

Dumfries and Galloway Council

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

October 2010



 AUDIT SCOTLAND



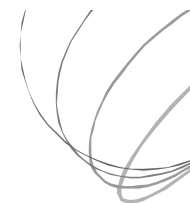
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Key Messages

Background

The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. During 2009/10 the recession in Scotland continued to impact all aspects of public life forcing councils into taking difficult decisions surrounding the need to deliver services and support their local economies whilst seeking to drive out efficiencies and reduce their own costs. The public sector will have to work within sharply constrained budgets in 2010/11 and beyond, while seeking to maximise the effectiveness of the services delivered.

Financial Statements

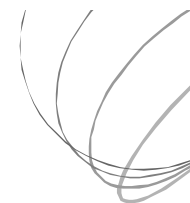
We have given an unqualified opinion on the financial statements of Dumfries and Galloway Council (the council) for 2009/10.

In common with other Scottish Local Authorities, the council's financial statements reflect material pension fund deficits. The combined deficit on the Local Government, Police and Fire pension schemes at 31 March 2010 was £589.7 million, of which £ 335.8 million (57%) related to the unfunded police and fire pension schemes mainly due to changes in actuarial assumptions affecting the present value of future liabilities. The pension liability had a substantial impact on the net worth of the council which was reported in the balance sheet at 31 March 2010 as a negative net worth of £314.5 million. The Director of Support Services has considered the impact of the negative net worth on the ability of the council to continue to deliver services in the future and the future financing of the council's liabilities. As noted in the Explanatory Foreword to the financial statements, the future financing of the council's liabilities will be met by future grants and the application of future income and as such it is appropriate to adopt a going concern basis for the preparation of the 2009/10 financial statements.

Use of Resources

At 31 March 2010 the council had total funds of £65.77 million, a significant proportion of which has been earmarked for future spending in specific projects.

In 2009/10 the council contributed £5.966 million to the general fund, £0.368 million more than that planned at the start of the year, with the general fund now holding balances totalling £52.443 million. Of this, £7.272 million remains unallocated and is available to finance future cost pressures and contingencies. While the level of unallocated general fund balances is above the council's minimum target, the financial pressures associated with the current economic climate are significant and close attention will have to be given to the continuing adequacy of the council's unallocated reserves.



In overall terms, the council managed its budget to breakeven financially in challenging circumstances with service expenditure remaining within budgeted levels despite the requirement to achieve £3.9 million savings in 2009/10.

The council has continued to incur slippage against its capital plan. Although at a reduced level from previous years, there was an underspend in the year of £6.1 million or 17% against its re-profiled capital programme. The largest area of underspending was against the Education allocation. Stronger project management and performance scrutiny are now essential if the council's planned improvements to managing the capital plan are to be effective.

The council is still carrying an underspend on resource transfer funding from NHS Dumfries and Galloway of £2.3 million. The NHS has approved the allocation of these funds to a 'change fund' and detailed spending plans should be prepared for the use of these monies and progress against milestones reported and monitored by members.

Governance and Accountability

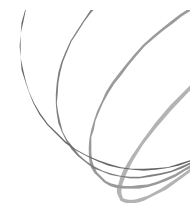
Based on our reviews of the key controls within the main financial systems we concluded that apart from the payroll system, the systems had a satisfactory level of control.

Our review of the payroll system identified material weaknesses in the internal control environment with the main areas of weakness relating to the authorisation and processing in the payroll system of new starts and leavers. There was also a general absence of evidence to confirm the completion of required documentation and supervisory checks and review. It is recognised that the roll out of the new payroll system at the same time as the implementation of the single status agreement was particularly challenging for the council and is likely to have contributed to the weaknesses during 2009/10. However it is our view that none of these control weaknesses could have resulted in a material misstatement in the 2009/10 financial statements.

The council is currently going through a period of significant change. Senior management restructuring, the impact of future funding cuts, changes to services and the council's developments in strategic commissioning and area management are all factors which will place the council's governance arrangements under pressure. To maintain strong governance and accountability, the council should complete its review of the Schemes of Administration and Delegation to Committees and improve the processes for tracking committee recommendations in support of members' decision making and scrutiny.

Performance Management & Improvement – Best Value Update

Our audit work in 2009/10 included a follow up of the audit of Best Value and community planning which was originally published in 2009. The detailed assessment of these activities is covered in the report section on performance management but the key messages are summarised here.



The council needs to continue to increase its pace of change to deliver Best Value. It has taken measures to improve political and corporate leadership, and it now has a clearer vision and direction. An organisational development framework is in place to drive corporate improvement, but this does not yet identify clear objectives. These changes are relatively recent and it is therefore still too early to assess their full impact.

There have been some positive developments in the corporate arrangements for Best Value. The council has strengthened performance management at its senior management level. Performance reporting to committee, however, remains under-developed. This limits the ability of elected members to scrutinise the council's performance including its progress with improvement.

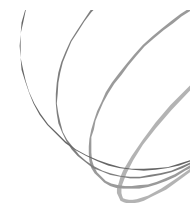
The council has strengthened its budget planning process through greater elected member involvement and public consultation and needs to build upon the recent development of budget information provided to elected members through the activity based budgeting exercise. The council's approach to workforce planning and the corporate management of assets need further development. The council still does not have a systematic approach to demonstrate the competitiveness of its services.

Outlook

The current economic climate and need to make unprecedented levels of savings places exceptional pressures on the council to ensure resources are effectively and well managed. Future spending has to be targeted to address key public priorities while securing real value for service users. These pressures are exacerbated by the short timescales within which the council has to make decisions on the future of services and areas of budget cuts. The council is progressing savings plans to secure the current savings target of £21.8 million set for 2011/12. Longer term financial plans will also be required for the delivery of the unprecedented savings targets of £36.6 million and £51.4 million in 2012/13 and 2013/14 respectively. Of particular challenge is the need to develop workforce planning and asset management and deliver its ambitious organisational development framework. Further improvements to performance management and reporting are also crucial.

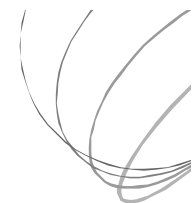
The success of the council's organisational development framework will be critical in securing positive change and demonstrating best value. The council has to build on the measures it has taken so far in setting a clearer direction and strengthening corporate and political leadership. The pace of change in delivering best value must now increase to ensure planned improvements can be clearly demonstrated.

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

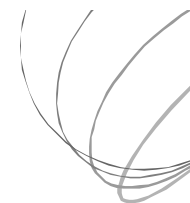


Introduction

1. This report is the summary of our findings arising from the 2009/10 audit of Dumfries and Galloway 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) which can be downloaded at <http://www.audit-scotland.gov.uk/work/scrutiny>. Where relevant, we comment on issues identified in the AIP but recognise that the report covers the period 2010-13 and correspondingly all AIP issues may not be covered on and followed for the period since publication.
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.
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.



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

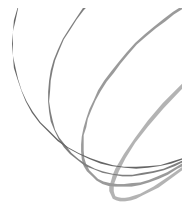
8. We have given an unqualified opinion that the financial statements of Dumfries and Galloway Council for 2009/10 give a true and fair view of the financial position and its expenditure and income for the year. We have also certified that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

Going Concern

9. In common with other Scottish Local Authorities, the council's financial statements reflect material pension fund deficits. The combined deficit on the Local Government, Police and Fire pension schemes at 31 March 2010 was £589.7 million, of which £ 335.8 million (57%) related to the unfunded police and fire pension schemes mainly due to changes in actuarial assumptions affecting the present value of future liabilities. The pension liability has had a substantial impact on the net worth of the council which is reported in the balance sheet at 31 March 2010 as a negative net worth of £314.5 million. This is the first year since 2006/07 that the council has recorded a closing net liability position in its balance sheet.
10. The council has considered the scale and reason for the net liability position and determined that it is appropriate to prepare the accounts on a going concern basis and we concur with this assessment. Whilst the deficit funding position of the pension funds indicates that the expected liabilities are not fully met at the balance sheet date, pension liabilities will be funded as they fall due through employee and employer contributions, government grants and council tax.

Statement on the System of Internal Financial Control

11. We are satisfied that the disclosures in the Statement on the System of Internal Financial Control are consistent with our knowledge of the council. However despite specific concerns being raised in the prior year regarding the need to further develop risk management and business continuity arrangements these processes are again highlighted as requiring improvement. Our concerns highlighted that improvements have been required in these areas for a number of years and that, to



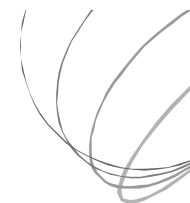
date, the action taken by the council has not been sufficient to mitigate the concerns of the Director of Support Services.

Accounts Submission

12. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2010. Generally the audit of the financial statements progressed well with the council providing support and working papers as requested. There were however some issues relating to the quality and sufficiency of working papers and the time taken to respond to some audit queries.
13. We are working in partnership with finance to clarify our requirements and help improve the processes for the preparation and audit of the 2010/11 financial statements.
14. 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.

Audit Testing

15. In order to assess the adequacy of the governance arrangements within the council and to obtain assurances for the audit of the financial statements, we reviewed the main controls in place within each of the council's main financial systems. Based on the results of our reviews we concluded that, apart from the payroll system, the council's other main financial systems had a satisfactory level of control. Our review of the council's payroll system identified a number of significant weaknesses in the internal control environment during the implementation of iTrent, the new combined HR and Payroll System. However it is our view that none of these control weaknesses could have resulted in a material misstatement in 2009/10 financial statements.
16. Based on our review of internal audit files and discussions with officers, we have also taken some assurance from the work carried out by the internal audit section as part of their 2009/10 controls assurance work in the following areas:
 - Debtors
 - Creditors
 - Cash Income
 - Treasury Management
 - Non Domestic Rates Billing and Collection
 - Council Tax Billing and Collection
 - Pensions Administration.



