



## **East Dunbartonshire Council**

### Annual report on the 2013/14 audit

Prepared for the members of East  
Dunbartonshire Council and the Controller of  
Audit

November 2014



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## Key messages

### Financial statements

- Unqualified auditor's report on the 2013/14 financial statements.

### Financial position

- An underspend of £1.348 million (0.6%) against service budgets.
- Usable reserves have decreased by £4.783 million to £26.135 million.
- The General Fund has reduced by £1.777 million to £11.313 million.
- Financial management has again been assessed as adequate.
- The council's longer term financial strategy identifies a cumulative funding gap of £23.3 million by 2017/18.

### Governance & accountability

- The council's governance arrangements are assessed as adequate.
- Systems of internal control are adequate but significant control weaknesses in certain key areas have not been addressed despite recommendations by auditors in prior years.
- The council has sound anti-fraud arrangements.

### Best Value, use of resources & performance

- The council has a framework in place for monitoring and reporting performance against strategic priorities.
- In 2013/14 the council met or exceeded 62% of its performance targets.

### Outlook

- The council is undertaking an ambitious transformation programme. The programme needs greater strategic focus and the use of post implementation reviews to ensure planned outcomes and savings can be achieved. Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care. Effective arrangements for Best Value, strong governance and leadership and good partnership working will be essential to address these challenges.

### Financial Statements

1. We have given an unqualified audit opinion that the financial statements of East Dunbartonshire Council (the council) for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2014 and of the income and expenditure for the year then ended.
2. We have also given an unqualified audit opinion on the 2013/14 financial statements of those charities registered by East Dunbartonshire Council and audited under the provisions of The Charities Accounts (Scotland) Regulations 2006.
3. As recorded in the 2013/14 comprehensive income and expenditure statement, the council spent £282.320 million on the provision of public services, resulting in an accounting deficit of £8.114 million. However, this includes certain elements of income and expenditure that are accounted for to comply with the Code of Practice on Local Authority Accounting, which are then adjusted to show their impact on statutory council reserves. When these are adjusted the general fund balance shows a decrease of £1.777 million.
4. The council recorded an underspend of £1.348 million against service budgets in the year, representing 0.6% of net service expenditure.

### Financial position

5. The closing balance for the year on usable reserves was £26.135 million representing a net decrease of £4.783 million from 2012/13.
6. The net movement in the general fund balance for 2013/14 was £1.777 million, reducing the general fund balance to £11.313 million as at 31 March 2014. This balance is made up of earmarked commitments of £6.073 million and an unallocated balance of £5.240 million, or 2.3% of net cost of services.
7. The council's 2014/15 financial plan requires cost savings of £4.5 million. The council aims to deliver these savings through its extensive transformation programme.
8. The council's longer term finance strategy identifies a cumulative funding gap of £23.3 million by 2017/18. Work is underway to identify areas of cost reduction and income generation. These activities include Organisational Planning, the various strategically focussed Transformation Workstreams and the Strategic Framework for Managing Demand.
9. The council reported slippage against the capital plan of £22.2 million (46%) during 2013/14. This was as a result of a major capital project not progressing and delays being experienced in other major capital projects. The Corporate Asset Management Plan is being updated and will be reported to council in November 2014, together with a revised 10 year investment programme. The updated plan will outline the re-

## Key Messages

profiling of projects and address slippage from a number of major capital projects.

## Governance and accountability

10. In 2013/14 we concluded that the council had adequate governance arrangements which included a number of standing committees overseeing key aspects of governance. The council's internal audit function and systems of internal control have been assessed as *adequate*. Our Review of Internal Financial Controls Report issued in September 2014 highlighted a number of areas for improvement including controls around accounting reconciliations, procedures manuals, invoice authorisation and exception reports. It also identified that only 6 out of 21 actions points from our 2012/13 Internal Financial Controls Report had been addressed, and that there were a number of areas where controls were not operating as expected.
11. Council agreed in June 2014 to revise governance and scrutiny arrangements, with the focus on generating improvement. Two scrutiny panels will be established each consisting of eight members. Membership will be split equally between administration and opposition members.
12. A key element of the revised governance and scrutiny arrangements is to be the identification, tracking and confirmation of project benefits. Consideration is also given to financial efficiency, improved customer service, improved

customer satisfaction and improved performance.

13. Integration of adult health and social care is a key challenge for all local authorities. The council is working with NHS Greater Glasgow and Clyde and has produced a detailed Health and Social Care transition plan covering the period from August 2013 to 1 June 2015. A Scheme of Establishment for the East Dunbartonshire Health and Social Care Partnership Shadow Integration Joint Board is in place and includes Standing Orders for Meetings. The council leader has been appointed as the chair of the Shadow Integration Joint Board and both non executive directors of the NHS board and councillors from East Dunbartonshire have been appointed. The first meeting of the Shadow Integration Joint Board took place at the end of October 2014.

## Best Value, use of resources and performance

14. Audit Scotland carried out Best Value audit work in 2013 which focused on performance information and management, asset management, workforce management and procurement. The findings were included in the 2012/13 annual audit report. The report concluded that the council had plans in place to address the areas that needed to improve but it was, at that stage, too early to assess the full impact of these plans and their effectiveness.
15. Further Best Value work is scheduled for later in 2014 and we

## Key Messages

plan to report the findings in spring 2015.

## Outlook

16. Demands on services and resources continue to increase and these need to be managed alongside reductions in spending and major reforms in the welfare system and health and social care. This underlines the need for effective Best Value arrangements, and strong governance, leadership and decision making that is based on good cost and performance information. Effective working with partners will be required to make efficient use of available resources as well as innovation and vision to design and deliver the services needed to serve the future needs of citizens.
17. The public reform agenda, particularly Welfare Reform, is resulting in the most significant changes in the UK welfare

system for decades. We are already seeing increasing levels of rent arrears as a direct impact of welfare reform. In 2013/14 the value of rent arrears for all Scottish councils was £35.1 million, an increase of 24% on 2012/13 levels.

18. The council's current tenant rent arrears in 2013/14 were £0.451 million. This was an increase of 21% from the level recorded in 2012/13 (£0.373 million). As at period 3 of 2014/15, current tenant rent arrears are £0.571 million. This represents a further deterioration in the position.

# Introduction

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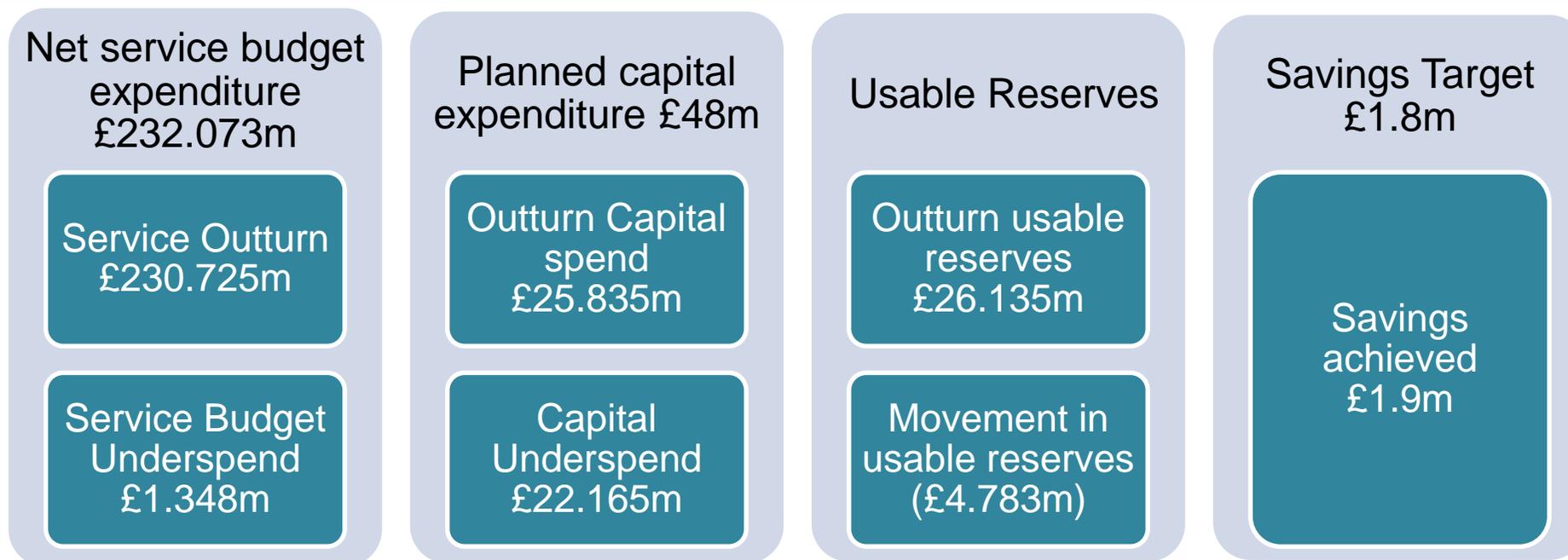
19. This report is a summary of our findings arising from the 2013/14 audit of the council. The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.
20. Our responsibility, as the external auditor of the council, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.
21. The management of the council is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
22. This report is addressed to the members of the council and the Controller of Audit and should form the basis of discussions with the Audit and Risk Management Sub-Committee as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.
23. This report will be published on our website after it has been considered by the council. The information in this report may be used for the Account's Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
24. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, shown at Appendices I and II, include recommendations for improvements. We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the council.
25. The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix III sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.
26. Appendix IV is an action plan setting out the high level risks we

## Introduction

have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response".

27. We recognise that not all risks can be eliminated or even minimised. What is important is that the council understands its risks and has arrangements in place to manage these risks. The council and the appropriate officer should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and monitor outcomes.
28. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
29. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

## Financial statements



30. The savings target and savings achieved detailed in the table above are those reported by the council.

March and of the income and expenditure for the year then ended.

### Audit opinion

31. We have given an unqualified opinion that the financial statements of the council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31

## Other information published with the financial statements

32. Auditors review and report on other information published with the financial statements, including the explanatory foreword, statement on the system of internal financial controls (SSIFC) and the remuneration report. The SSIFC records that the council had an *adequate* control environment with a number of exceptions in key areas where significant improvement has once again been recommended. This is detailed in the report to those charged with governance within the internal controls section at paragraph 46.

