

## PERTH AND KINROSS COUNCIL

## Audit Committee

4 February 2015

## AUDIT SCOTLAND ANNUAL REPORT ON THE 2013/14 AUDIT

## Report by the Head of Finance

**PURPOSE OF REPORT**

This report accompanies the Audit Scotland Annual Report on the 2013/14 Audit.

**1. BACKGROUND / MAIN ISSUES**

- 1.1 The Audit Committee on 17 September 2014 previously considered the Report to those charged with Governance on the Audit of Perth and Kinross Council (ISA 260) and the Unaudited Statement of Accounts (Report No 14/406 refers).
- 1.2 At the Council meeting on 8 October 2014, the Council considered the Audited Statement of Accounts 2013/14 (Report No 14/434 refers).
- 1.3 At the Council meeting on 17 December 2014, the Council considered the Audit Scotland Annual Report on the 2013/14 Audit and referred it to the Audit Committee for detailed consideration.

**2. CONCLUSION AND RECOMMENDATIONS**

- 2.1 The Audit Committee is requested to consider the contents of the Audit Scotland Annual Report on the 2013/14 Audit.

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## ANNEX

### 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

<b>Strategic Implications</b>	<b>Yes / None</b>
Community Plan / Single Outcome Agreement	None
Corporate Plan	Yes
<b>Resource Implications</b>	
Financial	Yes
Workforce	Yes
Asset Management (land, property, IST)	Yes
<b>Assessments</b>	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	Yes
Sustainability (community, economic, environmental)	Yes
Legal and Governance	None
Risk	None
<b>Consultation</b>	
Internal	Yes
External	None
<b>Communication</b>	
Communications Plan	None

#### 1. Strategic Implications

##### 1.1. Corporate Plan

1.1.1. The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

1.1.2 This report relates to all of these objectives.

## **2. Resource Implications**

### **2.1. Financial**

2.1.1. There are no direct financial implications arising from this report other than those reported within the body of the main report.

### **2.2. Workforce**

2.2.1. There are no direct workforce implications arising from this report other than those reported within the body of the main report.

### **2.3. Asset Management (land, property, IT)**

2.3.1. There are no direct asset management implications arising from this report other than those reported within the body of the main report.

## **3. Assessments**

### **3.1. Equality Impact Assessment**

3.1.1. Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

3.1.2. The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

### **3.2. Strategic Environmental Assessment**

3.2.1 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.

3.2.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

### **3.3. Sustainability**

3.3.1 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.

- 3.3.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

#### **4. Consultation**

##### **4.1 Internal**

- 4.1.1 The Chief Executive has been consulted in the preparation of this report.

#### **2. BACKGROUND PAPERS**

- 2.1 No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

#### **3. APPENDICES**

Appendix 1 – Annual report on the 2013/14 audit



## Perth & Kinross Council

### Annual report on the 2013/14 audit

Prepared for the members of Perth & Kinross  
Council and the Controller of Audit

October 2014

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## Key messages

### Financial statements

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

### Financial position

- An underspend of £11.1 million (3.5%) against service budgets.
- Usable reserves have increased by £9.9 million to £70.5 million
- The General Fund balance has increased by £6.3 million to £48 million, of which £13.2 million is not earmarked (4% of budgeted expenditure).
- Financial management remains strong, supported by an effective budget setting process.

### Governance & accountability

- The council had sound governance arrangements in place.
- Systems of internal control operated effectively.
- The council has an effective internal audit function and sound anti-fraud arrangements.

### Best Value, use of resources & performance

- The council has a well developed framework in place for monitoring and reporting performance against strategic priorities.
- In 2013/14 the council's annual performance report highlighted improving performance in eight local outcome areas with the other five demonstrating consistent performance over the last three years.

### Outlook

- Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care. Effective partnership working will be essential to make the best use of available resources as well as continued strong governance and leadership.

### Financial Statements

1. We have given an unqualified audit opinion that the financial statements of Perth & Kinross 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 Perth & Kinross Council and audited under the provisions of The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations). As this is the first year of the audit of charities, the opinion highlights that comparator amounts in the financial statements were unaudited.