Accounting Issues

IFRS

17. 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 (GAAP) to International Financial Reporting Standards (IFRS). Whilst local government has already adopted some aspects of IFRS, the scale and complexity of the changes has meant that the process has been both demanding and time consuming with significant issues still to be addressed. In April 2010 we wrote to the Director of Support Services highlighting a number of specific concerns regarding the council's lack of progress in its preparations for IFRS. Since then the council has made further progress and is currently working towards a number of key milestones. However given the current extent of staff workloads there continues to be a risk that the council is not fully prepared for the full application of IFRS in 2010/11.

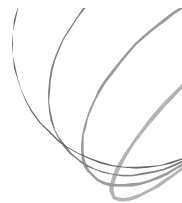
Action Plan Point 1

18. In 2009/10 the council was required to submit the Whole of Government Accounts return on an IFRS basis. The council submitted these by the appropriate deadlines and although there were some queries and adjustments, the overall process was satisfactory.

PPP and PFI Projects

19. In 2009/10 councils were required to account for PFI/PPP projects on an IFRS basis in accordance with the International Financial Reporting Interpretations Committee's publication IFRIC 12. This means that the council was required to include assets and liabilities relating to its Waste Management PFI and Schools PPP within the financial statements, including prior year adjustments where applicable. These changes were material and the council sought external advice on the topic to ensure compliance with the guidance. In addition the application of IFRIC 12 requires additional disclosure notes in the financial statements in respect of the detailed costs associated with the PPP and PFI contracts. The note highlights that for the schools PPP the council is liable to pay £471.511 million over the life of the contract whilst total payments for the PFI total £210.130 million.

20. The council has sought to manage any shortfall in the future funding for the PPP and PFI projects through contributions to specific sinking funds which are held as earmarked elements of the general fund. Annual contributions are made from the revenue budget to these funds and at 31 March 2010 the closing balances were £18.711 million for the Schools PPP and £11.623 million for the Waste PFI. The sufficiency of these balances to defray future shortfalls is based on a number of assumptions which were last reported to members in February 2008. There is a risk however that these assumptions change over time threatening the adequacy of sinking fund balances. The council



should therefore carry out a formal review of the PPP and PFI affordability gap along with the required level of future annual contributions.

Resource Transfer Funding

21. The council continues to carry significant underspends in Resource Transfer funding amounting to £2.3 million at 31 March 2010. Despite reporting this issue to members in each of our previous 2006/07, 2007/08 and 2008/09 audits, the level of unspent carry forward has remained over £2 million and the resources carried forward from previous years have remained largely unspent for a period of at least 4 years. We note that looking to 2010/11 NHS Dumfries and Galloway supports the creation of a 'change fund' from the accumulated uncommitted resource transfer balances and it is essential that detailed spending plans are introduced to ensure best use of these funds.

Action Plan Point 2

Trust funds

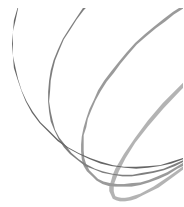
22. Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. As the Office of the Scottish Charities Regulator (OSCR) has deferred the date of full implementation of these regulations until 2010/11, reliance can be placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers. The council has plans to rationalise some of the smaller and obsolete trusts and intends to progress this in the coming years.

Common Good Fund

23. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners on accounting for Common Good Funds. Amongst other developments 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.
24. Overall the council complies with these main requirements. A separate account for the common good is disclosed in Dumfries and Galloway's financial statements and a separate fixed asset register is also maintained. The council plans to carry out further work to ensure the completeness of common good assets and review significant assets over a reasonable period of time to determine if there are other potential Common Good assets.

Pension Fund

25. The large increase in the pension liability, as assessed through the FRS17 method, is due mainly to changes in actuarial assumptions affecting the present value of future liabilities. These assumptions include a fall in real discount rates along with a strengthening in the mortality assumptions to reflect improvements in life expectancy. All other things being equal lower real discount rates and improved



life expectancies have an adverse effect on the funding position of pension schemes and serve to increase liabilities. The significant increase in the level of the pension liability is a similar position to that experienced by other local authorities at 31 March 2010. It is important to stress however that this was a snapshot picture at the year end and due to the long term nature of the pension liabilities; small changes to discount assumptions can make a large difference to the liability on the scheme balance sheet. However, the value of assets in the Dumfries and Galloway Pension Fund rose from £355 million to £472 million in the year 2009/10 due to improved stock market performance.

Post Balance Sheet Events

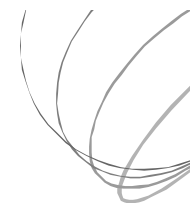
26. There were no material events since the date of the balance sheet which required a change to the figures in the 2009/10 financial statements. There were however additional disclosure notes within the financial statements relating to Connaught Partnerships Ltd, an admitted body to the Dumfries and Galloway Pension Fund, which went into administration on 8 September 2010, and changes being made to the basis for the indexing of pension funds. Both of these events have been treated as non adjusting post balance sheet events.

Prevention and detection of fraud and irregularities

27. 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, codes of conduct for elected members and staff and defined remits for relevant regulatory committees. The council's policy document 'Raising Concerns with the Council' makes reference to whistleblowing and it is important that staff are fully supported in the use of the council's whistleblowing facility with the council's external provider. In the current year we have sought specific assurances from Service Directors regarding the council's handling of financial irregularities. These assurances confirmed that there were no significant frauds within any of the council's Services and that they had complied with the council's relevant Financial Codes.
28. Correspondingly there has been no reference to any fraudulent activity within the council in the 2009/10 Statement on the System of Internal Control Financial Control.

NFI in Scotland

29. 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 identified potential savings for Scottish public bodies of £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.



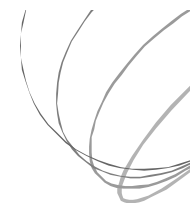
30. The most recent data matching exercise collected data from participants in October 2008 and the national findings were published by Audit Scotland in May 2010. The council took part in that exercise and has made good progress in addressing the matches. It has identified £0.38 million of potential savings from 17 frauds and 177 errors not considered to be fraudulent.
31. The council has investigated all groups of matches with the exception of those involving its own payroll data. The implementation of the iTrent Payroll system has meant that time could not be spared by payroll staff to investigate this category of matches and these checks should be completed to maximise the potential for possible further savings.
32. 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. 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 has utilised the checklist to ensure that it is well placed to continue to reap the benefits of the NFI exercises.

Legality

33. Through our planned audit work we considered the legality of the council's financial transactions. In addition the Director of Support Services confirmed that, to the best of his 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

34. A number of changes to financial reporting are expected to apply from 2010/11:
 - Full compliance with IFRS. This is not simply a technical accounting matter and whilst the council has made progress having produced a revised set of compliant, shadow accounts, progress in this area to date has been slow. Audit input to this process will be included in our audit planning for 2010/11 highlighting our commitment to work with the council and provide a view on the shadow accounts. This input will help inform the production of a full set of IFRS-compliant statements for 2010/11.
 - Pension funds. The Scottish Government is currently consulting on the requirement for a separate audit of Local Government Pension Funds. This may result in the provision of separate audit opinions on Local Government Pension Funds for 2010/11.
 - Carbon trading. From April 2010 a new and complex system for charging for carbon emissions was introduced by the EU. 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. Whilst the council has recently implemented a Carbon Management Plan to reduce emissions there may be a cost to councils resulting from the introduction of carbon credits.



Use of Resources

Financial Results

35. In 2009/10, Dumfries and Galloway council spent £520 million on the provision of public services. More than £489 million was on revenue services and the remainder was spent on capital. The council's net operating expenditure in 2009/10 was £407.1 million which was met by central government funding and local taxation of £359.4 million, resulting in an accounting deficit of £47.7 million or 11.7% of the net expenditure for the year. The final outturn position however reflects the impact of capital accounting and pension entries and adjusting for these, council balances actually increased by £6.0 million. When added to the brought forward balance of £46.5 million the total general fund balance carried forward totals £52.4 million.
36. During the year all council services returned budget underspends and transferred a total of £1.2 million to service reserves. This position is an improvement on the prior year where we expressed significant concerns that both Social Work and DGFirst were unable to curtail expenditure within budget allocations. Social Work Services secured additional funding of £1.4 million in recognition of the costs incurred in providing free personal care and this contributed to the return of a budget surplus of £0.3 million. However despite our previous concerns in this area there continues to be issues regarding the volatility of expenditure forecasts within Social Work Services, the reliability of management information with respect to the operation of Frameworki and the continued overspend in some high cost areas such as children's residential placements which was £0.6 million overspent in 2009/10.