## Legality

33. Through our planned audit work we consider the legality of the council's financial transactions. This includes obtaining written assurances from the Director of Finance & Shared Services. There are no legality issues arising from our audit which require to be reported.

## The audit of charities financial statements

34. The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations) sets out the accounting and auditing rules for Scottish charities. These required, for the first time in 2013/14, a full audit of all registered charities accounts where a local authority or some members are the sole trustees.

35. The council had 7 funds which were subject to the full charities financial statements audit for 2013/14.

36. We have given an unqualified opinion on the 2013/14 financial statements of the relevant charities registered by East Dunbartonshire Council.

## Group accounts

37. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations.

38. The council has accounted for the financial results of two subsidiaries, three associates, the Common Good Fund and Trust Funds in its group accounts for 2013/14. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £6.596 million.

39. The net assets of the group at 31 March 2014 totalled £349.222 million, compared to a net asset position of £131.295 million in 2012/13. The positive movement in the closing net worth balance is mainly due to the transfer of Police and Fire functions to the new authorities from 1 April 2013 and the removal of the pension liabilities of Police and Fire from the group accounts.

40. As part of the group account audit it was noted that the East Dunbartonshire Leisure and Culture Trust has a deficit of

## Financial statements

£1.146 million (2012/13: £0.286 million). Excluding the actuarial losses of £1.012 million on the defined benefit pension scheme, the Trust had a deficit of £0.133 million in 2013/14 compared to a surplus of £0.779 million in the prior year.

41. The council pays an annual management service fee to the Trust and regular meetings take place between Council Officers and the Trust's General Manager. In the current financial climate it is important that the financial sustainability of the Trust is kept under review, to ensure that council budgets are not placed under further strain to support the costs associated with the Trust.

### Action Plan 1

42. A decision was taken by the council in June 2014 to close the municipal bank as part of the transformation of services. Arrangements require to be put in place to support closure of the accounts and distribution of balances to investors.

## Accounting issues arising

### *Presentational and monetary adjustments*

43. A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend the unaudited financial statements. The effect of these adjustments was to increase gross expenditure by £0.109m,

decrease gross service income by £0.023m and increase the council's general fund by £0.049m. Net assets as recorded in the balance sheet have decreased by £0.132 million. The most significant change related to an increase in accruals of £0.211 million in respect of maternity leave holiday pay and the correction of calculation errors

44. There were no unadjusted misstatements requiring to be brought to the attention of the Audit and Risk Sub Committee.

### *Whole of government accounts*

45. The whole of government accounts are the consolidated financial statements for all branches of government in the UK. In 2013/14, there were changes to the certification threshold for whole of government accounts. As a consequence, the council fell below the increased threshold and no audit certification was required.

## Report to those charged with governance

46. We presented to the Audit and Risk Management Sub-Committee, on 25 September 2014, our report to those charged with governance (ISA 260). The primary purpose of that report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The main points are set out in the following paragraphs.
47. **Reconciliations:** The Non Domestic Rates (NDR), council tax

## Financial statements

and debtors systems had not been reconciled to the financial ledger on a regular and timely basis throughout the year. As a result, large unreconciled balances were recorded at the year end. For council tax, NDR and sundry debtors the council were unaware of what these variances represented. As a result, the balances were written off. Unidentified variances were also noted on the housing rents reconciliations. Within the payroll suspense reconciliations there were old balances dating back to 2008. Action should be taken to clear suspense accounts on a timely basis. Further to this, it was identified that the cash collection reconciliations for council tax and NDR had not been signed as reviewed by a second officer. Although these are routinely signed and dated by the preparer of the reconciliation, no counter signature was evident. Therefore, it was not clear if the reconciliations had been subject to the appropriate level of review. The total of the reconciliation differences amounted to £0.311 million. An IT systems development project which will streamline processes and simplify reconciliations to support long term and sustainable improvement forms part of the Transformation Programme.

48. **Authorisation of Invoices:** Our testing of payments identified that the council do not have a comprehensive, up to date authorised signatory listing containing specimen signatures. Additional substantive testing was carried out during the financial statements audit due to control failures identified during our review of the council's internal controls. Of our extended sample, a 50% failure rate was noted. Officers

indicate that work is underway to progress the required improvements.

49. **Working Papers:** Key components were missing from the working papers package received on 27 June 2014. The reconciliations for sundry debtors, council tax and NDR were not provided and this curtailed audit progress in those areas. Year end reconciliations for these systems were received at the end of July 2014. A detailed working papers checklist was issued to officers on 3 March 2014. This had identified areas for early audit work and confirmation was received that complete working paper packages for each section would be received by the agreed dates. Reconciliations were key in progressing this work and as they were not available this had a negative impact on our ability to progress the audit. Officers indicate that they will continue to work closely with external audit to agree the relevant working papers to be provided and to ensure these are available at the appropriate time.
50. **Internal Controls:** Testing identified a number of issues in relation to internal controls. Imprest year end returns were not made on a consistent or timely basis from all council sites. The council will review procedures in this area.
51. **Holiday Pay Accrual:** Errors noted in the calculation of the teacher's holiday pay accrual resulted in an under accrual of £0.211 million. The council did not consider the impact of maternity leave when preparing the figure for the draft financial statements and an additional £0.137 million should have been

## Financial statements

accrued. A further error was identified when reconciling the salary details used in the calculation to the financial ledger. A number of differences were noted and it was established that incorrect salary figures had been used in the calculation. This resulted in a variance of £0.074 million. The council will undertake enhanced checks in 2014/15.

- 52. Holiday Pay Contingent Liability:** During periods of annual leave, employees' pay is based on their basic contractual pay. A decision by the European Court of Justice in May 2014 under the Working Time Directive 2003/88/EC has held that some additional payments should be considered when calculating the level of holiday pay, including non-contractual overtime. The legal position is yet to be clarified in relation to the number of years that employers may be required to backdate this entitlement. An unquantified contingent liability has been included in the financial statements.
- 53. Equal Pay Provision:** The equal pay provision has not changed since 2012/13. The Equal Pay team within the council has undertaken a considerable amount of work over the past year in assessing the 485 cases against a number of comparators to establish a low, medium and high liability per claim. The equal pay provision for 2013/14 has been set at £3.899 million at 31 March 2014. The council will continue to refine the provision as the process progresses.
- 54. Chief Officers' Pay:** Following structural reorganisation in February 2013, the council approved a revised senior

management structure resulting in an overall reduction in chief officers. The Organisational Planning 2013-17 update paper presented to the Special Council meeting on 14 February 2013 indicated that the new chief officer roles would be subject to formal job evaluation. The Chief Officers' job evaluation process has not yet been completed. As a result, arrears of pay will be due for the period February 2013 to March 2014 for some Chief Officers. We took the view that a provision should be included within the accounts to reflect this, although it would not have formed a material sum. This was not included although management propose to resolve the issue in 2014/15.

- 55. General Fund Reserves:** The council's level of general fund reserves has fallen from £13.090 million to £11.313 million. This indicates a deteriorating position and raises further concerns around financial sustainability. Within the general fund reserve, the total non earmarked reserves have increased from £4.931 million to £5.191 million. The council continues to maintain a relatively low level of revenue reserves compared with all other Scottish councils. The council plans to augment its reserves in future years.

## Outlook

- 56.** The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The main new standards adopted in 2014/15 include:

## Financial statements

- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosures of interests in other entities
- IAS 28 Investments in associates and joint ventures.

57. These standards affect the group financial statements and include a change to the definition of control. This is likely to require a reassessment of the group boundary and potentially further consolidations and disclosures.
58. The revised Local Authority Accounts (Scotland) Regulations 2014 apply for financial years 2014/15 onwards. The regulations set out in more detail what is required in respect of financial management and internal control, and in respect of the annual accounts themselves. Some of the changes include the requirement for the unaudited accounts to be considered by the Audit and Risk Sub Committee. This can take place

following submission to the auditor and up to 31 August if necessary. In addition the audited accounts must be considered and approved for signature by the Audit and Risk Sub Committee by 30 September with publication on the council's website by 31 October.

59. Highways assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code requires highways to be measured for the first time on a depreciated replacement cost basis. This represents a change in accounting policy from 1 April 2016 which will require a revised opening balance sheet as at 1 April 2015 and comparative information in respect of 2015/16. This is a major change in the valuation basis for highways and will require the availability of complete and accurate management information on highway assets. The council should ensure it is planning ahead to allow full compliance with the Code.

## Financial position

60. The council reported a deficit of £8.114 million on the provision of services in 2013/14. Adjusting this balance to remove the accounting entries required by the Code, produces the revised position showing that the council decreased its general fund balance by £1.777 million.

61. The explanatory foreword to the 2013/14 financial statements records that the council underspent against its budget by £1.348 million (0.6% of the 2013/14 revenue budget). Key variations in performance against budget include :

- An overspend of £3.046 million within Social Work as a result of increased costs across a range of services, particularly the elderly, due to a growing demand in this area.
- The requirement to fund a significant number of council tax refunds in the year resulted in a shortfall in funding.
- A significant underspend was noted within Education. Provisions created in 2012/13 for teachers' retirements and maternity leave costs were not utilised in full in 2013/14, releasing funds of £0.084 million back to revenue. Further savings were noted in teaching and non teaching staff payroll by the end of the financial year.
- Within Neighbourhood Services, payments to sub contractors reduced during the year. This resulted in a

saving of £0.231 million.

62. The 2013/14 budget, approved by the council on 14 February 2013, included a planned contribution from the general fund of £4.215 million. As the council incurred higher than expected levels of expenditure during the year, the actual level of contribution was £4.700 million.

63. Usable reserves are part of a council's strategic financial management and councils will often have target levels of reserves. As shown in Exhibit 1, the overall level of usable reserves held by the council decreased by £4.783 million compared to the previous year and totalled £26.135 million.