### Financial position

3. The council recorded an underspend of £11.1 million against service budgets in the year, representing 3.5% of net service expenditure. This is due to a combination of the council's approach to achieving efficiencies in year in excess of those required, service underspends against budget and additional income generation.
4. The council's transformation programme to redesign services and achieve efficiencies continued at a steady pace during the year. The programme contains projects across all council services and is underpinned by a medium term financial plan

which is subject to on-going review. The latest report to the Executive Officer Team highlighted that 24 of the 26 transformation projects are on target.

5. The 2013/14 budget planned to use £3.8 million of the usable reserves which would have resulted in a balance of £56.8 million as at 31 March 2014. However during 2013/14 the overall level of usable reserves held increased by £9.9 million to £70.5 million.
6. The net movement in the general fund balance for 2013/14 was £6.3 million, increasing the general fund balance to £48 million as at 31 March 2014. This balance is made up of earmarked commitments of £34.8 million and an unallocated balance of £13.2 million, or 4% of net cost of services. This position is in line with the council's policy which is to maintain uncommitted reserves at a range of between 2% to 4% in the medium term.
7. Capital expenditure in previous years has consistently been below budget. Actions are being taken by the council to improve delivery of the capital programmes against budget. An underspend against the original planned level of capital expenditure of £13.5 million or 18.9% of the total programme was reported for 2013/14 (2012/13: 34.7% underspend).



## Key Messages

8. The council has a strong track record in delivering efficiency savings but has recognised that continuing to deliver efficiencies will be more challenging in future years given the reduction in staff numbers. It is, however, in a relatively strong financial position going forward through the efficiencies achieved to date. The council through its medium term financial plan estimate that savings of approximately £53 million will be required over the next five years.

## Governance and accountability

9. In 2013/14, the council had sound governance arrangements which included a number of standing committees overseeing key aspects of governance. The council had effective systems of internal control including its internal audit function which generally operates in accordance with the Public Sector Internal Audit Standards.
10. The Public Bodies (Joint Working) (Scotland) Act provides the framework for the integration of health and social care services in Scotland. Overall the council has made significant progress in implementing the required changes to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for purpose.
11. The Welfare Reform Act 2012 represents the biggest reform of the UK welfare system for 60 years. The council is effectively managing the impact of welfare reform and continues to develop arrangements to support vulnerable people and

communities as changes to welfare reform are introduced.

## Best Value, use of resources and performance

12. The council has a strong focus on performance management and has a sound framework for monitoring and reporting performance against the council's priorities
13. The council's Annual Performance Report considered in October 2014 showed performance improvement over a three year period in eight of the local outcome areas with the other five demonstrating consistent performance over the last three years.

## Outlook

14. Demands on services and resources continue to increase and these need to be managed alongside major reforms in the welfare system and health and social care. This underlines the need for strong governance, leadership and decision making based on good cost and performance information. Effective working with partners will be required to make the best use of available resources as well as innovation and vision to design and deliver the services needed to serve the future needs of citizens.