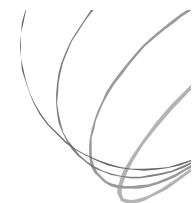
37. The following table provides some information about the council's liquidity and financial position:

Ratio	Description	Dumfries & Galloway	
		2008/09	2009/10
Working capital (Current assets as a ratio of current liabilities)	This indicates the council's ability to pay its current liabilities in the short term.	86%	72%
Useable reserves as a percentage of general revenue expenditure	This shows the proportion of revenue expenditure that could be met from reserves	18.9%	16.2%
Long term borrowing compared to council tax and non domestic rates income	This ratio illustrates the proportion of a council's tax related income that would be needed to pay off long term debt	125%	115%
Long term assets as a percentage of long term borrowing	This gives an indication of the ability to borrow to replace or repair assets	394%	425%

38. Appendix C illustrates how Dumfries and Galloway Council's financial position, in relation to these ratios, compares with other Scottish Local Authorities. In making comparisons between councils, there are a number of factors which affect the indicators. These include each council's group structure, 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.

Reserves and Balances

39. 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 funds of £65.8 million, a decrease of £3.0 million on the previous year mainly due to the utilisation of funds earmarked to support neighbourhood renewal programmes.



40. Of the £52.4 million of general fund balances, the council has earmarked a significant proportion against specific projects such as the PPP/PFI sinking funds (£30.3 million), Service reserves (£3.4 million) and affordable social housing (£3.3 million). The residual balances not allocated to specific projects total £7.3 million which is in line with the council's agreed policy to maintain unallocated reserves at a minimum of 2% of annual planned expenditure (equating to £7.2 million in 2009/10).

Exhibit 1

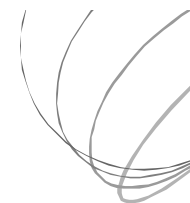
Reserves

Description	31 March 2010 £ Million	31 March 2009 £ Million
General Fund	52.443	46.477
Repair and Renewal Fund	1.843	1.816
Capital Fund	7.179	2.695
Insurance Fund	2.859	2.445
Capital Receipts Reserve	1.445	15.300
	65.769	68.733

41. At the start of the year the anticipated unallocated general fund position for the year end was £6.9 million. When compared with the outturn position of £7.3 million this represents a positive variance of £0.4 million. The reasons for this variance are largely attributable to the avoidance of service overspending for which a small provision of £0.25 million had been set aside in previous forecasts.
42. Where the council has set money aside within earmarked elements of the general fund there is an expectation that such allocations will have a specific purpose and agreed minimum target values in the light of future expenditure plans. It is important that the council introduces policies for the future use of each these funds, in particular, those relating to the repair and renewal fund and the capital fund. In addition and in line with LASAAC good practice guidance a formal review should be carried out and reported on the adequacy of the balance on the insurance fund.

Capital Performance 2009/10

43. The capital programme for the year has again been subject to considerable slippage. Expenditure in 2009/10 totalled £30.4 million against a re-profiled programme of £36.5 million (the original capital programme being £41.3 million). Of the 51 projects included in the council's capital programme, 30



(59%) had suffered from slippage and 7 (14%) had overspent their capital allocation. Within these specific projects significant slippage was noted within areas such as Education block allocation (£3.9 million or 54% of capital budget), Cargenbridge Depot (£0.6 million or 21%) and Corporate Services (£0.6 million or 62%).

44. The council's historic ability to achieve its capital programme is reflected in Exhibit 3 below and shows that whilst the level of slippage is reducing it continues to be an area of concern.

Exhibit 3:

Capital slippage in capital programmes

Year	Capital programme £ Million	Capital spend £ million	Underspend /Slippage £ million
2004/05	26.574	18.542	8.032 (30%)
2005/06	27.051	17.286	9.765 (36%)
2006/07	30.334	19.360	10.974 (36%)
2007/08	32.833	25.423	7.401 (23%)
2008/09	33.499	26.109	7.390 (22%)
2009/10	36.545 (Re-profiled)	30.443	6.093 (17%)

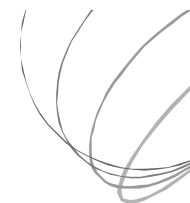
45. The council responded to the issue of slippage through the re-profiling of the 2009/10 capital programme and the creation of an Officer/Member Scrutiny Panel to review the planning process. To date the Scrutiny Panel has recommended a number of improvement actions including:

- a continued review of capital project profiles and existing capital projects to ensure they align with the council's priorities
- the allocation of advanced funding to facilitate the earlier stages of capital projects
- the application of project management methodologies for all capital projects
- the automatic referral to the Scrutiny Committee of those areas of the capital plan where slippage exceeds pre agreed thresholds.

We will monitor the success of these initiatives and continue to monitor the council's ability to fulfil its capital programme taking into account any future decisions on the curtailment of capital plans in the light of financial constraints.

Action Plan Point 3

46. The successful delivery of the capital programme is a key component of the council's Economic Action Plan (EAP) approved by members in May 2009 and also focuses on the provision of financial advice and support to families, employment and businesses. To achieve the ambitious targets within the EAP and deliver effective support for the local economy the arrangements for planning, monitoring



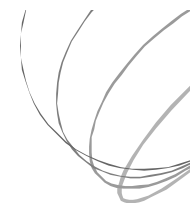
and evaluating the capital programme will have to be strengthened including improvements to the profiling of capital expenditure. The future affordability of the capital plan should also be kept under review.

Treasury Management

47. As at the 31 March 2010 the council had outstanding debt totalling £160.5 million (£153.4 million at 31 March 2009) and holding investments of £21.6 million (£30.1 million at 31 March 2009).
48. At the start of the year the council's treasury management strategy anticipated that the global financial crisis would continue and that central bank interest rates would remain at historically low levels. These circumstances shaped the council's treasury management activities throughout the year leading to a major re-evaluation of the benefits of new borrowing. The council's treasury management activities were reviewed in light of interest rate differentials between debt/investments and its term. Whilst the council continued to be mindful of interest rate risks, the possibility of increased future borrowing costs and its prudential indicators, treasury management savings were still achieved by:
- Running down investment balances. During the course of the year the council reduced its PWLB fixed rate long term debt by repaying £5.4 million prematurely through the utilisation of investment balances. Whilst the council would have received annual interest of £43,000 on such investments it saved £241,000 of interest charges on the PWLB borrowing.
 - Substituting long term debt for short term debt. PWLB long term debt fell to £130.1 million (from £135.6 million at 31 March 2009) at a consolidated interest rate of 5.7%. Short term debt increased to £17.9 million (from £5.4 million at 31 March 2009) at a consolidated rate of 0.4%.
49. The current economic climate means that interest rates on investments are low with the council receiving £0.2 million in investment income this year compared to £2.1 million last year. Conversely total interest paid on council borrowing/debt totalled £8.387 million for the year and this compared favourably to the £8.891 million in 2008/09 and resulted from lower interest rates and the council's increased use of temporary debt at lower interest rates.

Pension Fund

50. The council is the administering authority for the Dumfries and Galloway Pension Fund. The scheme is a funded defined benefit final salary scheme, which operates through both the council and employees paying contributions into the fund. Contribution rates are set at a level intended to balance pensions liabilities against investment assets. The fund had net assets of £472.2 million at 31 March 2010 and is managed by nine external managers. During 2009/10 the spread of investments moved further towards the proportions agreed in the updated Statement of Investment Principles, adopted by the Pension Fund Sub Committee in May 2010. Details of the performance of



the pension fund in 2009/10 can be found on the fund's website. The three other schemes which the council participates in, for Police, Fire and Teachers, are unfunded with no investment assets.

Exhibit 4

Pension Fund Investments

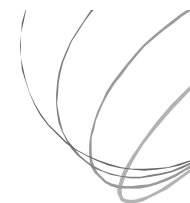
	31/03/07 £m	31/03/08 £m	31/03/09 £m	31/03/10 £m
Dumfries and Galloway Pension Fund	450.4	436.0	355.4	472.2

51. While there have been significant movements in share prices which have affected the investment asset valuation at 31 March 2010, the dynamic nature of the current market does not lend itself to a reliable long term estimate of the value of the investment assets.
52. The long term impact of these fluctuations in investment valuations 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 employers' contributions was last fully assessed at the triennial valuation of the pension fund in 2008. The fund at this point was 88% funded. To bring funding up to 100% over a fifteen year period the total contribution rate was calculated at 22.9%. To phase in increases over a number of years it was agreed to set employer contributions for the council at 20% for 2009/10, rising by 0.5% in each of the two subsequent years. Several of the smaller or closed admitted bodies have individual rates based on specific circumstances. The next triennial valuation will be in 2011.

Financial Planning

The Council's 2010/11 Budget

53. The council's revenue budget for 2010/11, agreed in February 2010 was set to ensure that all savings were sustainable, that it did not require a contribution from the General Fund and that there was potential to exceed current year savings in order to contribute to the requirements for subsequent years. In 2010/11, the council again froze the council tax in accordance with the concordat with Scottish Government.
54. The budget setting process identified a number of budget pressures which were taken into consideration as part of the process and monitored going forward, these included:
- Increase in Non Domestic Rates as a result of the recent revaluation exercise.
 - Impact of bringing the Annandale & Eskdale Sports & Leisure Trust back 'in-house'.
 - Financial implications associated with the Concordat commitments in respect of Kinship Care, Free School Meals and the Extension of Pre-School Hours.
 - The ongoing reduction in the level of capital receipts.



55. Considering these issues the council set a budget which included £5.5m of savings, split between corporate savings of £1.2 million, operational and management efficiencies of £1.2 million and a range of other options totalling £3.1 million which were agreed following a public consultation exercise. Current budget forecasts for 2010/11 show that services are not projecting year end budget overspends.