### Exhibit 1: Usable reserves

Description	31 March 2013	31 March 2014
	£ million	£million
General Fund	13.090	11.313
Housing Revenue Balance	1.554	0.844
Capital Receipts & Capital Fund	15.362	12.496
Other Statutory Funds	0.912	1.482
<b>Total Usable Reserves</b>	<b>30.918</b>	<b>26.135</b>

Source: East Dunbartonshire Council 2013/14 financial statements

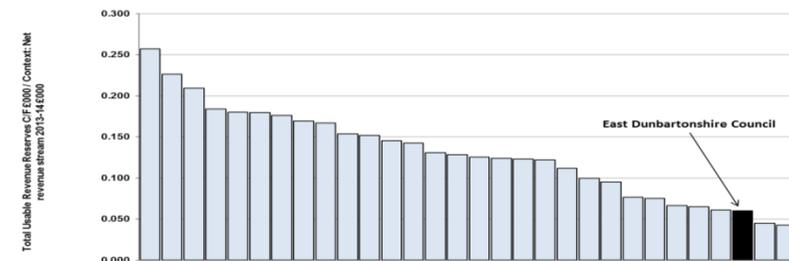
## Financial position

64. From an analysis of Scottish councils' unaudited 2013/14 accounts, over half of all councils utilised reserves brought forward, with around half of all councils ending 2013/14 with lower levels of reserves than they had at the start of 2012/13. This was in part due to the retention of certain reserves associated with police and fire joint boards and the consequent reduction in general revenue grant from the Scottish Government in 2013/14.
65. The council's level of general fund reserves has fallen from £13.090 million to £11.313 million. This indicates a deteriorating position and raises further concerns around financial sustainability. Within the general fund reserve, the total non earmarked reserves have increased from £4.931 million to £5.240 million. The council continues to maintain a relatively low level of revenue reserves compared with all other Scottish councils.
66. Earmarked balances represent 54% (2012/13: 62%) of the general fund balance. These commitments on the fund mainly comprise amounts designated to meet costs associated with social work pressures (£2.219 million) and modernisation, efficiency and reform initiatives (£0.849 million).
67. Exhibit 2 below shows the council has the third lowest usable revenue reserves position in relation to net revenue stream for the year in comparison to other Scottish councils (net revenue stream being presented as general revenue grant, council tax, non domestic rates and dwelling rents). As indicated the

council position is significantly lower than the median level. The council should continue to ensure that it strikes a balance between meeting current obligations and preparing for future commitments and possible reductions in funding.

### Action Plan 2

#### Exhibit 2: Total Usable Revenue Reserves as a proportion of net revenue stream



Source: Scottish councils' unaudited accounts 2013/14

68. The general fund balance reduced by £1.777 million during the year. The closing balance at 31 March 2014 is made up of earmarked commitments of £6.073 million and an unallocated balance of £5.240 million, or 2.3% of the net cost of services (2012/13: 2.0%). This position is in line with the council's policy which is to maintain uncommitted reserves at a minimum of £2.5 million.

## Capital investment and performance 2013/14

69. Total capital expenditure in the year was £25.835 million. Housing Revenue Account capital expenditure was £10.776 million, with General Fund capital expenditure of £15.059 million. Investment during the year included £5.848 million in council house new builds, £2.680 million in roads and footpaths, and £1.502 million in new waste collection services. The capital programme was funded as shown at Exhibit 3 below :

**Exhibit 3: Sources of finance for capital expenditure**

Description	2010/11	2011/12	2012/13	2013/14
	£million	£million	£million	£million
Government Grants and Other Contributions	15.374	11.115	13.957	12.849
Capital Receipts	1.292	4.621	1.184	1.951
Borrowing	7.744	15.401	16.108	15.783
<b>Total</b>	<b>24.410</b>	<b>31.137</b>	<b>31.249</b>	<b>30.583</b>

Source: East Dunbartonshire Council financial statements 2010/11-2013/14

70. The council reported an underspend against the planned level of capital expenditure of £22.2 million or 46% of the total capital

budget for 2013/14. The general fund services programme accounts for £21.5 million of this slippage, which equates to slippage of 59% against the total general fund capital budget.

### Action Plan 3

71. There have also been delays in progressing the community hubs and Lairdsland Primary School, this has had a negative impact on delivery of the capital plan and planned revenue savings.
72. The main reason for this slippage was a significant change in the proposed site to develop office and depot accommodation. Plans were well progressed with funding streams in place. Further investigative work revealed that the land was unsuitable without significant investment for development. Subsequently funding was withdrawn and costs were borne by the council on the £3 million borrowed, although this project was not progressed. A new site has now been identified, however, due to the preparatory work involved it will be at least another two years before this is operational. The council should consider the robustness of option appraisal arrangements to ensure capital plans are soundly based.

### Action Plan 4

73. Throughout 2013/14, the capital budget did not reflect the current capital investment position of the council, due to changes to planned projects. The council have plans to re-profile the capital budget to align with planned expenditure.

## Financial position

74. The council's capital receipts of £1.951 million (£1.184 million in 2012/13) were £1.1 million less than anticipated due to delays in realising capital receipts. The capital budget for 2014/15, as approved by council on 17 December 2013, included anticipated capital receipts of £7.890 million. This has subsequently reduced to £3.177 million in the period to 29 June 2014 as reported to Policy and Resources committee in September 2014, due to the timing required for concluding planning, legal and financial processes associated with delivering capital receipts. It is important, that going forward the council more accurately profile the timing and value of capital receipts. Delays in capital receipts have also resulted in increased revenue costs due to the maintenance and utility costs associated with unsold properties.
75. The Corporate Asset Management Plan (CAMP) presented to council in December 2013 outlines the asset management framework which will support the council's ongoing transformation programme, delivery of strategic priorities and Single Outcome Agreement outcomes. A further annual update on the programme will be presented to council in November 2014.
76. The CAMP refers to the council's transformation programme and rationalisation of operational and educational estate however, limited details and educational estate, however limited details regarding the Primary School Improvement Programme are included. At present, the CAMP is unclear on

the proportion of the budget to be spent on new builds and on maintenance of the remaining school estate. Detailed financial plans are required to support decisions taken in transforming the school estate.

77. In December 2013 the council withdrew from the City Deal infrastructure initiative due to the level of financial commitment required and the projected economic benefits. Subsequent changes in funding arrangements for the infrastructure programme and the introduction of new workstreams took place. At a special council meeting in August 2014, it was agreed that the council would sign up to the City Deal framework agreement. The council will support the employability workstream as well as potentially introducing a project to the infrastructure fund. This will be dependent on the deliverability of other local authority projects. The council will only be able to submit an infrastructure project proposal if other agreed projects do not proceed.

## Treasury Management

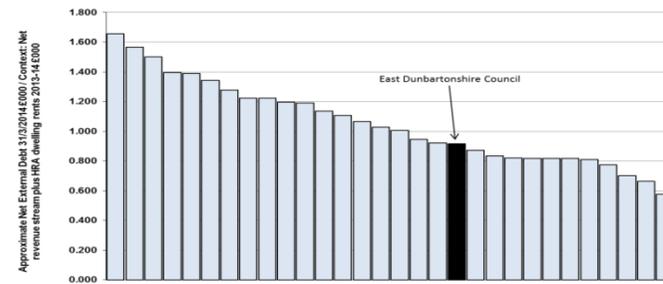
78. High levels of debt may reduce a council's budget flexibility going forward as revenue resource has to be set aside to service that debt. The impact that debt levels have on net revenue expenditure will be affected by interest rates and repayment periods.
79. In the current financial climate, many councils, have relatively high levels of internal borrowing, utilising available cash

## Financial position

balances and deferring external borrowing. The council's underlying need to borrow, or capital financing requirement (CFR), at 31 March 2014 was £257 million while net external borrowing was £28 million lower at £229 million.

80. As shown at Exhibit 3, capital spend in the year was mainly funded through borrowing. The council's level of net borrowing in 2013/14 has decreased marginally. The council's borrowing and capital financing requirement are lower than anticipated in 2013/14 due to project slippage from the capital programme.
81. Exhibit 4 below shows that the council's net external debt, as a proportion of net revenue spend, continues to remain relatively low to other Scottish local authorities.

### Exhibit 4: Net external debt as a proportion of net revenue stream



Source: Scottish councils' unaudited accounts 2013/14

82. In 2013/14 the council maintained its under-borrowed position, with actual external borrowing and long term liabilities being less than capital financing requirements. Within the 2013/14 Treasury Management Strategy the council had planned to address the under borrowed position. However, after undertaking a review during the year and considering the holding costs associated with any new borrowing it was not deemed economically advantageous to address the borrowing position at this time.
83. The council plan to monitor the under borrowed position going forward and will proceed with additional borrowing as required.

### Outlook

84. In February 2014 the council approved its budget for 2014/15. The net service expenditure budget set for 2014/15 is £232.132 million and represents an increase of 0.4% on that set for 2013/14 (£231.100 million). A spending gap of £5.186 million has been identified. To address in part the gap between available funding from current source and the cost of services, the budget included planned efficiencies of £3.500 million through the ongoing Organisational Planning exercise.
85. The latest reported financial position for 2014/15 as at 29 June 2014 anticipates an adverse variance of £2.545 million mainly as a result of overspends within Integrated Health and Social Care and Social Work Services. A sum of £2.000 million was set aside from the General Fund balance to fund anticipated pressures in Social Work, and given the adverse variance currently being reported, this commitment may need to be applied in full.
86. The remaining adverse variance of £0.545 million will reduce the council's uncommitted Contingency Reserve to £0.162 million.
87. The council is seeking to identify further measures to contain its overspend within the overall budget.
88. The council will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. The level of flexibility within expenditure budgets is

considerably reduced by the release of cost savings in previous years.

89. Looking further ahead, the council has projected that cumulative revenue budget savings of approximately £23.3 million will be required over the four year period from 2014/15 to 2017/18.

#### **Action Plan 5**

# Governance and accountability

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90. Members of the council and the relevant accountable officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of the council and for monitoring the adequacy and effectiveness of these arrangements.

## Corporate governance

91. The corporate governance framework within the council is centred on the council which is supported by the following standing committees:



92. An update to the council's administrative scheme was approved in June 2014. This includes key governance

documents such as registers of interests, standing orders and codes of conduct. However, it was noted during testing of governance arrangements that this scheme had not been kept up to date during the year. The council should ensure that governance documents are regularly updated, maintained in line with the transformation programme and adjusted to take account of proposals for new procedures and processes.