# Introduction

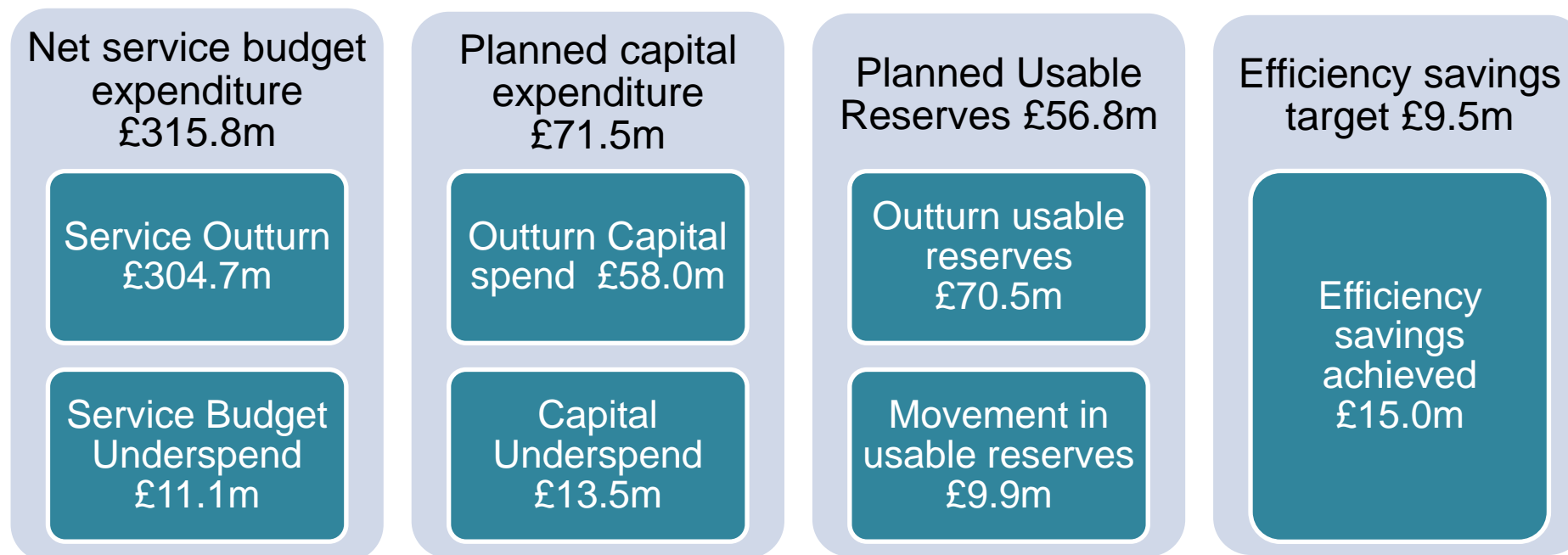
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15. This report is a summary of our findings arising from the 2013/14 audit of Perth & Kinross Council. The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.
16. Our responsibility, as the external auditor of Perth & Kinross 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.
17. The management of Perth & Kinross 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.
18. This report is addressed to the members of Perth & Kinross Council and the Controller of Audit and should form the basis of discussions with the council 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.
19. 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.
20. 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 Perth & Kinross Council.
21. 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.

## Introduction

- 22. Appendix IV is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response".
- 23. We recognise that not all risks can be eliminated or even minimised. What is important is that Perth & Kinross Council understands its risks and has arrangements in place to manage these risks. The council and the Proper Officer should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and monitor outcomes.
- 24. 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.
- 25. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

## Financial statements



### Audit opinion

26. We have given an unqualified opinion that the financial statements of Perth & Kinross 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.

### Other information published with the financial statements

27. Auditors review and report on other information published with the financial statements, including the explanatory foreword, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.

### Legality

28. Through our planned audit work we consider the legality of the council's financial transactions. This includes obtaining written assurances from the Proper Officer. There are no legality issues arising from our audit which require to be reported.

### The audit of charities financial statements

29. 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.
30. Some charities are recognised as being connected by having common or related purposes, or by having a common controlling body or administration, for instance a group of trustees that meet quarterly to consider a number of trusts at the same time. These charities have the option of preparing a single set of accounts to send to the Office of the Scottish Charity Regulator (OSCR) instead of preparing individual accounts.
31. Perth & Kinross Council used the connected charities provision and therefore had one set of charitable funds accounts which were subject to the full charities financial statements audit for 2013/14.
32. Auditors of registered charities' statement of accounts have responsibilities to
- audit and express an opinion on whether the charitable fund's financial statements give a true and fair view and are properly prepared in accordance with charities legislation
  - read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
  - report on other matters by exception to the trustees and to the OSCR.
33. We have given an unqualified opinion on these matters with respect to the 2013/14 financial statements of the charitable funds registered by Perth & Kinross Council.
34. The charitable funds' opinion highlights that as this is the first year of audit that the financial statements for the year ended 31 March 2013 were not audited. The comparative amounts in the fund's financial statements for the year ended 31 March 2014 are therefore unaudited. However, we obtained sufficient appropriate audit evidence that the opening balances did not contain misstatements that materially affected the current period's financial statements.

### Group accounts

35. 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.
36. Perth & Kinross Council has accounted for the financial results of two subsidiaries, an associate, a jointly controlled entity, the Common Good Funds and sundry trusts 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 £1.9 million.
37. The net assets of the group at 31 March 2014 totalled £83.9 million, compared to a net liability position of £97.1 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.

### Accounting issues arising

#### *Presentational and monetary adjustments*

38. 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.

39. The effect of these adjustments in the:

- council's financial statements is to decrease gross income and gross expenditure in the Comprehensive Income and Expenditure Statement by £1.323 million, although this had no impact on the net position.
- Charitable fund's financial statements is to decrease the net movement in funds for the year shown in the Statement of Financial Activities by £5,673. Net assets recorded in the balance sheet have also decreased by this amount.