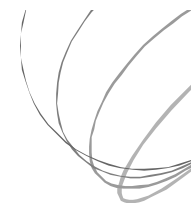
The Council's 2011-14 Budget

56. The council's preparations for the spending review extend the current 2010/11 savings targets to 2011-14 taking account of all known, and best estimates of, anticipated budget reductions. The council is forecasting a reduction in revenue funding of 12% over the next three years and has set savings targets of £21.8 million in 2011/12, £36.6 million in 2012/13 and £51.4 million in 2013/14. These targets have been used as interim benchmarks to facilitate interim service planning until actual levels are calculated following the comprehensive spending review due in late October 2010 and the subsequent Scottish Government Finance Settlement announcement due in November /December 2010.
57. The council recognises the need to take immediate action to reduce costs for future years and take decisions on the future design and provisions of services. Savings take time to realise and the council needs to take action now to be sure of achieving savings in the future. The council is currently in the process of identifying future staffing needs and has agreed revised HR policies and the terms of a voluntary severance scheme to support it in what will be very difficult budget decisions. The council is also in the process of identifying savings and face considerable challenges if the target of £21.8 million budget cuts are to be identified and agreed in time for the setting of the council tax budget in February 2011.
58. The UK government announced the results of the Comprehensive Spending Review (CSR) on 20 October 2010. The impact of the CSR is still to be considered by the Scottish Government and grant funding levels for individual councils are still to be agreed. The council however believes that its current financial planning assumptions are consistent with the CSR announcement.

Action Plan Point 4

Asset Management

59. Effective management of assets helps the council achieve its objectives and get best value from its investment in property and other assets. The current economic situation has significant implications for the management of the council's property and now more than ever, the council needs a strong approach to managing assets which is linked and informed by the council's overall priorities and which is supported by good management information.

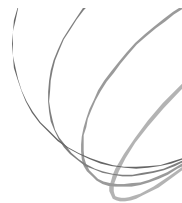


60. In 2009, we published *Asset Management in Councils*. Our study found that strategic asset management was not well developed in most councils. For Scottish councils as a whole, over a quarter of all properties were in poor condition and slightly less than that were not suitable for the services being delivered from them.
61. The council's asset portfolio is made up from over 1200 assets with a valuation of £604.0 million. The council has in place a suite of seven separate asset management plans and has for the first time, drawn together a corporate asset management plan, which is still in draft. Work has been continuing within each of the separate plans to collect data on asset conditions, suitability and accessibility etc and the development of strategies and plans for the future use and management of assets.
62. Each of the seven asset management plans are currently at varying stages of completion. Table 1 provides a summary of the status of each plan.

Table 1 - Asset Management Plans Summary of Status

Asset Management Plan	Coverage	Current Status
Corporate Asset Plan	Overarching plan covering individual plans.	First Version in Draft
Property	Schools Estate, Office Estate, Community Estate, Industrial Estate.	Updated Version in Draft
Roads and Infrastructure	Roads, Harbours, Coast Protection and Flood Risk management.	Roads Plan First Version Complete. Other Plans First Versions in Draft
Open Space	All open space within settlements with over 1500 population.	First Version in Progress
Technology Solutions - ICT -	Technology assets.	First Version in Draft
Fleet	Vehicles and plant.	First Version in Progress
Fire and Rescue Service	Buildings, Tenders, Equipment and ICT.	Strategy 2010-2013
Police	Buildings, vehicles and equipment.	Strategy & Plan 2009-2014

63. Progress has been made in drawing together a corporate asset management plan. This is a step in the right direction and provides a framework within which the council can develop a corporate approach to managing its assets. The corporate plan acknowledges that the council has still some



way to go before it is planning and managing its assets at a corporate level and sets out an action plan for the development of a corporate asset management strategy by September 2011.

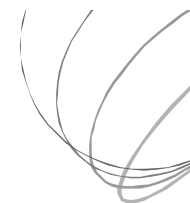
64. The development of its corporate strategy is essential if the council is to effectively manage and address the significant pressures of the backlog in property repairs and the condition of its carriageways. Decisions on the future use of assets and investment priorities have to be informed by the council's and partners' priorities and strategic plans. The council needs to identify its overall vision for the use of its assets and the resulting level of investment needs.

Action Plan Point 5

People Management

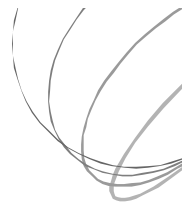
65. Staffing costs within the council account for 51.6% of total budgeted expenditure which for 2009/10 equates to £222 million. The ability of the council to manage costs and deliver ongoing savings is therefore dependant on its ability to manage their staff and their associated costs. The council has sought to identify more efficient and modern ways of working which it intends to do through the application of a revised policy framework and has recently adopted four new policies to cover redundancy, redeployment, vacancy management and early retirement as part of its Workforce Transition Strategy.
66. The council recognises that its approach to workforce management requires further development and through the Delivering Excellence Programme, has identified a number of key improvement actions including:
- Identify gap between Current and Future Service Requirements.
 - Workforce Planning Process in place across all services.
 - Personal Development Plan Interviews in place for all staff.
 - Re-skilling and deployment programme in place.
 - Assessment of Manager Leadership skills.
 - Flexibility in the workplace.
67. The future reductions in funding is likely to lead to a reduction in the council's workforce and the council are currently determining the level of savings necessary from cuts in staffing levels. In the absence of established workforce management plans the council faces significant challenges in ensuring decisions on the future of its workforce will result in a workforce which is best equipped to deliver services in the future.

Action Plan Point 6



Procurement

68. 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.
69. All 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.
70. Dumfries and Galloway Council scored an overall 19% which is classified as non conformance. This compares to the overall average score across all Scottish Local Authorities of 21.6%. These scores took no account of the differing levels of procurement resources across authorities. Areas of relative strength for the council include ensuring compliance with European Union procurement and the operation of key purchasing processes and systems. The council has recognised those areas requiring further improvement and have prepared an action plan which focuses over the short term in strengthening strategies and policies as well as maximising the potential for savings through effective procurement practices. Advanced procurement and sustainable procurement strategies are also being developed. More emphasis is being given to staff training in procurement issues across the council to promote the development of a delegated officer network as well as freeing up expertise within the central procurement section, which at a staffing level of six full time equivalents, is operating at full capacity.
71. The council is continuing to move its priorities forward. A corporate procurement strategy is now in place and a number of key performance indicators are being regularly reported to senior management. The availability of management information on the council's procurement activity from



the council's financial ledger system is however still lacking and limiting the extent to which data can be analysed to inform future procurement strategies and maximise the potential for securing future savings from better procurement practices. This issue should be addressed with the procurement and implementation of the council's planned replacement financial information system.

ICT

72. The council makes good use of ICT to support and deliver services. The council is looking at the strategic direction for ICT within the organisation including schools ICT. A new vision for ICT is due to be developed next year. During 2009/10 Technology Solutions, the council's ICT section, completed their new state of the art server room in Monreith House. The migration of the applications is essentially complete with Technology Solutions waiting for user approval to move the last of applications across. Restructuring within the council has impacted on the delivery of the customer first work involving the development of a new strategic direction.

Data handling and security

73. Data handling and security has received increased public and media attention recently as a result of a number of national incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions, HM Revenue and Customs, and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence and opt out from services and higher compliance costs due to enforcement action. It should be noted that from April 2010 the Information Commissioner's Office has had the power to fine organisations up to £500,000 for serious data protection breaches.
74. In 2009/10 we carried out a review of the council's data management arrangements. The council has started to put operational processes in place to improve and ensure effective data management including: the planned implementation of an information asset register; the use of information sharing arrangements; and the implementation of an information management programme. Furthermore, Technology Solutions has completed a project to encrypt all council computers including laptops and to hold information awareness sessions for all computer users. Going forward, managers should take greater ownership of information security issues, raise awareness and develop formal linkages with the corporate information security team.

Shared Services

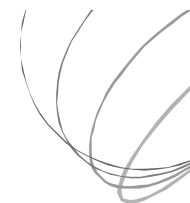
75. The council has identified opportunities for sharing services but to date has had limited success in sharing services with external partners. The council is continuing to explore opportunities to deliver efficiency savings with external partners including Dumfries and Galloway NHS and Scottish Borders Council. Council officers are in the process of holding meetings with their respective partners and



members approved in February 2010 the implementation of five projects which are expected to release annual savings in the region of £260,000.

Outlook

76. Clearly we are in a period of reduced economic growth with severe implications for the council's resources and the demand for services. At the same time as the council tries to support its local economy and provide best value services, it is likely to face a significant reduction in resources. The council is planning for reduced resources over the medium term. It needs to make decisions soon to be able to deliver cost reductions in a managed way to complete



Governance and Accountability

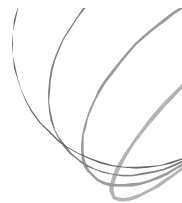
77. Corporate governance is about direction and control of organisations. Councils are large complex organisations and so good governance is critically important. The council is currently going through a period of significant change and challenge. Senior management restructuring, the impact of future funding cuts and changes to services and the council's developments in strategic commissioning and area management are some of the current developments likely to impact on the council's corporate governance arrangements. The council agreed in December 2009 to carry out a review the Schemes of Administration and Delegation to Committees with a view to implementing any revisions with effect from 1 April 2010. Over the last year there have been various changes made to the democratic process including the administration of two elections, the development of the council's area framework and the refocusing of the corporate centre. A report is due to go to Full Council in December 2010 consolidating the impact of these changes including the annual review of the council's Standing Orders.
78. A key part of good governance is the timely follow up and actioning of committee recommendations and decisions. To support both members and officers in this, an effective process should be in place by which any committee recommendations requiring further action or reports from officers can be readily tracked and kept under review. Members have expressed their concerns that this is an area that is currently inadequate and needs to improve. In addition we are aware of specific examples where committee recommendations for further action have either not being carried out on a timely basis or have failed to progress further. The council has secured the additional funding for the implementation of a management information system which would facilitate the tracking of committee decisions.