### Action Plan 6

93. Following a review by the Audit and Risk Manager it was again concluded that the council's processes did not meet the requirements to warrant the preparation of an annual Governance Statement and therefore this was not included in the 2013/14 accounts. The council instead prepared a SSIFC. A Governance Statement is planned for inclusion within the 2014/15 accounts.
94. As part of external audit's consideration of the council's governance arrangements, we reviewed papers presented to council committees. We noted the agendas included a higher proportion of private papers than would be expected. Key documents relating to the council's transformation programme are often included within these private papers and are therefore not made available for public information. This reduces the transparency of council plans and decisions.

### Action Plan 7

95. In June 2014, the council took a decision to revise the number

## Governance and accountability

and remit of existing Scrutiny Panels. Two new panels were established each consisting of eight members. These panels focus on the delivery of Single Outcome Agreement local outcomes and specific elements of the council's Transformation Plan. The purpose of the revised governance and scrutiny arrangements is to provide Elected Members with clear sight of the key council improvement activity and reassurance on its progress. An annual review of Scrutiny Panel activity will be undertaken by the Policy and Resources Committee.

96. Based on our observations and audit work our overall conclusion is that governance arrangements within the council are adequate.

## Internal control

97. As part of our audit we reviewed the high level controls in a number of the council's systems that impact on the financial statements. This audit work covered payroll, accounts payable and budgetary control. Our Review of Internal Control Systems Report issued in September 2014 highlighted a number of areas for improvement, including a number of overarching controls such as reconciliations, procedural instructions, exception reporting and staff structures. Despite a number of these issues also being highlighted in the report we issued for 2012/13, action points had not been addressed in most cases and no improvements had been made. Our assessment of the council's systems of internal control during 2013/14 overall, is

*adequate*, but it must address the significant weaknesses, with their inherent risks, that we have identified in key areas.

98. The council does not have a monitoring system in place to follow up external audit action plan points. For example, in the Review of Internal Control Systems Report 2013/14 referred to above, we noted that only six of the previous year's twenty one points had been actioned. Many of the issues raised originate from the 2011/12 report. It is therefore evident from our review that action plans are not being implemented in a timely or regular basis.

## Internal audit

99. Internal audit provides members of the council and the Proper Officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where appropriate.
100. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place. We placed formal reliance on the work of internal audit in several accounting systems including Council Tax billing and collection, NDR billing and collection,

## Governance and accountability

Council Tax and NDR valuations, Cash, Treasury Management and Housing Rents where appropriate.

### ICT audit

101. The council secured its Public Services Network (PSN) accreditation in December 2013 and have prioritised elements of their ICT work in order to ensure this position is maintained. In 2014/15 this includes implementing a two factor authentication solution to facilitate more secure remote access to council applications and penetration testing. The next PSN accreditation is scheduled for March 2015. As part of the council's smart working project the ICT department is replacing desktop computers with laptops and other mobile devices, to facilitate flexible working.

### Arrangements for the prevention and detection of fraud

102. The council's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.
103. The council participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by

the NFI.

### Arrangements for maintaining standards of conduct and the prevention and detection of corruption

104. The arrangements for the prevention and detection of corruption in the council are satisfactory and we are not aware of any specific issues that we need to record in this report.

### Integration of adult health and social care

105. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland. The Act offers some flexibility on the partnership arrangements for the governance and oversight of integrated health and social care services. The integration will be complex and challenging and the council will need to engage at the highest level with the relevant health bodies in its area to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for purpose.
106. In September 2013, the council approved the model of Health and Social Care Partnership (HSCP) in East Dunbartonshire to deliver adult only services in partnership with NHS Greater Glasgow and Clyde. An officer from NHS Greater Glasgow and Clyde was appointed as the interim Chief Officer of the East Dunbartonshire Health and Social Care Partnership Shadow

## Governance and accountability

Integration Joint Board and commenced in this role in February 2014. The council's former Director of Education and Social Care has taken up the interim post of Director of Integrated Health and Social Care to supplement preparation for the transition to an integrated joint board.

107. Arrangements were agreed between the council and health board and a detailed Health and Social Care transition plan was developed covering the period from August 2013 to 1 June 2015. The plan clearly outlines required action and target dates and is regularly monitored to assess progress. The plan is supported by a detailed action log and the outcomes are linked to the timescales outlined in the Scottish Government Health and Social care timeline 2014/16.
108. The council leader has been appointed as the chair of the Shadow Integration Joint Board and both non executive directors of the NHS board and councillors from East Dunbartonshire have been appointed. The first meeting of the Shadow Integration Joint Board is scheduled to take place on 26 October 2014.
109. A Scheme of Establishment for the East Dunbartonshire Health and Social Care Partnership Shadow Integration Joint Board is in place and includes Standing Orders for Meetings.
110. Significant development work has commenced in preparing a draft integration scheme for the East Dunbartonshire Health and Social Care Partnership. The Shadow Board are focused

on finalising arrangements as they require to be in place to support future developments following the dissolution of the Community Health Partnership on 31 March 2015. Governance arrangements for planning and reporting are clearly defined within the shadow board. Included within the draft scheme are proposals to agree delegated services and functions. This clearly outlines services being hosted by either the health board or council and also those that are being transferred to the new board. It is intended that service provision along with budgets for delegation will be finalised in December 2014.

111. A strategic plan will complement the integration scheme and is intended to define:
  - integration functions will be delivered
  - how outcomes will be met and
  - locality arrangements.
112. Progress in delivery of the Health and Social Care transition plan is mainly on target with only a small number of areas in relation to joint accommodation and staff partnership liaison not meeting the original targets set.
113. Delivery of the plan will be critical in ensuring the partnership is sufficiently developed to deliver integration on time. Good project management disciplines and supporting governance arrangements are in place to support the integration of adult services.

### Action Plan 8

## Welfare Reform

114. The council recognises the impact that the changes to the UK welfare system could have on resources and service provision. 2013/14 was a period of significant change with council tax benefits being replaced by the new Council Tax Reduction Scheme and the introduction of the Scottish Welfare Fund. Councils continue to face uncertainties over the roll out of the Universal Credit and there is the potential for further changes after the recent Scottish independence referendum.
115. Welfare Reform continued to have significant impact on the council during 2013/14, in particular through the Spare Room Subsidy which generated a significant increase in workload. Discretionary Housing Payments also impacted substantially on the workload of the Revenues & Benefit team with management noting a 600% increase in the number of applications received during the year. Scottish Welfare Fund implementation also offered significant challenges due to short timescales and the impact on employee resources. The council continues to face cost pressures and financial risk through the impact of Welfare Reform.
116. Rent arrears have been increasing in the council. The council's current tenant rent arrears in 2013/14 were £0.451 million. This was an increase of 21% from the level recorded in 2012/13 (£0.373 million).
117. In 2013/14 full Discretionary Housing Payment (DHP)

applications were supported by income and expenditure details and awards were made on the basis of the claimant's individual circumstances and availability of funds. However, this policy will change for 2014/15 as the council will now award 100% DHP for cases affected by the spare room subsidy.

118. The council used £0.203 million of DHP in 2013/14 to assist with rent arrears, rents in advance and the mitigation of the impacts of welfare reform. This included spare room subsidy and benefit cap, and payments to help claimants stay in the properties until alternative cheaper accommodation could be found.
119. As a result of welfare reforms the UK government increased funding for DHP for Scottish councils from £4.2 million in 2012/13 to £18.2 million in 2013/14. Furthermore the Scottish Government provided Scottish councils with an additional £20 million of funding in 2013/14 to help mitigate the impact of welfare reforms.

## Housing and council tax benefits performance audit

120. In June 2014 the Accounts Commission approved the Audit Scotland benefits performance audit annual update report for 2013/14. The report highlights the main areas of risk identified during 2013/14 as well as areas where improvement is being evidenced. The Accounts Commission raised some specific concerns about the performance of benefit services across

## Governance and accountability

councils and their capability to deliver improvements going forward were:

- The on-going impact on benefit services from the loss of experienced staff and the difficulty benefit services have in filling vacant positions. This risk is increased by the continuing uncertainty about the timetable for the roll out of Universal Credit.
- The deliver of services to claimants being adversely affected for extended periods during times of change such as the implementation of new systems.

121. Benefits performance audit work is planned to take place at the council in 2015/16.

## Outlook

122. Councils continue to face rising demands for services alongside managing major reforms in welfare and health and social care. There is now a greater need than ever for strong governance and leadership. The integration of health and social care is a complex and challenging process and the council will need to continue to engage at the highest level with

partners to ensure that the unified service is in place by the statutory date of 1 April 2016.

123. There are to be major changes in councils' responsibilities for the investigation of fraud. The new Single Fraud Investigation Service (SFIS) is a national fraud investigation service within the Department for Works and Pensions which will take over the responsibility for the investigation of housing benefit frauds. The investigation of the Local Council Tax Reduction Scheme and corporate frauds will remain within councils. The SFIS will be implemented across councils on a phased basis during the period July 2014 and March 2016 and will see the transfer of staff from councils to the DWP. There is a risk that councils' arrangements for the prevention and detection of fraud may be weakened due to the loss of experienced investigators to the SFIS.

124. The political context in 2014 has been particularly challenging with the referendum on Scottish independence. Whatever the conclusions of the Scotland Devolution Commission, a cross part working group tasked with overseeing the devolution of more powers to Scotland, there is the potential for even further change and discussions are likely on local services, governance and accountability.

# Best Value, use of resources and performance

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125. Local authorities have a statutory duty to provide Best Value in those services they provide directly as well as those provided through agreements with Arms Length External Organisations. This requires continuous improvement while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability. There is also the duty to report performance publicly so that local people and other stakeholders know what quality of service is being delivered and what they can expect in the future.
126. The council is progressing a major transformation programme to deliver services more efficiently and reduce costs. It is critical that the success of the programme is measured on a regular basis through post implementation reviews. A number of areas within the programme have not been delivered within the target dates set. This includes delivery of major capital projects and system development. The pace of change being adopted, requires to be aligned, with the service improvements and cost savings outlined in the transformation programme.

