estimate that there is a revenue budget gap of £10 million. Management has been proactive at devising a listing of savings options and there are approximately £17 million of savings options and £5 million of management adjustment savings under consideration.

The medium to long term pressures facing the Council are the subject of briefings and presentations to the strategic finance working group throughout the year. A special Council meeting was held on 14 October 2010 as a mid-year spending review, to enable elected members to consider options for savings which may take longer to implement so that the full year effect can be obtained in 2011-12, as well as the potential to take some savings early and obtain benefit in the remainder of 2010-11.

Management have also engaged with all staff over potential savings options through holding a series of six staff budget consultation road show sessions which has been supplemented with an online budget micro-site as well as three public sessions. These sessions involved staff and the general public working in groups to consider savings options. Accountancy staff are also trailing the use of zero based budgeting techniques in order to achieve greater control over costs and achieve savings through the removal of unnecessary expenditure. It is expected that this will be piloted in four services for the 2011-12 budget.

Annual efficiency statement

The efficiency agenda underpins the development and implementation of the Council's medium term financial and resources strategy. The Council's annual efficiency statement for 2009-10 reports cashable efficiency savings of £2.2 million, which is shown in the table in the context of previous savings already achieved.

The following strategic workstreams are currently being implemented as part of the Council's medium term finance and resources strategy:

- non-secondary school estate review;
- new service delivery model for leisure and cultural services;
- property rationalisation and asset management;
- Internal restructuring workforce planning;
- review of competitiveness of service provision;; and
- Improved procurement arrangements.

Year	Reported efficiency saving £million
2009-10	2.2
2008-09	2.5
2007-08	4.4
2006-07	3.4

Housing stock transfer

Management initially carried out an asset management strategy with the aim of addressing the need to ensure the Council's housing stock achieves the Scottish Housing Quality Standard by 2015. Following this work plans were made which proposed a partial transfer of approximately 45% of the Council's housing stock, representing 5,100 homes. The Housing, Environment and Economic Development committee, approved the partial housing stock transfer strategy in May 2010 which sets out the key objectives, risks and timeline of the transfer process.

This project is being supported by a stock transfer project team including staff with previous experience of local authority stock transfers and the process is being overseen by a specific Stock Transfer Steering Group. Currently work is being carried out by various consultants and surveyors to survey the stock. This data will be used to create a number of housing stock packages which registered social landlords will be able to bid for. The current strategy aims for a ballot of tenants to be carried out in January 2012 with actual transfer occurring in 2012.

This will be a key challenge for the Council in the coming two years which will require significant corporate services support.

Leisure Trust

As part of the wider Council savings options the Housing Education and Economic Development committee are considering plans to establish a leisure Trust in West Dunbartonshire. Outline plans were discussed in March 2010 which approved in principle the establishment of a leisure Trust. A detailed report was presented to the Housing Education and Economic Development committee considering the options available. It is estimated that this option would result in savings from non-domestic rates charges and VAT reductions which management estimated as £350,000 per year subject to initial set-up cost of £130,000.

Audit Scotland have recently completed a study into the provision of physical recreation services in local government. This study considers local authorities use of arms length and extended organisations (ALEOs) in the provision of recreational services. This includes the use of leisure Trusts as well as community business' and the private sector. The Accounts Commission approved the publication of this report in October 2010.

We recommend that management carefully consider the findings and recommendations of this report and ensure that these findings are considered as part of the options being considered.

Recommendation one

Governance and accountability – summary of key findings

- Ongoing work has been carried out during the year on proposals to integrate the NHS services provided by Greater Glasgow and Clyde NHS Board through its Community Health Partnership and the Council's social work services. Management commissioned an independent report to look at the implications of an integrated partnership model and to advise on potential issues. In February 2010, subject to some amendments, council approved the recommendations of the independent report. This approved the establishment of a new partnership in shadow from 1 April 2010 until 1 October 2010 by which point it is expected that the new organisation should be established.
- Audit Scotland recently published their report, as part of the improvement series for councillors and officers, "Roles and working relationships: are you getting it right?" Clarity about governance arrangements, roles and responsibilities and good working relationships are key to the success of the Council and ensuring it delivers best value and achieves the best outcomes for stakeholders. It is recognised that the member and officer checklists appended to the report have already been presented to the Improvement & Efficiency Executive, and it is recommended that these are now completed, and an action plan for improvement developed where necessary.
- Our planned audit approach seeks, wherever possible, to place reliance on the work completed by internal audit to minimise duplication of effort and ensure maximum benefit from the combined audit resource. In accordance with our audit plan overview we placed reliance on the work of internal audit.
- Our reports presented to the audit and performance review committee during 2009-10 to date have made 27 recommendations for improvements in key financial controls, organisation wide controls, the financial statement production process, IT and performance management arrangements. It is management's responsibility to ensure these are actioned.