Internal controls

79. Our work on the council's internal control systems and its overall governance arrangements identified a satisfactory level of control although there were a number of notable issues within the following areas.

Payroll and HR Migration

80. During 2009/10 the council implemented the new iTrent human resources and payroll system as well as implementing the single status pay and grading agreement. Our review of the payroll system identified material weaknesses in the internal control environment with the main areas of control failure relating to the authorisation and processing in the payroll system of new starts and leavers and the general absence of evidence to confirm the completion of required documentation and supervisory checks and review. We have also highlighted certain aspects of project management which should be reviewed as part of the post implementation review which is to be carried out by management. It is



recognised that the roll out of the new payroll system at the same time as the implementation of the single status agreement was particularly challenging for the council and is likely to have contributed to the weaknesses in control during 2009/10.

Review of Main Financial Systems

81. Based on the results of our review we can conclude that the council's main financial systems have a satisfactory level of control. Of the 21 actions in the report 7 are classified as high priority, 11 as medium and 3 as low. All issues have been discussed and agreed by management and corresponding action plans have been put in place. We will follow up these issues as part of our audit work in 2010/11.

Annandale and Eskdale Sports and Leisure Trust

82. On 20 May 2008 the council agreed to terminate the service level agreement with the Annandale and Eskdale Sports and Leisure Trust (the Trust) for the operation of the leisure and sports services in Annandale and Eskdale. The provision of these services were brought back in house to the council and the service transferred on 1 April 2010. However in the period up to the date of transfer, the wind up discussions between the Trust and the council were very difficult and protracted and the council was still in negotiations with the Trust about getting access to the leisure facilities right up until a few days before the handover date of 1 April 2010. This was a period of considerable uncertainty to the council and additional contingency plans had to be introduced to ensure the continuity of leisure services.
83. The Trust had lodged a legal claim for compensation from the council linked to the termination of the service level agreement. The Trust has recently gone into voluntary liquidation. Discussions are ongoing on the issues of compensation and the recovery of amounts owed to the council by the Trust at the end of 2009/10. We will continue to monitor these issues as part of our 2010/11 audit

Action Plan Point 7

Connaught Partnerships Ltd

84. Connaught Partnerships Ltd went into administration on 8 September 2010. In April 2008 a number of the council's employees who previously worked within DG First, then called Combined Services had transferred under TUPE arrangements to Connaught Partnerships Ltd. This company had been awarded the property maintenance contract with Dumfries and Galloway Housing Partnership, which before this date had been held by Combined Services. Connaught Partnerships Ltd was approved and became an admitted body to the Dumfries and Galloway Pension Fund with effect from 8 April 2008.



85. As part of the admission process to the Pension Fund, the council as the administering authority assessed, taking account of actuarial advice, the level of risk and potential liabilities arising from any future liquidation or administration of Connaught Partnerships Ltd. To mitigate this risk a guarantee bond to a maximum value of £591,000 was made between Connaught Partnerships Ltd, the council as administering authority and an authorised insurer who acted as the guarantor. This bond expired on 7 April 2010 and was not renewed. As such there is not currently a bond in place to cover any potential liabilities to the pension fund resulting from Connaught Partnerships Ltd going into administration. Discussions are ongoing over the possibility of reinstating the bond and any potential liability will be determined as part of this process. We will keep this matter under review as part of our 2010/11 audit.

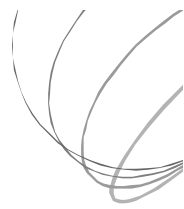
Action Plan Point 8

Pension Fund

86. We have carried out a follow up audit to our previous review of the pension fund. Progress has been made in most action areas. We have highlighted the need to develop a risk register for pension fund issues as being of high priority. Our report also raised a number of new issues which the council will review in light of the new pension scheme regulations.

Outlook

87. Governance and accountability issues are likely to become more prominent as the downturn in the economy continues and the council is held to account for its decisions. The need to streamline services, deliver efficiencies and work with external partners will place greater pressures on the maintenance of strong governance arrangements.



Performance Management & Improvement, Best Value Update

Introduction

88. 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 effectively promoted by the member and officer leadership of the council and supported by staff and partners. It is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective council has a performance management culture which is embedded throughout the organisation. The council's performance management framework is comprehensive and integrated with service planning and delivery. Staff have a customer first culture. The council is able to demonstrate significantly improved outcomes for citizens and more effective and efficient services because of its performance management arrangements

Follow Up of the Audit of Best Value and Community Planning

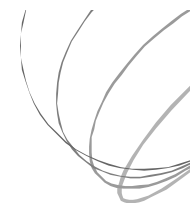
89. The first Best Value audit of Dumfries and Galloway Council was reported in March 2009. We have assessed the progress made by the council against this report. Our follow up audit focused on the following areas:

- political and managerial leadership including the commitment to improvement
- progress with improving corporate arrangements for the management of resources including financial planning, people and asset management and competitiveness
- the effectiveness of performance management.

Leadership

90. The council has put measures in place to improve political and management leadership, but it is too early to assess their full impact. The council's leadership needs to continue to increase the pace of change with the Best Value improvement agenda. The council has taken steps to strengthen its leadership working, and has set a clearer direction through an agreed set of council priorities. The Chief Executive has had an extended period of absence since his appointment in June 2009. This has impacted on the capacity and direction from the senior management team.

91. The council recognises that it needs to strengthen its leadership and improve its strategic direction including how it delivers change and improvement. It has appointed an assistant Chief Executive and seconded a Chief Officer as well as introducing corporate improvement teams as part of an



“organisational development framework.” Up until our audit in August and September 2010 elected members had taken a limited role in the improvement agenda. The council should ensure that members take an effective role in driving and monitoring change at a strategic level.

92. The council introduced in July 2010 two cross party working groups - a Leadership Panel and Budget Development Working Group to encourage more collaborative working. These forums have been generally well received by elected members and allow the leaders from the three main political groupings to discuss policy less formally outside of committee. The Leadership Panel had an important role in helping the council to agree a statement of clear priorities. The council also hosts seminars and challenge days to allow members to explore policy issues in more detail.
93. The council's senior management team recognise a stronger corporate culture under the new Chief Executive. This has been helped by the introduction of monthly performance meetings between the Chief Executive and service directors. These meetings are well structured and cover both service and corporate activities.
94. There is the opportunity for the council to build on the measures it has taken so far to improve corporate and political leadership. In particular it will need to ensure that elected members are supported through the difficult decisions that need to be made in the current budget round.

Action Plan Point 9

Performance Management

95. The 2009 Best Value report noted that performance management in the council was poor. Since that time the council's senior management team has had a stronger focus on performance management, including the monthly performance discussions between the chief executive and individual directors. This process feeds into management team meetings within services.
96. However the council still does not report performance to committee on a regular basis, and the main focus of committees is on budget monitoring or detailed operational reports rather than a systematic review of service performance. The ability of elected members to scrutinise performance is therefore limited. The council has set out a revised reporting framework to improve public performance reporting, however this is not yet implemented. The council will need to ensure that members receive the right information to allow them to make difficult decisions, particularly in the current financial environment.
97. As part of the wider planning and performance management process, service plans are beginning to identify clearer strategic priorities that link to the Single Outcome Agreement. This is not yet fully in



place but the council intends to have updated plans by March 2011 along with improved performance reporting to committee of these plans.

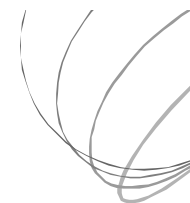
Action Plan Point 10

Improvement

98. The council has made limited progress against the improvement areas identified in the initial Best Value audit. The council prepared an improvement plan in June 2009 in response to the initial Best Value audit report. To ensure a sustained approach to continuous improvement and organisational change the council's Corporate Policy Committee agreed in January 2010 to conclude the improvement plan as at the end of January 2010 and that any outstanding activity be incorporated into the corporate action plan for the council to be drawn up as part of the Public Service Improvement Framework (PSIF). A corporate assessment based on the PSIF has subsequently been completed and used to inform the development of a broader corporate improvement framework. This new organisation development framework (ODF) was approved by members in June 2010. Elected members have not received progress reports on the council's Best Value improvement programme since January 2010. The council should ensure that elected members are engaged in the council's improvement agenda and receive regular updates to allow them to challenge progress.
99. The ODF is to be taken forward by four corporate improvement teams with individual work stream themes of: leadership; business planning; workforce planning; and resources and partnerships. This demonstrates a commitment to change, with teams being drawn from across the council. However the council has not yet set clear objectives within the broad themes set out in the ODF, and it lacks clear objectives and milestones to demonstrate its progress against best value.

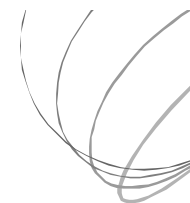
Action Plan Point 11

100. At the time of the 2009 Best Value audit the council was undertaking two strategic reviews of how it delivers services. These were a review of the roles of its area committees, and the development of a "commissioning model" to clarify the relationships between service commissioning and provision. Both of these initiatives were included as actions to be implemented in the 2009 Best Value improvement agenda. The council is still at the early stages of developing these initiatives. The council allocated resources to take forward the commissioning model in July 2010, and a new area framework was agreed by the council in October 2010. The council should now ensure that these initiatives are effectively implemented and we will keep progress in these areas under review.