## Action plan 9

## Arrangements for securing Best Value

127. We carried out Best Value audit work in 2013 which focused on performance information and management, asset management, workforce management and procurement. The findings were included in the 2012/13 annual audit report. We concluded that the council had plans in place to address the areas that needed to improve but it was too early to assess the full impact of these plans and their effectiveness.
128. The annual audit report was presented to the Accounts Commission in December 2013, under cover of a report by the Controller of Audit in terms of Section 102 of the Local Government (Scotland) Act 1973. The Controller of Audit highlighted that the areas considered during the Best Value audit work are central to the achievement of Best Value and present significant challenges requiring strong leadership and management. The Commission requested further Best Value audit work. This is scheduled for later this year and we plan to report the findings in spring 2015.

## Use of resources

129. The council faces ongoing financial challenges and a savings plan has been developed in response to these. It is planned that savings will be achieved through an ambitious programme to transform and change the way services are organised and delivered.

## Best value, use of resources and performance

130. The council has plans to reduce its workforce by introducing various efficiencies which is expected to result in a reduction of approximately 250 posts by 2017 through its transformation programme and workforce strategy. A voluntary trawl was launched in January 2013 that received around 600 notes of interest. During 2013/14, 80 employees received exit packages and left the council at a cost of £6.086 million.
131. The council has offered standard packages to employees on their departure. As significant interest was expressed by employees, consideration should have been given to offering flexible packages which would encourage value for money and reduce the overall cost in managing exit packages.
132. The savings likely to be achieved through workforce reductions are not clear. Savings realised from an employee's departure are dependent on other adjustments to the organisational structure and may only result in a partial salary saving. Full salary savings are only achieved where the employee's post is removed from the structure. Scrutiny arrangements and appropriate public reporting are not in place to support both past and future decision making in relation to exit packages.
133. An analysis of the average cost per package is outlined below for the period from 2010/11 to 2013/14. The average cost per package in 2013/14 is significantly higher than previous years as a result of a number of senior officers leaving the council.

### Exhibit 5: Exit packages

Year	2010/11	2011/12	2012/13	2013/14
<b>Average cost (£)</b>	61,237	51,177	58,929	76,075
<b>Total Cost (£)</b>	16,656,718	5,783,111	5,362,613	6,086,044

Source: East Dunbartonshire Council financial statements 2010/11-2013/14

134. During the course of the financial statements audit, officers were unable to demonstrate that the voluntary trawl scheme is realising anticipated savings and achieving value for money. The council needs to develop more detailed monitoring reports which give actual savings achieved. Consideration should be given to undertaking lessons learned exercises on the existing scheme to ensure the achievement of Best Value.

### Action Plan 10

135. Contrary to the council's objective of reducing the workforce, the 2013/14 Statutory Performance Indicator for sickness absence has shown an increase in staff numbers during the financial year. The number of full time equivalent staff is disclosed as 3,377 in 2012/13, rising to 3,413 in 2013/14. The council have been unable to provide comprehensive details on full time equivalent staffing levels for 2013/14 and very limited

## Best value, use of resources and performance

information on workforce monitoring has been provided. To ensure the achievement of savings plan the council should develop robust and detailed workforce monitoring information.

### Action Plan 11

136. As the council continues its transformation programme, organisational structures require to be finalised to clearly define roles and responsibilities and to support delivery of the programme objectives. As part of this process, consideration should be given to the council's capacity to deliver its broad range of objectives. During the course of our audit we noted instances of reduced capacity, increased roles and responsibilities for staff, the erosion of some internal controls and limited capacity during periods of leave or absence. There are clearly risks associated with periods of organisational change, and these include officers' abilities to deal with the immediate demands of changed responsibilities whilst addressing the need for adequate handovers, robust procedural instructions and the management of old and new responsibilities. The council should continue to review the resilience and capacity of the workforce and enhance it as appropriate.

### Action Plan 12

137. It is important that during a time of workforce reduction the council is able to maximise value and contribution from its remaining staff. The council loses 11.18 days to sickness

absence on average per employee (11.61 days in 12/13). The council has invested in the development of sickness absence processes but there has been a limited reduction in staff absence levels. Consideration should be given to the effectiveness of measures implemented.

### Action Plan 13

138. There has been considerable change within the council's management of resources and assets as a result of the transformation programme. Regular post-implementation reviews should be conducted to ensure changes are delivering the desired outcomes.

### Action Plan 14

## Performance management

139. In November 2013 the council issued Directors with revised corporate guidance relevant to the council's Business Improvement Plans and How Good Is Our Service (HGIOS) evaluation reviews. The guidance supported the submission of three year Business Improvement Plans 2014/17 for approval by Special Council in December 2013 and Directorate How Good Is Our Service Evaluation Reviews.

140. A Directorate Performance Guide setting out good practice in performance reporting was issued in September 2014. The guide reflects revised statutory requirements and provides relevant guidance.

## Best value, use of resources and performance

141. In June 2014 the council decided to target service performance and improvement reporting to strategic service committees and to strengthen scrutiny arrangements associated with the transformation programme, community planning and external scrutiny activity to support progress and improvement.

### Overview of performance targets in 2013/14

142. Directorate performance information is reported through HGIOS self evaluation exercises and reports. These are reported to the corporate management team and to the policy and resources committee.

143. Within each report, 'prioritised performance indicators' are reported. Each Directorate has a small number of annual indicators outlining overall Directorate performance. Further quarterly performance indicators relating to the Business Improvement Plans and incorporating the Solace indicators are monitored. The table below shows a breakdown of annual performance reported and the overall status of these indicators for each Directorate as reported in the HGIOS report.

**Exhibit 6: Performance information**

Directorates	On target	2-5% off target	Off-target	Unknown
Customer Service & Transformation	10	1	10	0
Development and Regeneration	12	2	2	0
Education & Social Work	27	3	5	15
Finance & Shared Services	21	3	4	0
Governance & Regulation	20	0	2	1
Neighbourhood Services	22	5	7	8
<b>Total</b>	<b>112</b>	<b>14</b>	<b>30</b>	<b>24</b>

*Source: How Good Is Our Service Directorate Reports*

144. Areas of particular strong performance include:

- 91% of council dwellings fully compliant with the requirements of meeting the 2015 SHQS target
- Attendance at sports and leisure facilities and museums has exceeded the annual target.

## Best value, use of resources and performance

### 145. Areas identified for improvement:

- 11.18 days lost to sickness absence on average per employee against a target of 10 days.
- 47.5% of employees have a completed Performance Development Reviews in place, against a target of 85%

### Action Plan 13

146. The council has achieved 62% of performance targets, with a further 8% of indicators being within five per cent of the target. The council is awaiting published national information in order to update 13% of targets which currently have an unknown status. 17% of indicators are off target with performance during 2013/14 missing the target by over five per cent.

147. New scrutiny arrangements were introduced in June 2014 it is as yet too early to assess the effectiveness of these arrangements.

## Statutory performance indicators

148. The Accounts Commission has a statutory power to define performance information that councils must publish locally and it does this through its annual Statutory Performance Information Direction. Since its 2008 Direction, the Accounts Commission has moved away from specifying individual indicators and has focused on public performance reporting and councils' requirement to take responsibility for the performance information they report.

149. The audit of Statutory Performance Indicators in 2013/14 is a two stage process. The first stage requires auditors to ascertain and appraise councils' arrangements for public performance reporting and the completion of the Local Government Benchmarking Framework indicators. This focuses on three statutory performance indicators (SPIs) namely:

- SPI 1: covers a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
- SPI 2: covers a range of information relating to service performance
- SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

150. The second stage involves an assessment of the quality of the information being reported by the council to the public. An evaluation of all Scottish Local Authorities' approaches to public performance reporting (PPR) has been carried out by Audit Scotland nationally, the results of which were reported to the Accounts Commission in June 2014. Individual assessments were also reported to councils' Chief Executives, Leaders and Chairs of Audit Committees. These highlighted the extent to which their PPR material either fully, partially or did not meet the criteria used in the evaluation. The results for the council were mixed, with 76% fully, 24% partially and 0%

## Best value, use of resources and performance

not meeting the criteria.

151. A further report on councils' approaches to PPR is due to be issued by Audit Scotland in Spring 2015.
152. The Corporate Performance and Research Team (CPRT) has provided a detailed plan and timetable which has been distributed to the Directors and staff of all Directorates within the council. The team also provides support and training seminars on the use of the performance management software and the effective implementation of guidance issued.
153. The CPRT team source the majority of information for the 55 indicators from Local Financial Returns and other sources of information such as Scottish Household Survey's which enable them to collate these indicators themselves. There are however, 11 indicators whereby a direct submission is required from the directorate. The Audit and Risk Team provides a reassurance function over this direct submission to ensure quality and accuracy.
154. The approach adopted by the council appears appropriate, and adequate levels of planning and reporting are in place for its SPI arrangements.

## Assurance and improvement plan 2014-17

155. The Assurance and Improvement Plan (AIP) covering the period 2014 to 2017 is the fifth AIP for the council prepared by the Local Area Network (LAN) of scrutiny partners for the

council since the introduction of the shared risk assessment process. This was published on Audit Scotland's website and was submitted to the full council meeting on 1 May 2014.

156. The previous AIP identified four areas that would be subject to Best Value audit work: performance information and management: workforce management; asset management and procurement. These areas with the exception of performance information and management remained as scrutiny required in the 2014 to 2017 AIP as plans to address the risks identified had only recently been put in place. The LAN also assessed governance and accountability and improving and transforming public services as "scrutiny required" as there was a planned change in the council's scrutiny arrangements coupled with an ambitious transformation programme. Both financial management and efficiency were assessed as "further information required" due to the long term funding gap projected of £25 million. In addition leadership and direction was also assessed as "further information required" due to recent developments in the strategic planning and performance framework. The delivery of the transformation programme will be critical if the council is to address the funding gap and improve the efficiency of services. Best Value work is scheduled to take place in November / December 2014 and the LAN will revisit these areas as part of the Shared Risk Assessment process for 2014/15.