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

Entities are responsible for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The *Code* requires auditors to review and report on corporate governance arrangements as they relate to:

- the Council's review of its systems of internal control, including its reporting arrangements;
- the prevention and detection of fraud and irregularity; and
- standards of conduct and arrangements for the prevention and detection of corruption.

Governance framework

The Council is currently lead by a minority Scottish National Party (SNP) administration. The elected members are supported by the Chief Executive and his corporate management team, which includes executive directors of the four departments within the Council (corporate services; education & life long learning; housing, environment & economic development; and social work & health). The Best Value and Community Planning report, published by Audit Scotland in July 2009, reported that the Council has enhanced its strategic capacity by revising structures and appointing new senior managers. The improvement and efficiency executive, a scrutiny panel which includes eight elected members is responsible for monitoring progress against Best Value.

The financial regulations include guidance on how to contribute to a positive control environment, procedures for identifying risks and responsibilities for establishing adequate controls and procedures to mitigate those risks. The strategic finance working group has been established in order to provide a forum for consideration of the longer term financial strategy for the Council.

The council also has the following key committees:

- audit and performance review;
- corporate and efficient governance;
- education and lifelong learning;
- social work and health improvement; and
- housing, environment and economic development.

The best value improvement plan prepared by the Council highlights the need to review the structure of the Council and working groups reporting directly to the improvement and efficiency executive to ensure the objectives of the Council are achieved.

We made a number of recommendations in our interim organisation wide controls report in relation to the operations of the audit and performance review committee. This relates to the roll, composition and skills of lay members as well as the standing order for quorum attendance.

Roles and relationships

Audit Scotland recently published their report, as part of the improvement series for councillors and officers, "Roles and working relationships: are you getting it right?" Clarity about governance arrangements, roles and responsibilities and good working relationships are key to the success of the Council and ensuring it delivers best value and achieves the best outcomes for stakeholders.

Drawing on their work in respect of Best Value, Audit Scotland looked at how well councillors and officers work together in local government and in particular:

- how well councillors and officers understand their respective roles and responsibilities;
- how roles, responsibilities and relationships between councillors and officers contribute to achieving best value (improving services, better outcomes for local people and value for money); and
- areas of improvement for councils to achieve better practice and performance.

The report sets out a tool for checking progress in respect of member and officer relationships and a checklist of questions for members and officers to consider in order to ensure that the Council is as effective as it can be. It includes consideration of:

- understanding their respective roles and responsibilities;
- how behaviour is influencing working relationships and performance; and
- the provision of adequate guidance to officers and members;

It is recognised that the member and officer checklists appended to the report have already been presented to the Improvement & Efficiency Executive, and it is recommended that these are now completed, and an action plan for improvement developed where necessary.

Recommendation two**Partnership working****Integration of NHS and Local Authority services**

Ongoing work has been carried out during the year on proposals to integrate the NHS services provided by Greater Glasgow and Clyde NHS Board through its Community Health Partnership and the Council's social work services. Management commissioned an independent report to look at the implications of an integrated partnership model and to advise on potential issues.

In February 2010, subject to some amendments, council approved the recommendations of the independent report. This approved the establishment of a new partnership in shadow from 1 April 2010 until 1 October 2010 by which point it is expected that the new organisation should be established. A paper presented to Council in September 2010 approved the standing orders of the newly created West Dunbartonshire Community Health and Care Partnership.

Clyde Valley Shared Services

Clyde Valley Community Planning Partnership (CVCPP) is composed of all local authorities and community planning partners in the Clyde Valley area. The position of Chair of the CVCPP rotates among the members, and the leader of West Dunbartonshire Council has taken the position of Chair in 2010.

The CVCPP commissioned an independent review of Joint Working and Shared Service opportunities early in 2009 led by Sir John Arbuthnott. The review sets out a framework for joint working and shared services. It also identifies some of the initial actions that would be required to deliver joint or shared approaches. The review proposes a flexible approach that would allow authorities to implement some or all of the suggestions in an integrated manner, while retaining local accountability for service delivery. Ten work streams were identified and assessed as having the greatest potential to deliver efficiencies and outline business cases are being worked on which aim to achieve significant savings. The Council has taken on the role as lead authority for the joint economic strategy work stream. The Council will consider these proposals when the final business case is published.