Resource management

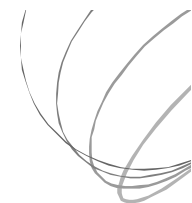
101. In common with other local authorities Dumfries and Galloway Council needs to make significant budget savings. It has taken steps to strengthen budget planning through greater elected member involvement and public consultation. The Budget Development Working Group has brought a stronger cross-party involvement to the 2010/11 budget planning process than in previous years. An “activity based budget analysis” was issued to elected members to assist them in identifying budget priorities. This is a positive measure to involve elected members in the process and is being further developed to give a clearer overview of spending to support elected members with budget decisions. The council will need to build on its measures to support elected members through the budgeting process.
102. The budget consultation exercise is comprehensive and involved surveys, focus groups and use of the council’s website, with the results reported in September 2010.
103. The council does not yet have a council-wide strategy in place for managing its workforce. However it has put in place clearer human resources guidelines and policies as part of a “workforce transition” strategy including re-deployment and early retirement policy. Further details on people management are at paragraph 65.
104. The council has made some progress in developing its asset plans. There are seven separate asset plans covering the various asset types within the asset portfolio. These plans are at varying levels and stages of completion, with extent of progress depending on varying degrees of data and resource availability. Asset management is still not carried out at a corporate level and as yet is not integrated with strategic planning in a coordinated and cohesive approach. The council recognises this as an important future development if it is to effectively deliver its corporate priorities and outcomes including managing its significant backlog in property repairs and improving its roads. Further details on asset management are at paragraph 59.
105. Processes within the council for ensuring the competitiveness of its services remain under-developed. For example cost information and market comparisons are not made as a matter of course in performance reporting and the previous programme of best value service reviews is no longer active or reported to members. The council has reviewed its trading operations and following that review only the roads service fell under the statutory trading accounts regime. It is therefore essential that the council introduces compensating ways to systematically demonstrate the competitiveness of services.



Statutory Performance Indicators

106. During 2009/10 arrangements for the review of Statutory Performance Indicators (SPIs) were reappraised. Our work in previous years centred on the assessment and accuracy of information supporting the publication of SPIs and was aimed at ensuring consistency of indicators across all Scottish councils. The reappraisal of SPI requirements brought about a change to the way we reviewed SPIs during 2009/10.
107. Auditors are required to ensure that the council 'has made adequate arrangements for collecting and recording information and for publishing it, as are required for the performance of their duties¹'. Auditors are therefore required to assess whether adequate arrangements are in place for collection and publication of accurate and complete information, and that these are functioning effectively. Our duty does not therefore extend to include the collation and checking of data on behalf of the council. Auditors are therefore required to test the efficacy of the systems the council has in place.
108. During 2009/10 we liaised with council officers and reviewed the arrangements for the collation and internal assessment of indicators. The council are required to submit SPIs in 25 different areas; with each area possibly including more than one indicator and supporting contextual information. The council submitted and published the results in accordance with the statutory deadline and by the 30 September 2010.
109. Auditors tested the completeness and accuracy of some performance information and carried out a high level review of the SPI data. Where our review highlighted significant changes, or there was a history of error, we sought further assurances and tested the quality of underlying data.
110. Overall, the quality of working papers provided to support the SPIs continued to be variable although we did note improvements in the process through the use of Covalent. In 2008/09 one SPI was concluded as unreliable. In 2009/10 no indicators were classified as unreliable.
111. In 2009/10 the council reported a total of 51 indicators, of which 25 out of 51 (49%) show an improvement in performance from the prior year however performance declined in 19 out of 51 indicators (or 37%). Whilst the rate of improvement is higher than in 2008/09 and represents a slowly improving trend the council should continue to seek more comprehensive performance improvements year on year (see Exhibit 2).

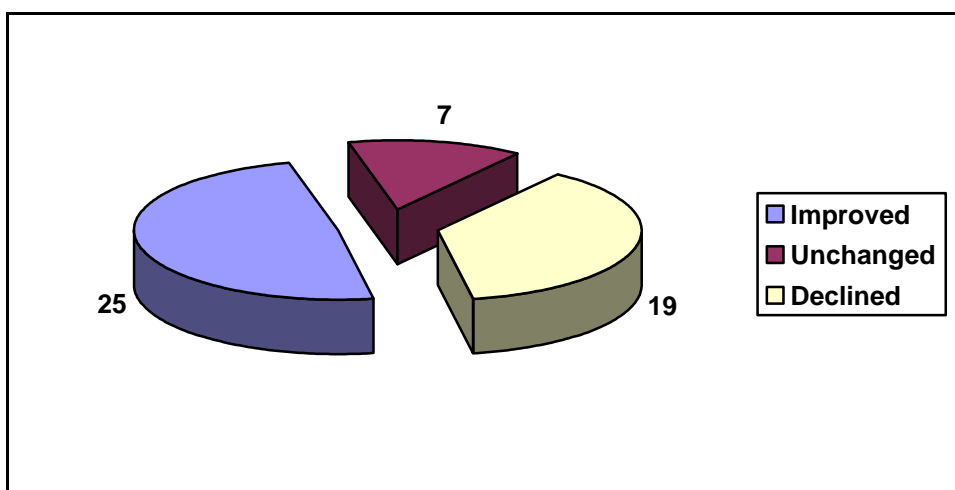
¹ Section 99(d) of the Local Government (Scotland) Act 1973 (as inserted by Section 3(2) of the Local Government Act 1992)



112. SPIs highlighted improvements in sickness absence levels across council services in 2009/10. This has been attributed to a robust attendance management policy. Conversely, decreasing performance was noted in the percentage of the road network classed as requiring maintenance; however this should be noted in the context of severe weather conditions during winter that had a detrimental effect on road conditions.

Exhibit 2

Assessment of Statutory Performance Indicators 2009/10



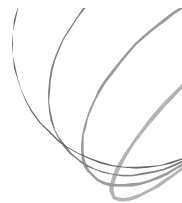
Public Performance Reporting

113. The council has carried out a specific review of its arrangements for public performance reporting. The recommendations from the review were reported to members in June 2010. These included the creation of a new section of the council's website to gather all performance information in a single area. The council is currently planning to implement this recommendation and will enhance the site to include up to date performance information from Covalent, the council's performance management system. In addition the profile of public performance reporting has been enhanced through its inclusion in the council's Communications Strategy.

114. The main vehicle for public performance reporting by the council is through the distribution of 'Broadcast', the council's annual performance magazine to local residents. The magazine includes a range of performance information supplemented by relevant Statutory Performance Indicators and other information based on Single Outcome Agreement (SOA) outcomes.

Equality and Diversity

115. Dumfries and Galloway Council is aiming to ensure that all of its activities comply with best practice in the field of equality and diversity. The council continues to produce its Human Resources Equality and Diversity Action Plan which is reported annually to Members of the Resource Committee. The report



contributes towards the council's statutory duties and is in accordance with the Equality and Diversity section of the Corporate Plan 2007-11. It seeks to align the council's activities in this area with its goal to achieve equal access for the people in the region regardless of race, gender, disability, sexuality, age, religion or belief and appreciating that different minority communities enhance the area.

Efficiency

116. The council submitted the fourth Annual Efficiency Statement (unaudited) to COSLA in 2010. This details the efficiency gains achieved in 2009/10 and the projected efficiencies for 2010/11.

117. The key areas of efficiency noted in the statement for 2009/10 included:

- Changes to the management structure of the council which were started in 2008 and are anticipated to save £0.340 million during the financial year.
- Procurement. The council continues to make advances in securing savings from procurement (£3.3 million since 2006/07) with a further £1.1 million achieved in 2009/10.
- Delivering Excellence. The Delivering Excellence programme continued through 2009 and into 2010 with Dumfries and Galloway working in partnership with Argyll and Bute, Moray and Highland Councils. The Maximising Attendance project was implemented during 2009/10 and delivered £0.2 million of efficiencies. Six other projects were agreed to move to detailed design or implementation stage in 2010/11 with projected savings of £0.5 million.

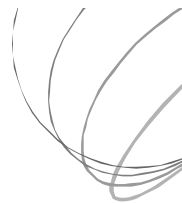
118. The measures include Delivering Excellence projects, implementation of reviews' recommendations, reduction in funding and grants to external bodies, increased fees and charges, introduction of charges, removal of discounts, introduction of pool cars and service efficiencies.

Risk Management

119. 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.

120. The council is required to have a corporate risk register and associated plans. In 2008 members agreed that the council should undertake a corporate risk assessment and produce a corporate risk register which is to be reviewed on an annual basis.

121. The council's approach to risk management was criticised in the 2009 Best Value Report as being underdeveloped and weak and was one of the key actions in the council's Improvement Plan. Subsequent risk management developments have sought to ensure that service risk registers are in place, up to date, in accordance with service plans and consistent across the council. These



developments along with the use of Covalent are currently being implemented to further support the Corporate Risk Register.

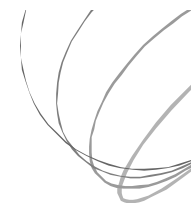
122. In order to facilitate the development of the corporate risk register the council acquired the services of its insurance broker, to deliver training and risk identification workshops to both officers and Members. In June 2010 the council presented its Corporate Risk register to Members of the Audit Risk and Management Committee.