40. A small number of unadjusted errors were identified during the course of the council's audit, where if adjusted these would have a net effect of decreasing by £0.052 million the deficit on provision of services for the year shown in the Comprehensive Income and Expenditure Statement. The net impact on the balance sheet would be that net assets would increase by £0.052 million.

41. There were no unadjusted misstatements in the charitable fund's financial statements which we have identified during the course of our audit.

### *Whole of government accounts*

42. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidation pack for audit by the deadline. This has been audited and the audited return submitted to the Scottish Government.

### Report to those charged with governance

43. We presented to the Audit Committee, on 17 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.
44. **Building dilapidations:** Within the revised financial statements at our request the council has disclosed a contingent liability for essential maintenance and compliance work to reinstate leased properties to their original leased condition. There are currently three property's leases coming to an end in the next few years where it is estimated, as a worst case scenario, that reinstatement would cost the council £0.86 million. The council has earmarked £0.86 million of its reserves for this purpose. Negotiations to establish a reliable estimate of these costs are yet to commence therefore we are satisfied with the approach adopted in 2013/14. The council should continue to assess the position during 2014/15 to

establish whether a reliable estimate can be established and a provision created in the financial statements.

45. **Tayside Contracts - Minute of Agreement:** Services provided by Tayside Contracts are jointly administered and controlled by Perth & Kinross Council, Dundee City Council and Angus Council. We raised concerns in previous years' audits about the appropriateness of the accounting treatment for Perth & Kinross Council's share in the group accounts when the arrangements set out in the Minute of Agreement were significantly different from Tayside Contract's working practices. Having considered the financial accounting requirements, there is sufficient flexibility within the Code of Practice on Local Authority Accounting to permit bodies which may not be entities in a legal sense to be regarded as separate bodies for accounting purposes. We also note that proposed changes to the Code, which will be effective from 2014/15, place more emphasis on jointly controlled arrangements rather than entities. We are satisfied with the approach adopted and concur that Tayside Contracts should be accounted for as a jointly controlled entity in the 2013/14 financial statements.
46. In 2011/12 it was agreed that the Minute of Agreement would be reviewed by March 2013 to ensure it reflected the actual operation and governance of Tayside Contracts. Legal representatives from the 3 councils have met and it is now expected that a revised Minute of Agreement will be in place before the end of this calendar year.



47. **Charitable fund's governance documentation:** The governance documentation for several trusts could not be located as a consequence of the age of the trust, in some cases dating back over 100 years. The classification of these funds between restricted, unrestricted and endowment funds could not readily be established. We were also unable to verify whether spend in these areas was in line with the original stated purpose for these individual trusts.
48. Disclosures in the accounts have been amended to highlight for which trusts governance documentation is not held and on what basis the trustees account for and use these funds. All funds are treated as endowments and where there is an absence of governance documentation the council rely on custom and practice to inform any decisions by the trustees in respect of the trusts' expenditure and use of assets. We are not aware of any matters which would materially impact the financial statements. Perth & Kinross Council is continuing to amalgamate these smaller charities with a view to streamlining the administrative requirements and establishing clearer governance arrangements.

## Outlook

49. 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 :
- 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.
50. 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.
51. 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 council. 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 Committee by 30 September with publication on the council's website, together with the report to Members, by 31 October.



52. The Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code) states that the fair value of council house dwellings shall be measured using the existing use value-social housing (EUV-SH) method of valuation. The council in line with the Code values its council dwellings using a discounted cash flow approach. However LASAAC guidance, issued in October 2010, specifies that all Scottish authorities should use the Beacon approach (Adjusted Vacant Possession) methodology to value council dwellings in their 2015/16 financial statements at the latest. Officers have confirmed that the Beacon approach method of housing stock valuation will be used in the 2014/15 financial statements.
53. 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