Systems of internal control

Statement of systems of internal financial control

The statement for 2009-10 provides details of the internal control environment and risk management and control framework. Management highlights that the system of internal control is based on a framework of guidance and regular management information, financial regulations, administrative and authorisation procedures, management supervision and a system of delegation and accountability. The statement identifies that it is informed by officers throughout the Council, the audit performance and review as the scrutiny committee and by the work of internal and external audit. The statement of the system of internal financial control highlights that specific weaknesses have been identified through the audit of Best Value and Community Planning.

Internal audit

Our planned audit approach seeks, wherever possible, to place reliance on the work completed by internal audit to minimise duplication of effort and ensure maximum benefit from the combined audit resource. In accordance with our audit plan overview we placed reliance on the following areas of work audited internally;

- accountancy systems;
- cash and bank; and
- statutory performance indicators.

Internal audit's annual report was submitted to the audit and performance and review committee on 8 September 2010. In respect of the Council's control environment, the 2009-10 annual assurance statement stated that "*reasonable assurance can be placed upon the adequacy and effectiveness of West Dunbartonshire Council's internal control system in the year to 31 March 2010*".

Internal controls

We have submitted the following reports, which considered internal controls, to the audit and performance review committee during 2009-10. Our testing, combined with that of internal audit, over the design and operation of controls over significant risk points confirms that, with the exception of the weaknesses reported, controls are designed appropriately and operating effectively.

Report	Date (2010)	Number and key themes of recommendations	
Key financial controls report	27 May	7	Recommendations focused on the need for management to make improvements in the evidencing of management review of existing key controls.
Organisation wide controls report	12 August	8	Recommendations to enhance risk management, policies and procedures and scrutiny arrangements through the audit and performance review committee
IT controls report	31 August	8	Recommendations to formalise controls and enhance controls around back-ups, recovery and business continuity (no new recommendations made, but a number of matters from prior years remain to be fully implemented).
Report to those charged with governance	20 September	4	Recommendations to enhance efficiency of the financial statements production and audit process together with additional recommendations on key controls

Councillors code of conduct

Following a decision by the hearing panel of the Standards Commission on 1 April 2009, Councillor Bollan was found to be in breach of the Councillors code of conduct. The panel decided to suspend for nine months Councillor Bollan's entitlement to attend all meetings of the Council and of any committee and sub-committee thereof and of any other body of which he is a representative or nominee of the Council. This was imposed from 6th April 2009. One member had his conduct referred to the Standards Commission during the year but was found not to be in breach of the Councillors' Code of Conduct.

Prevention and detection of fraud and irregularity;

Prevention and detection of fraud and irregularity

The Council has a whistle blowing hotline, with calls received by internal audit. Instances of suspected fraud, or irregularity, arising are reported to the audit and performance review committee, as well as reporting to the corporate management team. During 2009-10 there were 35 whistle blowing allegations which were investigated by internal audit and / or departments. All other whistle blowing allegations have been satisfactorily resolved.

National Fraud Initiative

We submitted a completed questionnaire to Audit Scotland in February 2010 to inform the national report on local authorities' participation in the National Fraud Initiative ("NFI"). This included consideration of the Council's arrangements for responding to matches identified, arrangements for reporting results internally and compliance with Audit Scotland guidance.

This exercise identified ten cases of fraud and error primarily in relation to benefits payments made. The total value of fraud and error identified to the audit and performance review committee was £123,000. In addition, the Council also identified 197 cases where the Council were not made aware that the disabled badge holder had died. Due to the sensitivity of this issue management has decided not to take steps to recover these badges. No material instances of fraud or error were identified as part of the NFI process.