## Local performance audit reports

157. In June 2011, Audit Scotland, on behalf of the Accounts Commission, published a national report *'Arm's-Length External Organisations (ALEO): Are you getting it right?'*. This report sets out good practices to be considered by councils when setting up and operating ALEOs. More recently, following its consideration of a case involving The Highland Council, the Chair of the Accounts Commission wrote to all councils highlighting the serious financial consequences of weak governance in the arrangements for overseeing ALEOs. The Chair took this opportunity to remind councils about the Commission's previous work in this area.
158. Our work concluded that the council has governance arrangements in place along with a process for monitoring the financial and service performance of ALEOs.
159. In March 2013, Audit Scotland, published a national report entitled *'Major capital investment in councils.'* This was a comprehensive review of major capital projects over £5 million and focused on how well councils direct, manage and deliver capital investments. The report contained 14 recommendations, a good practice guide and a good practice checklist.
160. In 2013/14, we carried out a follow-up to determine whether:
- the recommendations from the report been considered and effectively implemented

- councils have sustainable capital investment plans which reflect strategic priorities
  - elected members provided with sufficient information to support effective scrutiny and decision-making.
161. The follow-up also considered the extent to which councils are using the good practice guide and checklist to help improve the management and delivery of their major capital projects and programmes and support effective scrutiny of plans. The work did not cover how capital projects are funded in detail. This will be covered in part by the forthcoming performance audit *'Borrowing and treasury management in local government.'*
162. During our review a number of practices at the "basic" level were observed. This is an area of development for the council with a further update to the CAMP due later this year. It was recognised during our review that there was slippage both in capital project delivery and receipts available to support future developments.

## National performance audit reports

163. The findings from national reports are reported to members alongside an assessment of current arrangements against good practices and the agreement of actions to ensure further improvements. However, not all reports issued are submitted to or considered by the relevant council committee. A summary of the national performance audit reports considered, along

## Best value, use of resources and performance

with local audit reports, is included in Appendices I and II.

### Procurement

164. There was a significant improvement in the council's procurement capability score rising from 25% in 2012 to 44% in 2013. This is still however below the national average and the government's target of 50%. In addition, a service review carried out in 2014 identified the need to implement a new structure within the procurement service. An e-procurement system is planned for 2015 and the council expects that this will transform procurement practice within the council and lead to greater efficiencies.
165. Improvements in the procurement system will be critical for streamlining systems currently in place and for maximising purchasing power across the council. These can contribute to reducing costs and delivery of savings plans.

### Action Plan 15

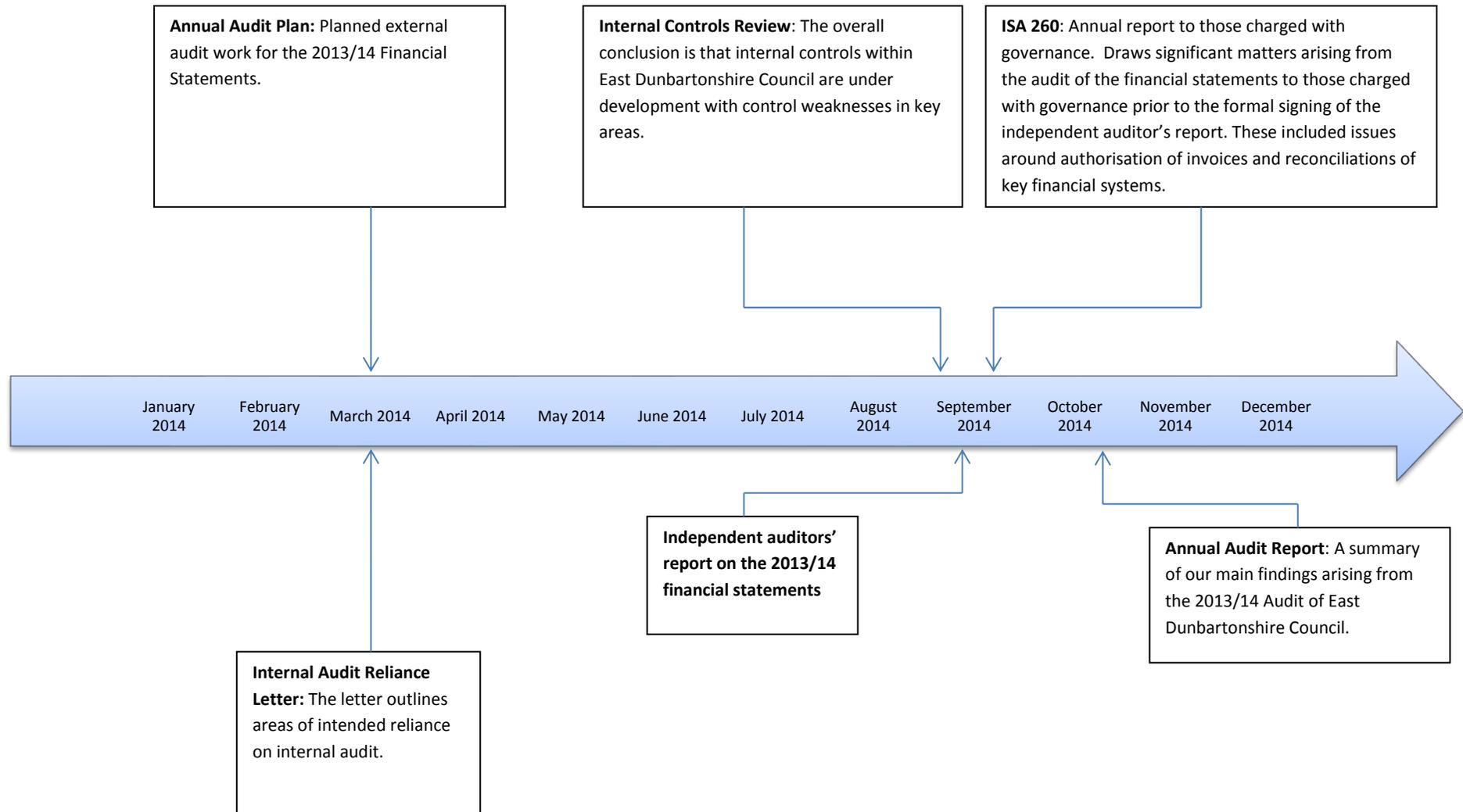
### Outlook

166. In common with other councils, East Dunbartonshire faces the key challenges of reducing budgets, an aging population with higher levels of need and the public expectation of high quality services. Savings have been made in recent years largely by reductions in the workforce. However as choices on how to address funding gaps becomes increasingly difficult, councils will have to focus on making the very best use of all available

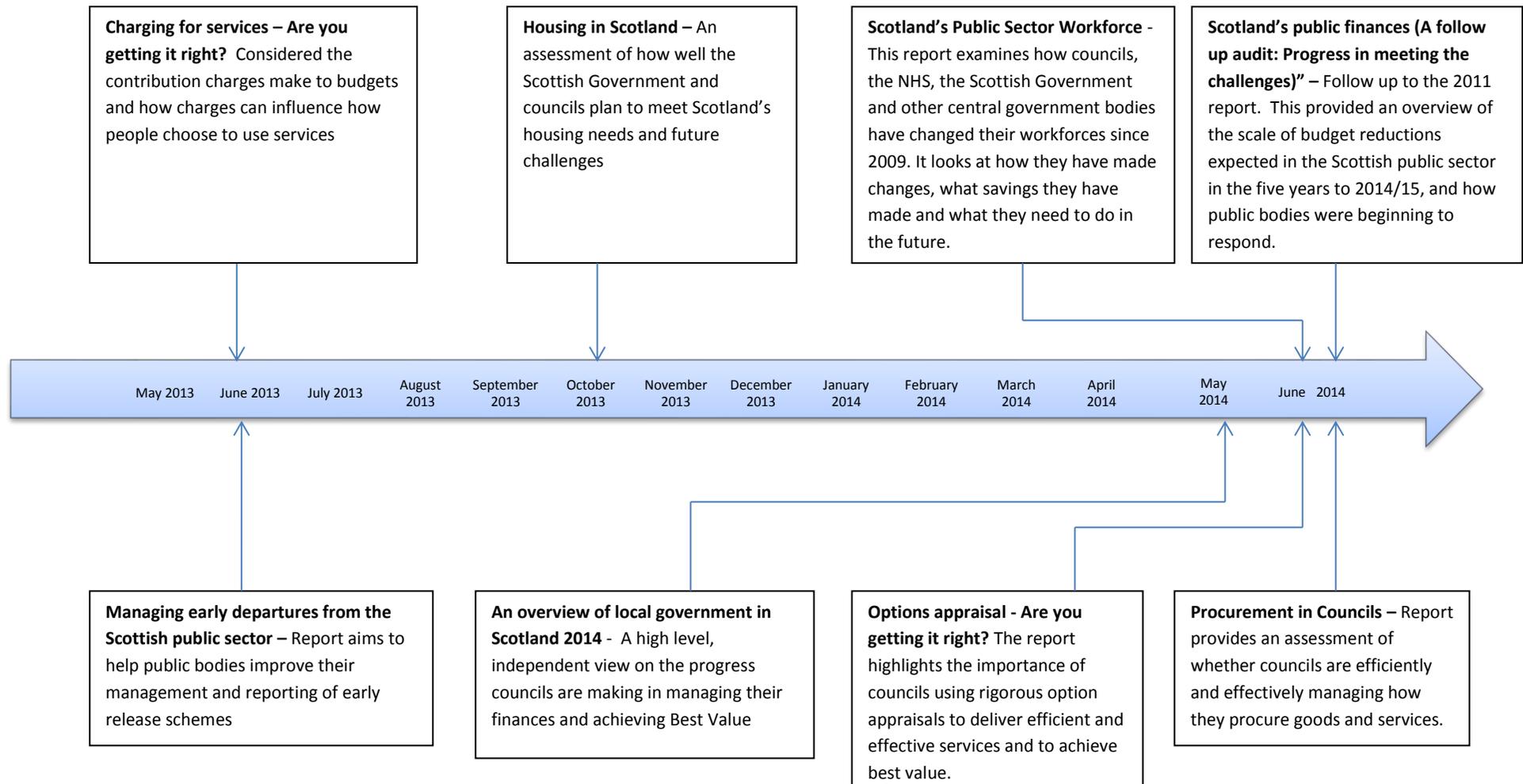
resources and to challenge existing ways of doing things. The council has projected that cumulative revenue budget savings of approximately £25 million will be required over the four year period from 2014/15 to 2017/18. A strong and effective performance management framework will be critical to the success of the council achieving its key priorities.