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## Revenue position

54. The council reported a deficit of £2.1 million on the provision of services in 2013/14. Adjusting this balance to remove the accounting entries required by the Code, the council increased its general fund balance by £6.3 million.
55. The 2013/14 budget, approved by the council in February 2013, included savings of £8.5 million, a contribution to the capital fund reserve of £3 million and a contribution from the general fund reserve of £6.8 million.
56. However due to significant underspends during the year a contribution was made to the general fund reserve of £6.3 million with usable reserves increasing by £9.9 million in total.
57. This movement is mainly due to service underspends against budget and additional income totalling £11.1 million (3.5% of the 2013/14 net revenue budget). Key variations in performance against budget are detailed in the Explanatory Foreword by the Head of Finance in the Statement of Accounts and include:
- underspends in employee costs across services due to vacancies and proactive workforce planning measures estimated to be in the region of £6.2 million
  - savings on property costs (energy, water and maintenance) across services in the region of £1.6 million due to reduced consumption, slippage in the upgrade of a number of houses and the refund of non-domestic rates on mothballed council properties
  - an overspend of £0.5 million on the maintenance of roads which was offset by the underspend on winter maintenance due to the mild winter
  - additional income generated by services. The main element of which is the additional £0.8 million of Scottish Government funding for the Discretionary Housing Payments, of which £0.6 million was not utilised in 2013/14
58. It is difficult to assess which underspends represent efficiencies and which may have a detrimental impact on service delivery. However, the council through its 2013/14 annual efficiency statement assessed cash savings to be in the range of £15 million (Scottish Government target 3% of net budget expenditure: £9.5 million) and highlighted that there is no evidence to suggest that the efficiency gains reported led to a reduction in performance or service quality. The Annual Performance Report 2013/14 supports the assertion that there has been no significant reduction in performance or service quality.

## Useable reserves

59. 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 increased by £9.9 million compared to the previous year and totalled £70.5 million.
60. 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 the year. 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.
61. There were four councils where usable reserves increased by over 15% during 2013/14 including Perth & Kinross Council (16.3%). As demonstrated in Exhibit 1 and as reported as part of the council's Reserve Strategy, the council's usable reserves have increased by 68.6% since 2009/10. This represents a significant strengthening of the council's financial position, which has been achieved during a sustained period of austerity and contraction in its funding settlements.

**Exhibit 1: Usable reserves**

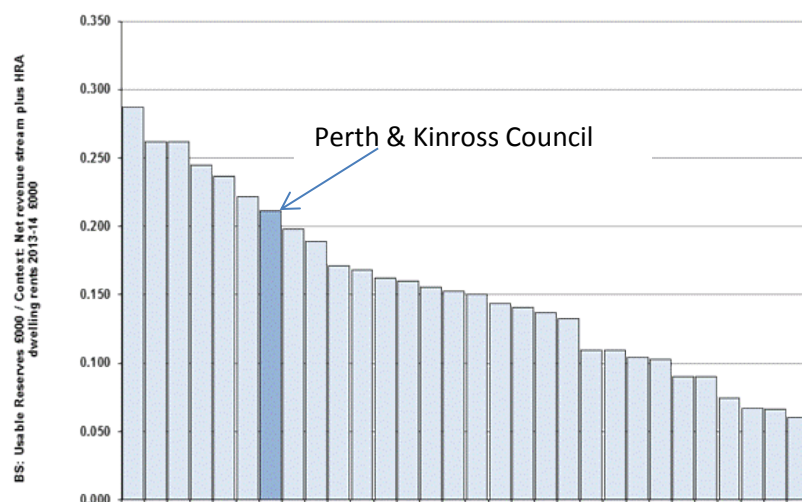
Description	2010	2011	2012	2013	2014
	£m	£m	£m	£m	£m
General Fund	30.2	31.3	36.7	41.7	48.0
Housing Revenue	0.8	0.8	0.8	0.8	0.9
Capital Fund	5.8	8.3	10.4	12.8	15.8
Capital Grants Unapplied	0	0.2	1.0	0.7	0.1
Capital Receipt Reserve	2.7	2.7	2.9	2.1	1.8
Repair & Renewal Fund	0.8	0.5	0.5	0.5	0.5
Insurance Fund	1.5	0.9	1.1	2.0	3.4
<b>Total Usable Reserves</b>	<b>41.8</b>	<b>44.7</b>	<b>53.4</b>	<b>60.6</b>	<b>70.5</b>