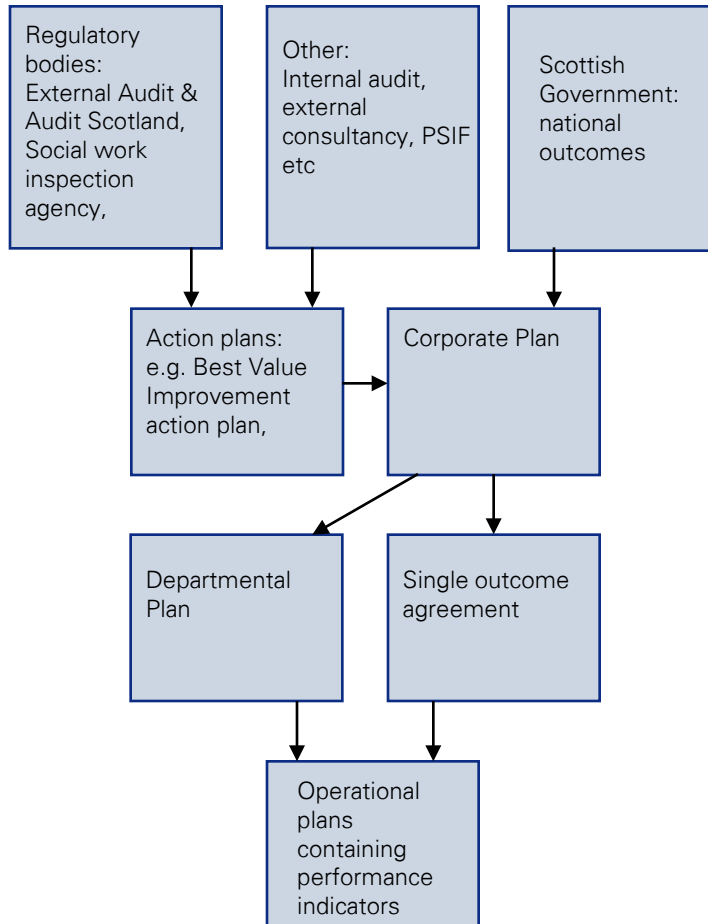
Performance – summary of key findings

- The direction of SPIs for 2009-10 represents a significant shift in the approach, reflective of the changing environment in which local authorities operate. This change in direction has significantly reduced the number of specific indicators that councils are required to use, and placed the emphasis for ensuring their accuracy with the Council. We have reviewed the performance management framework established for 2009-10 and made recommendations to improve the format and content of reports to members to enable more effective and efficient scrutiny.
- The Scottish Housing Regulator carried out a re-inspection of the Council's housing management service and reported on their findings in March 2010. The Council's service was rated as 'fair', noting that the service has some strengths but that these are set against a number of weaknesses, some of which are significant. The report recognises that the Council has increased the pace of improvement since the previous inspection, and has made good progress in developing a culture of improvement.
- In February 2010, the Accounts Commission updated their findings on the Best Value progress report from July 2009. This report found that the Council had not made sufficient progress on the initial Best Value findings. The Accounts Commission held a meeting in April 2010 with the elected members and the Chief Executive. In June 2010, Council approved a revised and more streamlined best value and improvement plan for 2010-11 based on elected members requests for this to be focused on key actions to improve the pace of change.
- The Accounts Commission has also approved a new approach to the audit of Best Value. As part of this audit and inspection bodies have published a joint assurance and improvement plan which sets out the planned scrutiny activity for the period April 2010 to March 2013. This plan identified three areas of significant risks for the Council, related to: economic regeneration in the area; the strategic leadership of the Council and the Council's financial resources.
- In line with the other local authorities in Scotland, the Council was graded as non conformant by the procurement capability assessment exercise undertaken in 2009. Management recognise that a Council wide approach to procurement is necessary to improve performance and work is underway to review the procurement operating model combined with restructuring of the Council's procurement functions

Performance management arrangements

Performance management framework

The responsibility to ensure that the Council has appropriate arrangements in place to manage and monitor performance lies with management and the members of Council. The Council introduced a revised performance management framework (PMF) across the Council, which details the level of review required for each key corporate document by varying levels of management. This framework has applied throughout 2009-10, having been established from 1 April 2009. The Council's performance management system, Covalent, records all performance objectives and actions contained within strategic documents and allows a means to measure and report on progression of these actions.



Internal documents and external documents from regulatory bodies are used to drive strategic decisions and key policy documents. However, these do not always feed directly into the corporate plan, individual action plans are established to address recommendations of external reports.

Reviewed by corporate management, thematic committees and audit and performance review committee

Review of Departmental plan: department senior management team, corporate management team and elected members
Review of single outcome agreement: community planning partnership and annually by elected members

Reviewed by departmental managers, corporate management team and elected members, through thematic groups and PIs reported to audit and performance review committee

Source: KPMG LLP

We have considered the adequacy of the performance management arrangement and noted areas of good practice:

- ✓ clear expected reporting that includes the frequency of reporting and the deadline of reporting for period end;
- ✓ assignment of officers required to review and scrutinise performance managements, including elected members.

Statutory performance indicators

The statutory deadline for the publication by the Council of SPIs is 30 September. The direction of SPIs for 2009-10 represents a significant shift in the approach, reflective of the changing environment in which local authorities operate. This change in direction has significantly reduced the number of specific indicators that councils are required to use, and include measures designed to encourage councils to use a greater range of information as part of their mainstream performance management and reporting activities.