167. Delivery of the council's transformation programme will also be critical in determining the future service delivery model and sustainability of the council. It is essential that the implementation of the programme is closely monitored.

## Appendix I – Summary of East Dunbartonshire Council local audit reports 2013/14



## Appendix II – Summary of Audit Scotland national reports 2013/14



## Appendix III – Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
<p><b>Managing financial pressures</b></p> <p>The council may fail to deliver their agreed savings options and close their cumulative budget gap.</p>	<p>We monitored the council’s financial position via revenue budget reports presented to Policy and Resources committee.</p>
<p><b>Welfare reform</b></p> <p>The council may not effectively manage the impact of Welfare Reform Act 2012 on individuals directly affected and the wider delivery of Council services.</p>	<p>We monitored developments through discussions with relevant council officers and review of relevant council minutes.</p> <p>As part of standard Housing Revenue Account testing rent arrears were reviewed.</p>
<p><b>Capital slippage</b></p> <p>Future capital programmes and associated service improvements may not be delivered in a timely manner.</p>	<p>We monitored capital expenditure through capital monitoring reports and through discussions with relevant council officers.</p> <p>Targeted follow up work on the Major Capital Investments in Council report was undertaken during the year.</p> <p>A review of capital expenditure was undertaken as part of the financial statements audit work.</p>

## Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p><b>Budget process</b></p> <p>There is a risk that the council may overspend against capital and revenue budgets and place further pressure on reserves if budgets are not closely aligned to service activity.</p>	<p>A review of budgetary controls was undertaken as part of our key controls work of financial systems. The findings were reported to the Audit and Risk Sub Committee.</p>
<p><b>Reconciliations</b></p> <p>The council may not be in a position to reconcile key financial systems at year end.</p>	<p>We monitored progress through regular meetings with finance staff.</p> <p>Work was undertaken on key controls within main financial systems and reported to the council. The Audit and Risk Sub committee has considered the report.</p>
<p><b>Organisational restructuring</b></p> <p>There is a risk that continued uncertainty around the staffing complement of the Finance section will have an adverse impact on the preparation of the financial statements.</p>	<p>We monitored papers presented on the transformation programme to committee and held discussions with officers leading the programme.</p> <p>Throughout the year meetings took place with finance staff to discuss the preparation of the financial statements.</p>
<p><b>Council tax rebanding</b></p> <p>The council may be required to pay a significant refund to residents should Council Tax banding appeals be successful. This could have an adverse impact on the level of reserves available.</p>	<p>We monitored progress through discussions with finance staff and review of council minutes.</p>

## Appendix IV – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1/11	<p><b>Leisure Trust Financial Sustainability</b></p> <p>Losses for the Leisure Trust amounted to £0.133million in 2013/14; this excludes actuarial losses of £1.012 million.</p> <p><b>Risk</b></p> <p>Additional funds will be required from the council to support the operation of the Trust.</p> <p><b>Recommendation</b></p> <p>The financial sustainability of the Trust should be regularly monitored and action taken to ensure financial balance.</p>	<p>The Leisure and Cultural Trust has confirmed that the specific issue in the 2013/14 accounts was as a result of a Board sanctioned investment otherwise the Trust would have shown an operating profit.</p> <p>In addition to regular meetings between Council and Trust Officers, the Leader of the Council and the Chair of the Trust also meet on a regular basis.</p> <p>Council Finance Team prepares and monitors Trust accounts each period.</p>	Director of Development & Regeneration	Accounts sign-off December 2014

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2/16	<p><b>Usable Reserves</b></p> <p>The council continues to have a relatively low level of usable reserves.</p> <p><b>Risk</b></p> <p>The council's uncommitted reserves may be insufficient to fund future unforeseen costs.</p> <p><b>Recommendation</b></p> <p>The council should consider whether its current policy on holding unallocated reserves provides a balance between meeting current obligations and preparing for future commitments.</p>	<p>The council has effectively dealt with a range of unforeseen one-off events in recent years. However given the deteriorating situation around public sector finances and escalating service demands, the council's Strategic Planning &amp; Performance Framework and its Transformational Change and Budget Reduction Strategies clearly articulate the need for identified savings to be of a sufficient level to facilitate an increase in the level of reserves held by the council.</p>	Director of Finance & Shared Services	February 2015

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3/17	<p><b>Capital Slippage</b></p> <p>The council recorded an underspend against planned capital expenditure of £22.200 million or 46% of the total capital budget for 2013/14.</p> <p><b>Risk</b></p> <p>The council do not deliver their capital plan which may adversely impact upon the delivery of the Single Outcome Agreement and the achievement of planned savings.</p> <p><b>Recommendation</b></p> <p>The council should review their capital plans and if necessary re-profile the budget to reflect current plans.</p>	<p>Regular reports to council from 2013/14 to date have articulated the issues in relation to capital slippage.</p> <p>Report DR/093/14/AB (November 2014) – Updated Council Corporate Asset Management Plan, Major Projects Programme and 10 Year Investment Plan recognizes the need for improvement in this area and presents a range of proposals and a re-profiled programme (including a number of new spend-to-save options) designed to ensure as far as is practicable that the Capital Plan is delivered and contributes as planned to the achievement of the council's outcomes and savings.</p> <p>In addition officers are currently reviewing resourcing capacity and skill profile in this area and if appropriate, any recommendations to augment existing resources will be presented to council at its Special Meeting on 16 December 2014.</p>	Director of Development & Regeneration	November 2014

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4/17	<p><b>Option Appraisal</b></p> <p>Option appraisal arrangements are not routinely carried out or robust in supporting developments and funding arrangements.</p> <p><b>Risk</b></p> <p>Decisions are taken without appropriate options being considered.</p> <p><b>Recommendation</b></p> <p>Improved option appraisal arrangements should be developed and implemented by the council to support effective decision making.</p>	<p>Report DR/093/14/AB – Updated Council Corporate Asset Management Plan, Major Projects Programme and 10 Year Investment Plan builds on previous reports to Council which established sound option appraisal processes, consistent with the methodology defined within the Council's Transformation Programme performance and governance framework.</p> <p>Transformational Capital Projects form a significant pillar within the Transformation Programme and as such are subject to transparent governance and scrutiny processes via Policy &amp; Resources Committee, Audit &amp; Risk Sub-Committee and Scrutiny Panels.</p>	<p>Director of Development &amp; Regeneration</p> <p>Director of Customer Services &amp; Transformation</p>	Ongoing

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5/20	<p><b>Budget Pressures</b></p> <p>The council is facing a significant challenge in bridging a funding gap of £23.3 million over the next four years.</p> <p><b>Risk</b></p> <p>The council may not be able to generate sufficient efficiencies and cost savings to bridge the funding gap.</p> <p><b>Recommendation</b></p> <p>The council should monitor their savings and take appropriate action to address existing and emerging budget pressures.</p>	<p>The council's Strategic Planning &amp; Performance Framework (numerous reports refer) articulates a clear strategy for the council to achieve the necessary budget reductions over the next 3 years.</p> <p>In-Year Revenue Budget monitoring reports will continue to review performance in meeting savings and financial targets set by council. This has been enhanced with a specific appendix to review the achievements of savings agreed.</p> <p>In recognising the fundamental role of the council's Transformation Programme in achieving the necessary organisational change and associated budget savings, the enhanced framework for governance and scrutiny to ensure the delivery of benefits realization and financial capture of this work (previously referenced) has been approved by council.</p>	<p>Chief Executive</p> <p>Director of Finance &amp; Shared Services</p> <p>Director of Customer Services &amp; Transformation</p>	<p>Ongoing to 2017/18 via Council;</p> <p>Policy &amp; Resources; Audit &amp; Risk Sub Committee; Scrutiny Panels</p>

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6/21	<p><b>Governance Documents</b></p> <p>Governance documentation in place during the year had not been updated to reflect transformational change actions. Updates were however provided towards the end of the year in line with transformational plans.</p> <p><b>Risk</b></p> <p>Governance arrangements are not in place to support transformation.</p> <p><b>Recommendation</b></p> <p>The updating of governance documentation should be closely aligned with transformational change and be available to support new developments.</p>	<p>Agreed.</p> <p>Updates to the membership of panels and to the Scheme of Delegation to Officers were agreed in September 2014. Ongoing updates to the Administrative Scheme will be reported to council as required to reflect future changes in legislation; council policies and organisational planning arrangements. An annual report will be presented to council in June of each financial year.</p>	Director of Governance & Regulation	June 2015 and annually thereafter as well as ongoing revisions as required.

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7/21	<p><b>Transparency</b></p> <p>The council present a number of private papers to council committees including key documents relating to the transformation programme.</p> <p><b>Risk</b></p> <p>Transformation of services is not carried out in an open and transparent manner.</p> <p><b>Recommendation</b></p> <p>A review of the appropriateness of the classification of public and private committee papers is undertaken.</p>	<p>Officers are not aware of what the benchmark is for the proportion of papers which other councils consider in private.</p> <p>The council's Standing Orders state that a meeting may by resolution exclude the public if a report contains exempt information or there is a likelihood of disclosure of exempt information.</p> <p>There are a number of contributory factors influencing the number of reports that are considered in private including the frequency of reporting (especially in relation to Transformation which in a period of significant organisational change will by necessity include detailed employee information and matters of industrial relations); the detail of the reports in question and the number of reports containing commercially sensitive information which are again a function of the level of change in the organisation.</p> <p>It is standard practice (to maximize transparency) to structure reports in a way that allows consideration to be undertaken in public as far as possible. Additionally, following consideration by council in private information is extracted to ensure maximum disclosure of relevant information to Council decisions.</p>	Chief Executive	Ongoing

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8/24	<p><b>Integration of Adult Health and Social Care</b></p> <p>Effective partnership working will be critical in the delivery of the council's integrated health and social care action plan.</p> <p><b>Risk</b></p> <p>Slippage in delivery of the plan could result in government targets being missed.</p> <p><b>Recommendation</b></p> <p>Regular reviews of the action plan are undertaken and remedial action is taken to address deviations from plan.</p>	<p>The obligations with respect to timescales are set out in the Public Bodies (Joint Working (Scotland) Act. Should the council and Health Board fail to jointly approve an Integration Scheme with the Scottish Government by the "prescribed date", the default powers of Scottish Ministers extend to the imposition of an Integration Scheme and the consequential establishment of an Integration Joint Board with delegated powers.</p>	<p>Director of Integrated Health &amp; Social Care Transition</p>	<p>April 2015</p>