*Source: Perth & Kinross Council financial statements*

## Financial position

62. The balances held by the council are discussed by members as part of the regular budget monitoring processes and the council considers its Reserve Strategy on an annual basis with the most recent report considered in February 2014.
63. By definition the useable reserves, with the exception of the general fund, are earmarked for specific purposes.
64. The general fund balance at 31 March 2014 is made up of earmarked commitments of £34.8 million and an unallocated balance of £13.2 million, or 4% of the Budgeted Net Expenditure (2012/13: 4.1%). This position is in line with the council's policy which is to maintain uncommitted reserves at a range of between 2% to 4% in the medium term.
65. To maintain the uncommitted reserves within this range the council agreed as part of its Reserve Strategy in February 2014 that any amount of uncommitted reserves in excess of 4% of the Net Revenue Budget is earmarked for future costs in relation to workforce planning measures. Hence the earmarked portion of the general fund for workforce management strategy has increase by £4.8 million in 2013/14 to £8.9 million. This represents the main reason for the increase of £5.3 million in earmarked reserves during 2013/14.
66. Other areas of the general fund earmarked for specific purposes includes:
- £4.4 million from the budget flexibility scheme to allow services to carry forward a portion of over/under spends into future financial years
  - £3.4 million to fund additional capital expenditure in Perth Theatre
  - £2.6 million to support the development of affordable housing in partnership with Registered Social Landlords
  - £3.1 million developers contributions to be applied to schemes for the provision of affordable housing and maintaining public open spaces, play areas and infrastructure
  - £2.1 million in relation to the accumulated car parking surplus which is restricted in its use.
67. Exhibit 2 below presents the council's usable 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). The council is one of seven councils where the usable reserves are over 20% of the net revenue stream. The median level of total usable reserves was approximately 15% of net revenue stream plus dwelling rents. The council needs to continue to ensure that it strikes a balance between meeting current obligations and preparing for future commitments and possible reductions in funding.

**Exhibit 2: Usable Reserves as a proportion of revenue**



Source: Scottish councils' unaudited accounts 2013/14 (excluding Orkney/Shetland)

## Capital investment and performance 2013/14

68. Total capital expenditure for 2013/14 was £58 million.

Investment during the year included:

- £16.1 million on road and transport improvements
- £9.3 million on education projects
- £5.6 million on increasing the provision of new

affordable housing

- £5.6 million on external improvements to housing and replacement programmes for windows, doors, kitchens and bathrooms
- £5.4 million on housing heating and energy efficiency schemes
- £3.1 million on vehicle replacement
- £2.5 million on economic development and regeneration
- £2.5 million on upgrading council property including energy efficiency schemes, fire alarms and lighting

69. The capital budgets are updated regularly to reflect projected levels of expenditure. However, as highlighted in our previous annual audit reports the capital programme again saw a significant underspend in 2013/14. The underspend against the original planned level of capital expenditure was £13.5 million or 18.9% of the total programme for 2013/14 (2012/13: 34.7% underspend). We recognise that due to the size and duration of capital projects that they can be prone to timetable changes.

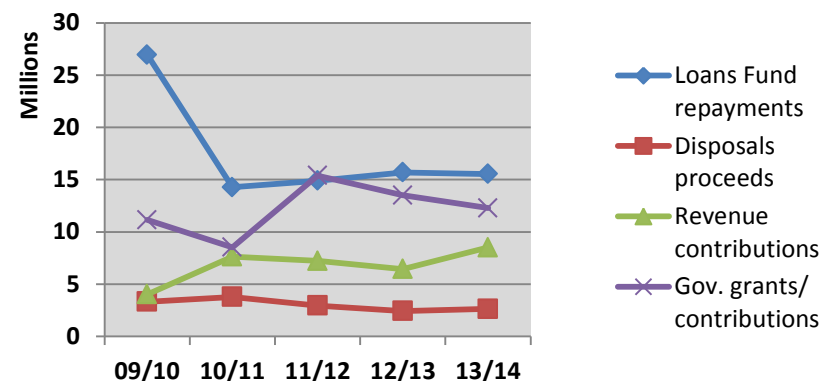
70. To address these concerns the council considered the Accounts Commission's report *Major Capital Investments in councils* at its meeting in June 2013. The council has taken the positive step of reviewing its position in relation to key

## Financial position

recommendations of the report, and created an action plan.