Audit Scotland Direction, "A New Direction; SPI guidance for audit bodies 2009/10", released in February 2009, details the responsibilities of external audit which have changed significantly to previous years. Our duty is to:

- be satisfied that the council has made such arrangements for collecting, recording and publishing performance data as are required to ensure that, so far as practicable, everything published is accurate and complete; and
- to assess whether councils are fulfilling their obligations as set out in paragraph 3.2 - the council must ensure that, so far as is practicable, the information published is accurate and complete. Audit Scotland asks each Chief Executive to ensure that his is the case, and that all officers involved in the collection and reporting of performance information are fully aware of the contents of this Guide and of their responsibilities.

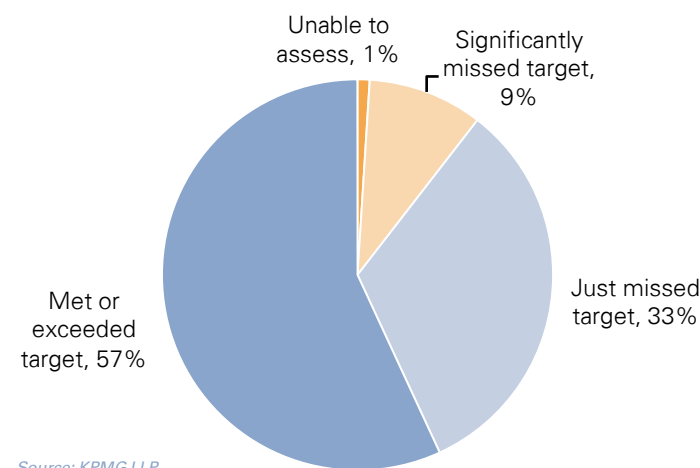
Internal audit conducted detailed testing of a sample of published performance indicators. We have evaluated their findings and carried out additional testing over a further sample of indicators. Based on the results of our combined work we are satisfied that the council has made such arrangements for collecting, recording and publishing performance data as are required to ensure that, so far as practicable, everything published is accurate and complete.

Overview of performance

The chart summaries progress against the 54 statutory performance indicators and 41 local indicators which form the Council performance scorecard.

Of the indicators, 69.5% showed an improvement in performance from 2008-09 or matched that year's performance and 21% showed a decline in performance with 9.5% of indicators not comparable.

The Covalent system captures all statutory and local performance indicators, with reports from this system provided to the audit and performance review committee. In addition all members and the corporate management team have access to the covalent system.



Source: KPMG LLP

In line with the performance management framework, SPI information is reviewed at departmental level and reported to the thematic committees. All departments present a narrative summary of PI, including SPI, performance in line with the performance management framework of the Council. This is supported by Covalent reports which, during 2009-10, have tended to vary in the level of detail provided, from a snapshot four page highlights summary by social work to a 32 page detailed Covalent report in the Chief Executive department.

There is a risk in presenting too much information to the thematic committees that elected members may spend too much time sifting through PIs to identify any problem areas, instead of spending time scrutinising and seeking follow up on areas where weaknesses have been identified, and a review to ensure a standard format and level of reporting is provided is recommended.

Recommendation three

The audit performance and review committee has the responsibility for reviewing the SPI information and considering the effectiveness of scrutiny by other committees. The level of reporting made to this committee has also been extremely detailed. We would recommend that whilst it is necessary to show a balanced picture to the audit and performance review committee, the reports to committee should focus on:

- better use of summary tables giving overall performance, eg number of indicators above target, at target, or below target;
- focus on poorly performing indicators, to include actions identified at departmental level and approved by thematic committee in order to address the poor performance.

This will allow members on the audit and performance review committee to exercise their responsibility in scrutiny of performance on the actions being taken to address aspects of poor performance, while being aware of the overall level of performance being achieved at departmental level over all local and statutory performance indicators.

Recommendation four

Procurement

The Public Procurement Reform Programme was set up following the McClelland review of Procurement in 2006. In January 2009, the Scottish Government promoted the use of a single Procurement Capability Assessment (PCA) to assess procurement performance in public sector bodies and as a basis for the sharing of best practice and continuous improvement across the public sector in Scotland. The assessments were coordinated and conducted by the relevant Centre of Expertise, which for local government is Scotland Excel.