123. The development of risk management in the council is ongoing however the council needs to continue to ensure that the risks included in the corporate register continue to be monitored and that associated service risk registers are complete, up to date and inform the development of the corporate risk register.

Outlook

124. The long term and complex nature of many of the targets included in the Single Outcome Agreement, Corporate Plan and Improvement Agenda pose significant challenges for performance management. We recognise the challenges ahead and will continue to review the systems Dumfries and Galloway Council has in place to monitor progress and take remedial action.

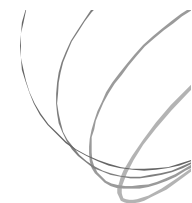
125. The challenge ahead will be for the council to increase the pace of change to deliver best value. The council needs to have a clear vision, direction and specified objectives in order to achieve best value; whilst there has been progress this needs to be enhanced and sustained.



Appendix A

External audit reports and audit opinions issued for 2009/10

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual audit Plan	29/01/2010	22/06/2010
Assurance Improvement Plan	14/06/2010	22/06/2010
Overview of Internal Audit	31/05/2010	22/06/2010
Internal Controls management letter	31/08/2010	26/10/2010
Review data management arrangements	15/09/2010	26/10/2010
Follow Up Review Pension Fund	17/08/2010	26/10/2010
Whole of Government Accounts return	30/09/2010	N/A
Progress letter on Implementation of IFRS	23/04/2010	N/A
Review of payroll system	31/10/2010	to be presented 9/12/2010
Independent Auditors' Report	15/09/2010	23/09/2010
Annual Report	31/10/2010	to be presented 9/12/2010



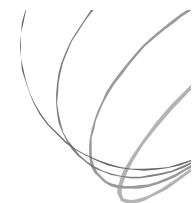
Appendix B: Action Plan

Key Risk Areas and Planned Management Action

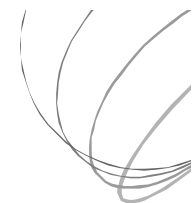
Action Point	Para	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	17	<p>Introduction of International Financial Reporting Standards (IFRS)</p> <p>There have been delays in the council's progress to date in preparing for the application of IFRS.</p> <p><i>There is a risk that: the council will not be fully prepared for the full application of IFRS in 2010/11.</i></p>	<p>Following initial delays the Council has now met the indicative deadlines for the restatement of the 2009/10 Accounts. Work is continuing to ensure that the Council is prepared for the application of IFRS to the 2010/11 Accounts.</p>	Operations Manager Accountancy	June 2011
2	21	<p>Use of resource transfer monies</p> <p>The council has continued to carry forward resource transfer funds received from NHS Dumfries and Galloway. There was an accumulated underspend of £ 2.3 million in 2009/10.</p> <p><i>There is a risk that: the council fails to fully utilise all available funding to provide services.</i></p>	<p>In June 2010 Social Work Services Committee agreed the use of the accumulated £2.3m of which £600k had been fully committed for use in 2010/11. It was agreed to utilise the remaining £1.7m to develop a Change Fund to support a strategic change in the service including ongoing development and mainstreaming of preventative and early intervention models and to support the service to embed the work on Personalisation and Self Directed Support currently being tested.</p> <p>Social Work Services Committee will be asked to approve the draft action plan for use of the Change Fund and to agree to receive regular reports on progress thereafter.</p>	Director Social Work Services	February 2011



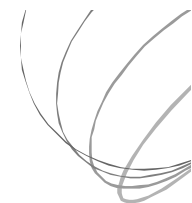
Action Point	Para	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	45	<p>Capital Slippage</p> <p>There continues to be underspends against the council's capital programme. There was an underspend of £ 6.1 million (17%) against the 2009/10 capital programme. This is the sixth consecutive year that the council has not delivered its capital plan.</p> <p><i>There is a risk that: delays in the completion of capital projects may prevent the delivery of services and achievement of the council's objectives. The capital investment programme included in the council's Economic Action Plan may not be delivered and could fail to support local employment and the local economy.</i></p>	<p>The council has put in place a more robust capital monitoring process, which will provide members with both financial and physical progress information. Any slippage of 1 month or 20% will be referred to Scrutiny committee.</p> <p>The effectiveness of this approach will be subject to ongoing monitoring and review.</p>	Director Support Services/ Operations Manager Strategic Property Services	<p>Revised Process Already Agreed</p> <p>Reduction in Slippage to be evidenced at end of financial year.</p>
4	58	<p>Current economic climate and future budgetary pressures.</p> <p>The council is progressing savings plans and face considerable challenges if the current target of £21.8 million savings for 2011/12 are to be identified and agreed in time for the setting of the council tax in February 2011. Longer term plans have still to be agreed for the delivery of the target savings of £36.6 million in 2012/13 and £51.4 million in 2013/14.</p> <p><i>There is a risk that: the council may not be adequately prepared for the effects of the current economic climate and predicted cuts in future funding.</i></p>	<p>The Council has agreed, and is progressing, a budget process which includes:-</p> <ul style="list-style-type: none"> - indicative savings targets for the upcoming 3 financial years - extensive public, partner and staff engagement - more detailed financial information through Activity Based Budgeting - scrutiny of savings proposals by both Officers and Members. - A detailed timetable including scheduled committee dates up to budget setting. <p>Beyond setting the 2011/12 budget, Members will agree indicative budgets for 2012/13 and provide indications of policy developments to support budgets in 2013/14.</p>	Director Support Services/ Operations Manager Accountancy	February 2011



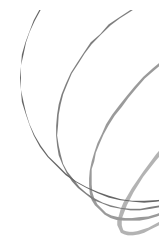
Action Point	Para	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	64	<p>Asset Management</p> <p>Each of the council's seven asset management plans are at varying stages of completion and the council is not yet in a position to allow the planning and managing of assets at a corporate level.</p> <p><i>There is a risk that: the council does not have an overall vision for the use of its assets and is unaware of its total investment needs in maintaining and improving the asset portfolio.</i></p>	<p>The Corporate Asset Management Plan with supporting plans is being presented to the Corporate Policy Committee in November 2010.</p>	<p>Director Support Services/ Operations Manager Strategic Property Services</p>	<p>November 2010</p>
6	67	<p>People Management</p> <p>The council's approach to workforce planning requires further development. Key improvement actions such as the introduction of workforce planning processes across services and the development of a re-skilling and deployment programme have still to be completed.</p> <p><i>There is a risk that: the council may not make informed decisions on the future of its workforce and fails to adequately plan ahead for future service requirements.</i></p>	<p>Measures being progressed to address the identified risk include:-</p> <ul style="list-style-type: none"> - Identification of the gap between current and future service requirements. - Development of further guidance for managers to reinforce the integration of the Workforce Planning process as a normal part of service planning. - Personal Development Plan interviews in place for all staff and 360 degree Appraisal process complete for CMT. - Re-skilling and deployment programme in place. - Identification of risk groups and development of a programme to re-skill and redeploy employees identified. - Assessment of Manager Leadership Skills. - Further development of agile working and encourage uptake of flexible working practices. 	<p>Operations Manager Human Resources</p>	<p>March 2011 and ongoing</p>



Action Point	Para	Risk Identified	Planned Management Action	Responsible Officer	Target Date
7	83	<p>Annandale and Eskdale Sports and Leisure Trust</p> <p>The Trust has recently gone into voluntary liquidation with amounts still owing to the council.</p> <p><i>There is a risk that: the council is unsuccessful in recovering the outstanding debts due from the Trust in full.</i></p>	Discussions with the Trust and with the appointed liquidators are ongoing. The liquidators are dealing with queries regarding the trust's expenditure in the year to 31 March 2010 and the period thereafter up to liquidation. As soon as this information is made available a report will be presented to members.	Director Chief Executive Services	December 2010
8	85	<p>Connaught Partnerships Ltd</p> <p>There is not currently a guarantee bond in place to cover any liabilities to the Dumfries and Galloway Pension Fund resulting from Connaught Partnerships Ltd going into administration.</p> <p><i>There is a risk that: in the absence of a current bond, the pension fund may incur additional costs resulting from the administration of Connaught Partnerships Ltd.</i></p>	Connaught was responsible for the provision of a Bond in line with their obligations within the Admitted Body Agreement. Discussions are currently ongoing with Lovell regarding the reinstatement of the Bond and also the creation of a new admitted body agreement which will include revised terms for the Bond. This is still a developing situation and further discussions are being progressed.	Relations Manager Human Resources	March 2011
9	94	<p>Leadership</p> <p>It is too early to assess the full impact of the steps taken so far in improving the leadership of the council and the council needs to focus on continuing to increase its pace of change in delivering best value.</p> <p><i>There is a risk that: the council may fail to build on the measures it has taken so far to improve leadership and increase the pace of change.</i></p>	The Council has put in place an Organisational Development Framework which has been launched to all Senior Managers and has also established a regular programme of events for CMT and Senior Managers to ensure that CMT and their Senior Managers together actively contribute to corporate continuous improvement. Elected Members will continue to be involved in the progress of key corporate developments through the Leadership Panel and the Budget Development Working Group and a progress report is scheduled for consideration by the Full Council at the end of the calendar year.	Change & Improvement Executive	December 2010