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9/27	<p><b>Transformation Programme</b></p> <p>Major change is being put in place within the council through implementation of the transformation programme. Additional strands are regularly added to the programme through organisational planning updates and reported in private to council. An overall strategic programme encompassing all strands of the transformation programme is not currently in place to support transformational change.</p> <p><b>Risk</b></p> <p>Achievement of the transformation programme may be difficult to track to the overall strategic transformation objectives as updates provided relate to new operational arrangements.</p> <p><b>Recommendation</b></p> <p>Regular updates on achieving the overall strategic objectives should be considered for providing assurances on delivery of the programme.</p>	<p>All previous comments on this action plan relating to Transformation refer.</p> <p>Programme and Project Management governance has continued to develop since April 2013 through the establishment of a consistent approach to programme and project methodology including option appraisal; benefits realisation and post implementation project evaluation and with investment in resources and skills enhancement.</p> <p>A dedicated Transformation Programme Management Office (PMO) team was established on a pilot basis in June/July 2014 and has been essential in the further development of our Programme and Project governance including the provision of additional assurance to the governance and performance of projects within the scope of the Transformation Programme. This aligned to improved performance reporting of the Programme to Policy &amp; Resources Committee and revised Elected Member scrutiny through Audit &amp; Risk Sub-Committee and Scrutiny Panels has provided greater transparency as to Programme performance and will provide further and ongoing assurance in relation to project delivery and benefits realisation.</p>	Director of Customer Services & Transformation	November 2014 and ongoing.

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		<p>Given the scale, complexity and diversity of the Transformation Programme it is officers' view that the necessary investment is made to establish the PMO team on a permanent basis (as recommended in Report CE/20/14/GC under separate cover on this Agenda).</p> <p>In addition officers are currently reviewing resource, capacity and skill profiles associated with a number of individual projects.</p> <p>Specific recommendations in relation to additional short-term specialist skill for the Integrated HR/Payroll and the "AIM" projects are made in Report CE/20/14/GC under separate cover on this Agenda, noting the dependency on the necessary approval for use of the council's Capital Fund contained within Report DR/093/14/AB</p>		

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10/28	<p><b>Voluntary Trawl Scheme</b></p> <p>The 2013/14 financial statements include exit packages totalling £6.086 million as part of the voluntary trawl scheme. The achievement of value for money and the realisation of anticipated savings has not yet been demonstrated.</p> <p><b>Risk</b></p> <p>The council do not achieve savings required as part of the transformation programmes contribution to the overall savings target.</p> <p><b>Recommendation</b></p> <p>The council should develop more detailed monitoring reports which identify savings achieved. Consideration should be given to undertaking lessons learned exercises on the existing scheme to ensure the attainment of best value.</p>	<p>The council has a firm and stated commitment that it wishes to achieve the level of necessary change by voluntary means wherever possible and this approach has successfully delivered to-date.</p> <p>The Redundancy Payments Framework is a core condition of employment and any change would require trades union negotiation. Additionally, as reported to council in 2013 the Redundancy Payments Framework is currently under review and will be brought back to council for consideration. This will incorporate extensive benchmarking which has now been completed.</p> <p>Savings related to workforce reductions are not restricted to those leaving voluntarily on an exit package.</p> <p>A standard approach to presenting voluntary redundancy recommendations to the Policy &amp; Resources Sub-Committee (ensuring Elected Member visibility and approvals) is long established and has not previously been raised as a concern.</p>	<p>Chief Executive Director of Customer Services &amp; Transformation  Director of Finance &amp; Shared Services</p>	Review by early 2015 and ongoing thereafter

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		<p>A robust “business case” approach is in place and is discussed and agreed by the Corporate Management Team in advance of recommendation to Sub-Committee.</p> <p>This business case approach considers matters such as post deletion; bumped redundancy; opportunity for suitable alternative employment for employees displaced and at risk of redundancy; value for money and payback periods.</p> <p>The business case approach also presents prioritisation criteria which are consistently applied.</p> <p>All associated financials are verified by the Director of Finance &amp; Shared Services.</p> <p>All previous comments in relation to Strategic Planning &amp; Performance Framework – Budget Reductions and Transformation apply.</p> <p>Council has a proven track record of delivery of £40m of efficiencies and savings over the past 8 years.</p> <p>Ongoing Revenue Monitoring Reports demonstrate financial position and identify delivery against targets and any areas of variation.</p>		

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11/29	<p><b>Workforce Monitoring</b></p> <p>The statutory performance indicators show an increase in staff numbers during 2013/14. This is contrary to the council objective of reducing their workforce as part of the transformation programme. During the course of the audit robust workforce information has not been provided.</p> <p><b>Risk</b></p> <p>Planned savings from the transformation programme are not achieved.</p> <p><b>Recommendation</b></p> <p>The council should develop robust, detailed workforce monitoring information to ensure savings plans are achieved.</p>	<p>Caution must be exercised in suggesting that the council has a core objective around workforce reduction especially in relation to any suggestion of a target reduction figure e.g. 250.</p> <p>The council's strategy for example for 2014/15 is to deliver £3.5m of organizational efficiencies. This is part of a strategy to deliver organizational change over financial years 2013/14 and 2014/15.</p> <p>Officers indicated that this level of efficiency would equate to approximately 250 posts at that time (February 2013). However, reports clearly articulate that the efficiencies will be generated through all aspects of organizational planning including resource re-profiling e.g. in some areas resources would be increased to deliver the necessary change to achieve the savings (i.e. spend to save).</p> <p>Undoubtedly given the level of change there will be a net headcount reduction but the 250 figure is indicative and not an absolute target.</p>	Director of Customer Services & Transformation	TBC

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		<p>Officers have been engaging with Audit Scotland over a period of time and acknowledge that we have not yet reached a mutual understanding of the different data sets and the information they provide. In addition the council has also approved specifically funded resource increases such as Modern Apprenticeships; Grad+; and Work+.</p> <p>Officers readily acknowledge the deficiencies in the council's existing workforce information systems and the consequential need for labour intensive manual manipulation of data and the associated timescales to provide appropriate reporting.</p> <p>It is recognised that the successful delivery of the forthcoming integrated HR/Payroll system (2015) will significantly improve robust, real-time workforce monitoring, reporting, analysis and scrutiny, hence the priority placed on this project within the Transformation Programme and the recommendation for additional short-term specialist resource.</p> <p>Officers will continue to work closely with Audit Scotland on this issue.</p>		

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12/29	<p><b>Capacity</b></p> <p>As part of the transformation programme the council have plans to reduce the workforce.</p> <p><b>Risk</b></p> <p>Service delivery is adversely affected by officers' ability to deal with the immediate demands of changed responsibilities.</p> <p><b>Recommendations</b></p> <p>As part of the transformation programme, the council should ensure adequate handovers, robust procedural instructions and the management of old and new responsibilities are established. The council should review the resilience and capacity of the workforce and work to support this as appropriate.</p>	<p>The risks associated with significant transformation and organisational change have been articulated in numerous Strategic Planning &amp; Performance Framework and Transformation reports to council over recent years. It is an inherent element of the strategy to consider and mitigate such risks as far as is reasonably practicable. All previous comments in relation to the Transformation Programme and PMO refer.</p> <p>At any time, and particularly through periods of significant change it is incumbent on individual Directorates to ensure appropriate resource planning arrangements are in place, for example transitional arrangements; knowledge transfer; control procedures; appropriate resilience etc.</p>	<p>Chief Executive All Directors</p>	Ongoing

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13/29&31	<p><b>Workforce Performance Statistics</b></p> <p>Our review of performance targets highlighted two prominent workforce issues. The first relates to absence levels remaining high despite the council investing in the development of processes to address the high absence levels reported over recent years. The second relates to the low level of staff with a completed performance development review in place.</p> <p><b>Risk</b></p> <p>Service delivery is impacted by high sickness absence levels or staff not receiving training required to undertake their role.</p> <p><b>Recommendation</b></p> <p>A review is undertaken of the effectiveness of measures implemented.</p>	<p>The council's approach to absence management and attendance improvement is well documented.</p> <p>It is acknowledged that sufficient improvement has not yet been achieved.</p> <p>Work is currently on-going to review approach to-date and to make appropriate changes based on best practice research and benchmarking.</p> <p>Discussions are also ongoing with the trades unions as to additional improvement actions.</p> <p>Officers acknowledge that improvement is required in recording and monitoring progress of the PDR process.</p>	<p>Chief Executive All Directors</p>	<p>Ongoing</p>

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14/29	<p><b>Post Implementation Reviews</b></p> <p>As the council undertake a major transformation programme it is essential that the effectiveness of the transformation is measured against the planned outcomes.</p> <p><b>Risk</b></p> <p>Planned developments may not be achieved and the council are not taking account of past performance in setting future transformation projects.</p> <p><b>Recommendation</b></p> <p>Routinely perform post implementation reviews to assess the effectiveness of change and transformation projects.</p>	<p>Post-implementation evaluation is now a core element of the established end-to-end project and programme management methodology.</p> <p>Previous comments to the Transformation Programme and the PMO refer.</p>	Director of Customer Services & Transformation	Ongoing and subject to review through Policy & Resources; Audit & Risk; and Scrutiny Panels.

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15/34	<p><b>Procurement</b></p> <p>The council's procurement score is below the national target of 50%.</p> <p><b>Risk</b></p> <p>Current procurement practices do not achieve best value or anticipated savings.</p> <p><b>Recommendation</b></p> <p>The council further develop working practices to support greater efficiency in procuring services.</p>	<p>Procurement is a key pillar of the council's Transformation Programme with all of the benefits identified in all of the previous management responses in this action plan relating to Transformation and the associated governance arrangements.</p> <p>A service review was completed in June 2014 and new resources and skills are now in place to maximise delivery. An Elected Members Seminar will be scheduled to provide an update and overview of progress.</p>	Director of Finance & Shared Services	March 2015