71. To drive the improvements required the council established a Strategic Investment Group (SIG), chaired by the Chief Executive, in June 2013 and appointed a Capital Programme Manager and capital programme team to scrutinise and support the capital programme and drive improvements. The SIG scrutinise projects on an individual basis holding officers to account for individual projects performance.
72. The improvements in the planning and governance arrangements are currently being implemented in line with the agreed action plans, with many of these areas to be completed by December 2014. The impact on the capital programme therefore has yet to be fully realised.
73. Capital expenditure in 2013/14 was £58 million with the sources of funding totalling £39 million resulting in an increase of £19 million in the council's capital financing requirement. The capital financing requirement is a measure of the capital expenditure incurred historically by the council that has yet to be financed. The capital programme was funded as shown at Exhibit 3 below :

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



*Source: Perth & Kinross Council financial statements*

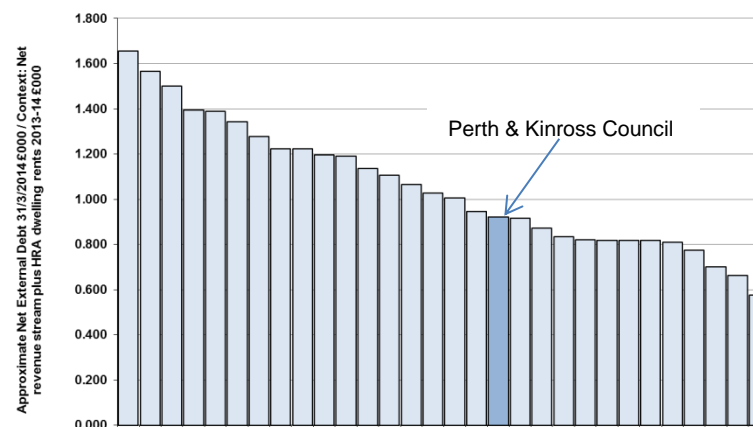
74. The Prudential Code is a professional code of practice designed to support local authorities in taking capital investment decisions. The Code's objectives aim to ensure that, within a clear framework, the capital investment plans of local authorities are prudent and sustainable. The Head of Finance reviews the capital financing requirement on an annual basis and reports to the council on a series of prudential indicators as recommended by the Prudential Code. Performance against these indicators is reported to council and to the public via the financial statements. This helps the council to plan its capital investment prudently and to demonstrate to the public that it is doing so.

## Treasury Management

75. 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.
76. In the current financial climate, many councils have relatively high levels of internal borrowing, utilising available cash balances and deferring external borrowing. Perth & Kinross Council's underlying need to borrow or capital financing requirement (CFR) at 31 March 2014 was £383 million while the gross external debt was £52 million lower at £331 million (2012/13: £338 million).
77. The council's net external debt of £306.3 million as at 31 March 2014 comprises three main areas:
- borrowing of £201.8 million (2012/13: £205.2 million), 79.4% of which is at fixed rate and is a repayable over the long term
  - Public Finance Initiative (PFI) liability of £129.2 million (2012/13: £132.9 million) continues to be paid over the life time of the agreements
  - Deposits and investments held of £24.7 million (2012/13: £40.0 million)
78. The council's net external debt as a proportion of net revenue

spend is relatively low when compared to other Scottish councils (refer exhibit 4).

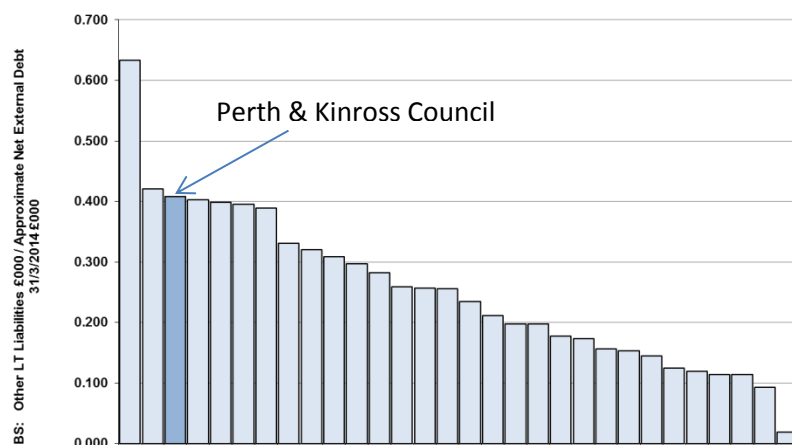
**Exhibit 4: External debt as a proportion of revenue**



Source: Scottish councils' unaudited accounts 2013/14 (excluding Orkney/Shetland)

79. The council have three PFI projects (a schools project to deliver six school campuses, an office accommodation project and a car park project). Accounting requirements mean that the council must recognise both the asset acquired under the PFI scheme and the related liability in its balance sheet.
80. Compared to other local authorities the council has a large exposure to other long term liabilities, including PFI, as illustrated by Exhibit 5.