Every local authority in Scotland took part in the first round of PCAs in late 2009. The process assessed capability against each of the best practice recommendations from the McClelland review. The Council scored 15% which is a low score in absolute terms as well as in comparison to the local government average score of 22.6%. This assessment is classified as non conformance, although it is recognised that this assessment is in line with the other local authorities in Scotland. This level of score suggests that the organisation is open to risk of legal challenges due to the lack of visibility and control over procurement across the organisation.

The management team have recognised that improvements are required across all assessment criteria and that the situation reflects a low level of investment in procurement resources and influence across the organisation. The council has put in place some steps since the initial assessment including: standard tendering guidance; a local procurement policy for local small and medium enterprises and the introduction of procurement performance indicators. Management recognise that the Council still has a significant way to go to achieve a higher performance and anticipate an overall non conformance score for the current 2010 assessment. Management recognise that a Council wide approach to procurement is necessary to improve performance and work is underway to review the Council's procurement operating model combined with restructuring of the Council's procurement functions. It is expected that following the updated findings of the current assessment that an action plan will be developed to move the service forward.

It is important that the Council takes steps to address the issues identified by these reports in order to ensure it is conforming with all legal requirements. In addition, experience from other public sector bodies have shown that significant savings can be achieved through centralised and strict control over procurement. Given the tough economic environment and the Council's ambitious savings plans we recommend that priority is given to ensuring that value for money is being achieved from the councils procurement service.

Recommendation five

We will monitor the situation and the ongoing commitment by the organisation to improving the situation.

Assurance and improvement plan

The Accounts Commission approved a new approach to Best Value in July 2010. As part of a wider review of the scrutiny regime on local authorities agreement was reached between scrutiny bodies through adopting a shared risk assessment process. The following scrutiny bodies have developed a shared risk assessment: audit and improvement plan:

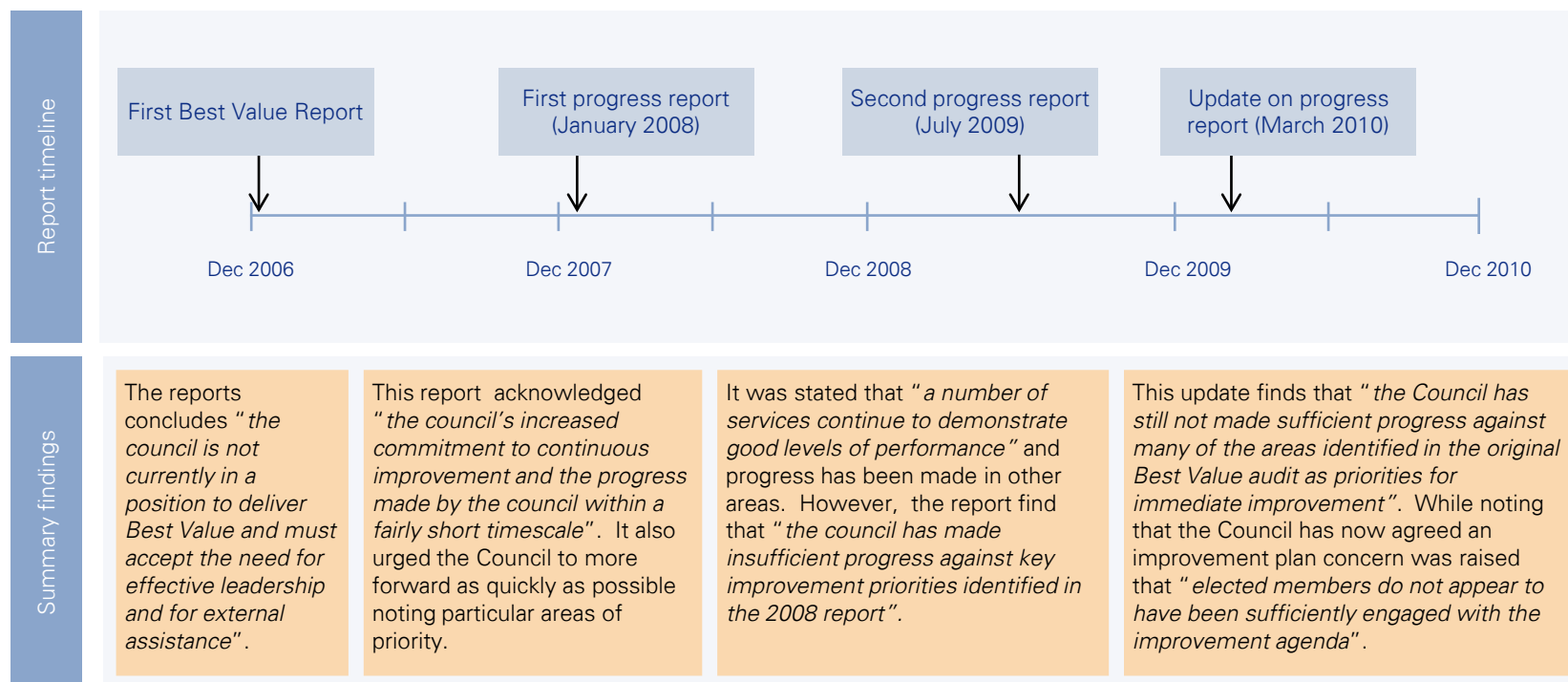
- Audit Scotland;
- KPMG, External Auditor;
- Care Commission;
- HM Inspectorate of Education;
- Scottish Housing Regulator; and
- Social Work Inspection Agency.