Action Point	Para	Risk Identified	Planned Management Action	Responsible Officer	Target Date
10	97	<p>Performance Management</p> <p>While the council has strengthened performance management at a senior management level, performance reporting to members remains under-developed.</p> <p><i>There is a risk that: the absence of effective performance management may not allow members to adequately fulfil their scrutiny roll.</i></p>	<ul style="list-style-type: none"> - Performance reporting arrangements for Single Outcome Agreement being developed for Member agreement. - Council priorities and departmental strategic plans, when not already agreed, will be agreed with the appropriate. Committee(s) as part of Member consideration of the relevant plan. - Reports to agreed timescales will be based on information held in Covalent. 	Business Transformation Manager	March 2011
11	99	<p>Organisational Development Framework (ODF)</p> <p>The council has agreed an ambitious framework for the future development of the corporate themes of leadership, business planning and resources and partnerships. However the council has not yet set clear objectives for the broad themes and milestones for delivery.</p> <p><i>There is a risk that: progress in the delivery of the ODF may not be effectively monitored and takes too long to bring about planned improvements.</i></p>	<p>The Council's ODF foundations, order of priority and associated timescales have been established and reported to the Council's Leadership Panel. The ODF individual team work plans are based on these timescales and a composite report will be reported to Full Council at the end of the calendar year.</p>	Change & Improvement Executive	December 2010

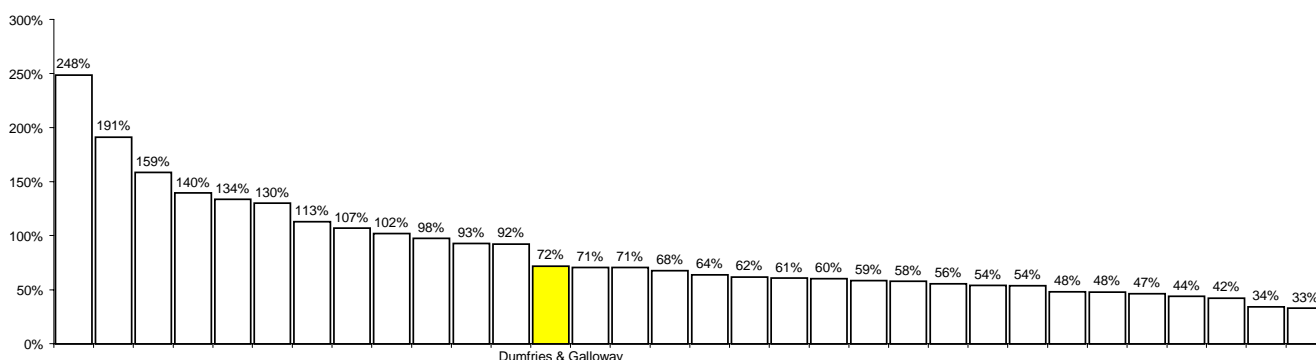


Appendix C: Ratio Analysis

All Scottish Local Authorities (Dumfries and Galloway Council highlighted)

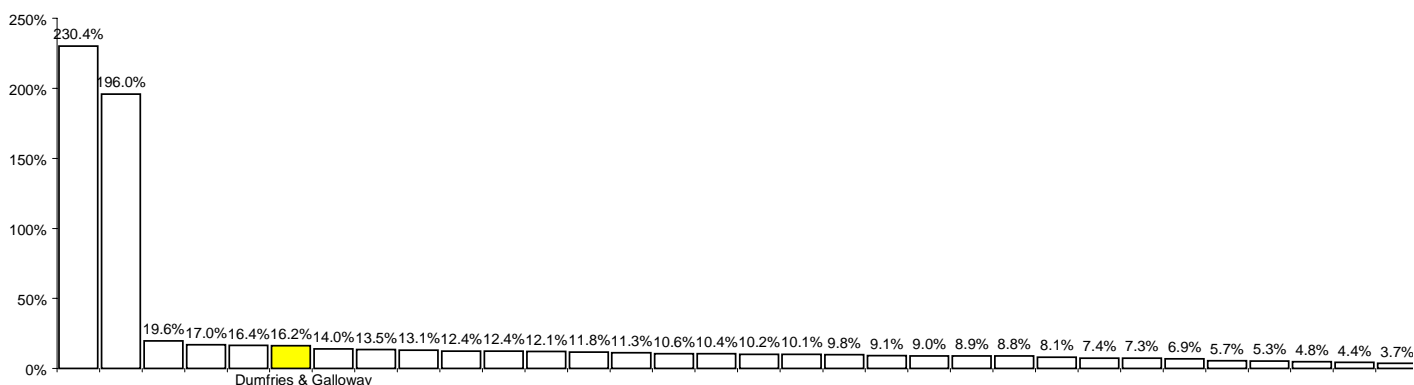
Each chart shows where Dumfries & Galloway Council sits in the range of all Scottish Local Authorities based on their audited 2009/10 financial statements.

Working capital (Current assets as a percentage of current liabilities)



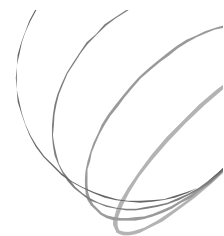
This ratio indicates whether the council has enough short term assets to meet its current liabilities so above 100% is desirable.

Useable reserves as a percentage of net operating expenditure

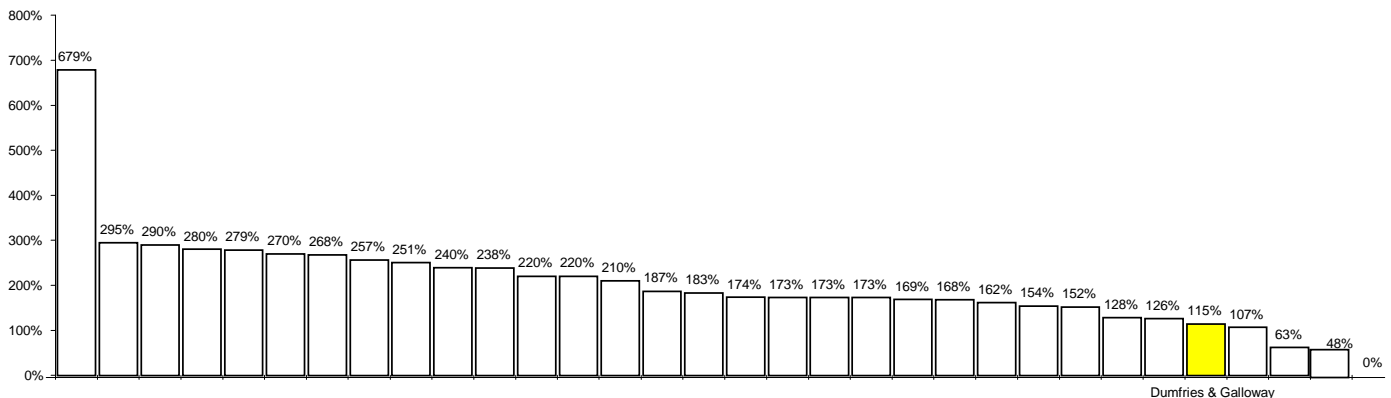


This ratio measures the council's ability to meet potential future variations in expenditure. The higher the percentage, the more the council will be able to absorb unforeseen costs.

A high proportion (58%) of the total usable reserves at 31 March 2010 relates to the balance on the sinking funds for the PPP and PFI projects (£30.3 million).

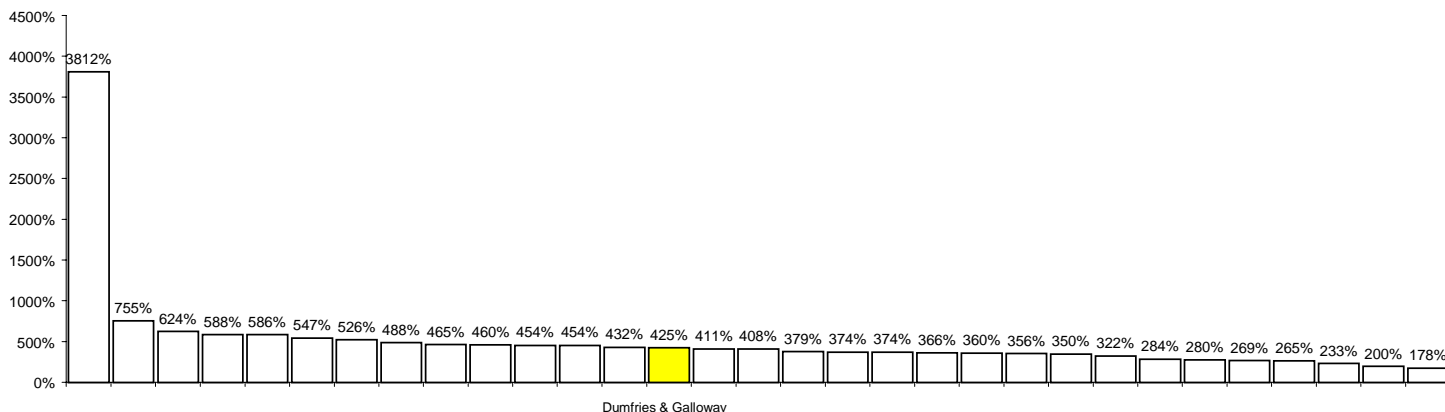


Long term borrowing as a percentage of Council Tax and NDR income



This ratio measures the effect of long term borrowing on the council's budget.

Long term assets as a percentage of long term borrowing



This ratio demonstrates the relationship between the long term assets held by the council and the long term borrowing.