These scrutiny plans are based on risk. The risk assessment process is designed to identify where scrutiny activity will make the most difference in terms of helping the Council to improve and providing assurance to the public. The assurance and improvement plan sets out the planned scrutiny activity for the period April 2010 to March 2013. The scrutiny activity is proportionate to the assessed scrutiny risks.

The plan identified three areas of significant risks related to: economic regeneration in the area; the strategic leadership of the Council and the Council's financial resources.

Best Value

The Local Government in Scotland Act (2003) introduced statutory duties relating to Best Value and Community Planning. The first audit of Best Value and Community Planning for the Council was carried out in 2006 with subsequent progress and update reports carried out. The following timeline shows the reports issued by the Accounts Commission and a summary of their findings.



In March 2010 the Accounts Commission issued an update on the Council Best Value progress report. This notes positive steps taken by the Council but emphasises that insufficient progress has been made on certain areas identified as for immediate improvement. The Commission recommends the Council focus on two areas in order to achieve a sustainable financial position, and ensure progress with the improvement plan. These are to:

- establish systems to ensure the management, monitoring and reporting of progress against projected savings; and
- take urgent steps to make more effective use of the support available from others in the local government community.

Best Value (continued)

Following the July 2009 progress report, the Council responded with the establishment of four new work streams in order to progress the key priorities emerging from that progress report. Progress on developing the Council's best value improvement plan has been overseen by the improvement and efficiency executive working group (I&EE). The revised best value improvement plan was presented and approved by members in December 2009 with progress being monitored by the I&EE.

Action plans from each of the four work streams are now part of the Covalent performance management system. In June 2010, the improvement plan was approved for 2010-11. This plan was an updated and streamlined version of the previous plan in order to focus attention on key priorities, as the Council's response to the March 2010 Accounts Commission report.

We note progress on issues raised from the March 2010 update progress report:

Leadership

We note there continue to be issues with members' attendance at the I&EE. Meetings of the I&EE have changed from monthly meetings to quarterly meeting and the June 2010 meeting was cancelled due to a lack of member attendance.

Management issued a 'pulse' survey in April 2010. This is a short survey of specific questions issued to a random sample of employees. This first 'pulse' survey aimed to specifically explore issues around staff morale particularly given the current restructuring of departments. This survey found that staff moral is improving with 47% of staff agreeing that moral is generally good. This survey also showed that 60% of staff recognise the Council's vision with 80% of staff agreeing that their day-to-day job helps to deliver the Council's vision.

Best Value Improvement Plan

The improvement plan for 2010-11 has been agreed and includes four work-streams. Each work-stream has an agreed action plan with required action and set due dates. These action plans are being monitored as part of the covalent performance management system which all members and the corporate management team have online access to.

Financial position

As reported earlier in this report, the reserves position has improved significantly and, overall, the Council exceeded its budgeted financial performance for the year. Following approval of its long term financial strategy, the Council has also given earlier consideration to the 2011-12 budget setting process and beyond. Given that the current economic environment means that all local authorities have significant challenges in their financial planning, the Council has established a much better position over the last 12-18 months in order to cope with these challenges.

Housing

The Scottish Housing Regulator published its findings from its final re-inspection report. This concludes that the Council has achieved an overall C grade for housing management which is a "fair" performance. The Regulator's assessment noted that the Council's housing management has some strengths, but these are set against a number of weaknesses, some of which are significant. It is noted that the Council's performance is poor at collecting rent compared to national statistics although there has been consistent improvements over the last three years. The regulator also noted that within the housing service "the leadership had increased the pace of change in the last year and the Council is now fully focused on improvement". Two areas of 'positive practice' were also identified in the report in relation to the Council's use of challenge panels and its policy on anti-social behaviour.

The Council agreed an improvement plan with the Regulator which addresses all the issues highlighted in the report. This improvement plan is being monitored by the HEED committee and the member, officer working group. The department also committed to providing the Regulator with voluntary six monthly updates on progress.

Appendix one – action plan

Priority rating for recommendations

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Council or systems under consideration. The weakness may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.

No.	Issue and recommendation	Management response	Officer and due date
1	<p>Audit Scotland have recently completed a study into the provision of physical recreation services in local government. This study considers local authorities use of arms length and extended organisations (ALEOs) in the provision of recreational services. This includes the use of leisure Trusts as well as community business' and the private sector. The Accounts Commission approved the publication of this report in October 2010.</p> <p>We recommend that management carefully consider the findings and recommendations of this report and ensure that these findings are considered as part of the options being considered.</p> <p><i>Grade two</i></p>	<p>The council have approved plans to establish a leisure trust within West Dunbartonshire and will consider the recommendations within the Audit Scotland Report in developing our proposals.</p>	<p>Executive Director of HEEG</p>
2	<p>Audit Scotland recently published their report, as part of the improvement series for councillors and officers, "Roles and working relationships: are you getting it right?" Clarity about governance arrangements, roles and responsibilities and good working relationships are key to the success of the Council and ensuring it delivers best value and achieves the best outcomes for stakeholders.</p> <p>It is recognised that the member and officer checklists appended to the report have already been presented to the Improvement & Efficiency Executive, and it is recommended that these are now completed, and an action plan for improvement developed where necessary.</p> <p><i>Grade two</i></p>	<p>The checklist tabled and discussed at the Improvement & Efficiency Executive on 30 September 2010 and will be completed following a workshop to be held at the Members' Business Day on 17 November 2010. Officers will attend a workshop during the Senior Managers' Network on 4 November 2010, during which the relevant appendix will be completed.</p>	<p>Head of Audit, Performance & Strategic Planning 30 November 2010</p>

Appendix one – action plan

No.	Issue and recommendation	Management response	Officer and due date
3	<p>Covalent reports to thematic committees on performance information have during 2009-10 tended to vary significantly in the level of detail provided. There is a risk in presenting too much information that elected members on these committees may spend too much time sifting through PIs to identify any problem areas, instead of spending time scrutinising and seeking follow up on areas where weaknesses have been identified, and a review to ensure a standard format and level of reporting is provided is recommended.</p> <p><i>Grade two</i></p>	<p>The new Manager is conducting a review of reports issued in the last year with a view to streamlining and we have piloted an exception report.</p>	<p>Manager of Risk & Performance 31 March 2011</p>
4	<p>The level of reporting to the audit and performance review committee has also been extremely detailed. We would recommend that whilst it is necessary to show a balanced picture to the audit and performance review committee, the reports to committee should focus on:</p> <ul style="list-style-type: none"> • better use of summary tables giving overall performance, eg number of indicators above target, at target, or below target; • focus on poorly performing indicators, to include actions identified at departmental level and approved by thematic committee in order to address the poor performance. <p>This will allow members on the audit and performance review committee to exercise their responsibility in scrutiny of performance on the actions being taken to address aspects of poor performance, while being aware of the overall level of performance being achieved at departmental level over all local and statutory performance indicators.</p> <p><i>Grade two</i></p>	<p>Recent reports on performance to the Audit & Performance Review Committee have included tables which summarise overall performance and, for the annual review of key performance indicators for 2009/10, appendices were included in the report providing additional information on poorly performance indicators. However, a review will be carried out of the content and style of performance reports being presented to the Audit & Performance Review Committee.</p>	<p>Manager of Risk & Performance 31 March 2011</p>
5	<p>It is important that the Council takes steps to address the issues identified by the procurement capability assessment reports in order to ensure it is confirming with all legal requirements. In addition, experience from other public sector bodies have shown that significant savings can be achieved through centralised and strict control over procurement. Given the tough economic environment and the Council's ambitious savings plans we recommend that priority is given to ensuring that value for money is being achieved from the councils procurement service.</p> <p><i>Grade two</i></p>	<p>The council recognises that procurement is key to the Council strategic capability and has issued an invitation to tender brief for partnership assistance and support to develop an operating model to facilitate the capture of both significant and sustainable savings and service improvements. A full report on the business case when completed will be presented to the Corporate & Efficient Governance Committee.</p>	<p>Head of Finance & ICT 31 March 2011</p>