**Exhibit 5: External PFI debt as a proportion of total debt**

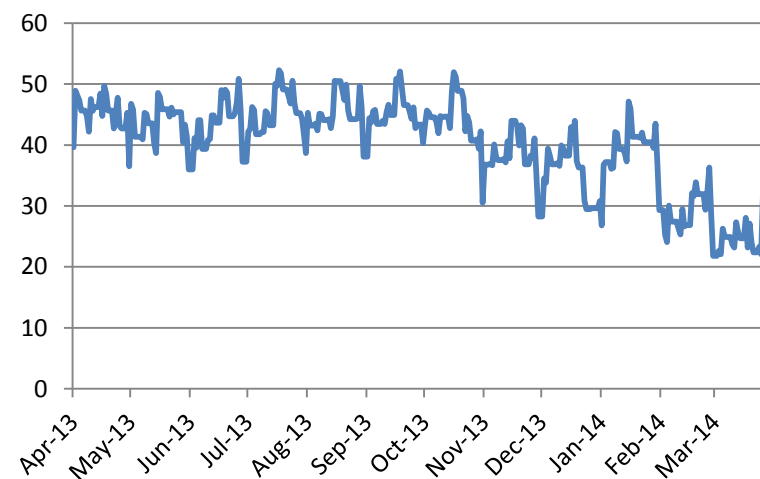


Source: Scottish councils' unaudited accounts 2013/14 (excluding Orkney/Shetland)

81. Exposure to PFI debt is of interest as many local authorities have also incurred high contingent rental increases in recent years making servicing this debt more expensive.
82. Perth & Kinross Council's contingent rentals to service the PFI debt continues to increase. As at 31 March 2014 the council projected £118.1 million contingent rentals are payable over the remainder of the contracts (2012/13: £116.5 million). PFI obligations of this degree reduce the council's flexibility in dealing with future funding challenges that are likely to present themselves across the public sector.

83. Interest payable in 2013/14 reduced slightly to £16.1 million (2012/13: £16.5 million) mainly due to the reduction in borrowings held by the council. Similarly the council received £0.5 million in investment income in 2013/14 (2012/13: £1 million) which reflected the reduction in investments held during 2013/14 to a daily average of £40 million (2012/13: £61 million). This planned reduction in investments has been used to help reduce the council's borrowing requirements in 2013/14. Exhibit 6 demonstrates the trend in investment held over the year.

**Exhibit 6: Trend of deposits/Investments held (£million)**



Source: Perth & Kinross Council's treasury management system



## Financial position

84. Additional borrowing of £25 million has been undertaken by the council in the 1<sup>st</sup> quarter of 2014/15 with a resultant increase in the deposits/investments held (up to £82.6 million held in September 2014).
85. The council also held £0.2 million deposit in Icelandic Krona that, due to currency restrictions, remains in Iceland. Whilst interest is payable on this foreign deposit, the council is monitoring the position closely with a view to transferring the funds back to the United Kingdom.
86. Audit Scotland has, on behalf of the Accounts Commission, recently completed a national review of borrowing and treasury management in councils. This involved discussions with members and officers as well as audit visits to a number of selected fieldwork councils. The review focused on the affordability and sustainability of borrowing and governance arrangements and considered how councils demonstrate best value in their treasury management functions. The national report is planned for publication in January 2015.

## Pension costs

87. Perth & Kinross Council is a member of the Tayside Superannuation Fund which is a multi employer defined benefit scheme. In accordance with pension accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation as at 31 March 2014 provided by the

scheme's actuaries increased the council's share of the deficit from £189.1 million last year to £266.0 million this year.

88. The increase in pension liabilities of £76.9 million as at 31 March 2014 is due to changes in the actuarial assumptions applied, for example an upward revision in longevity assumptions and as a result of assumed inflation and salary/pension increases. A small change to the actuarial assumptions applied can have a significant impact on the liability. The scale of the movements in the council's pension liability over the last 5 years, arising from the annual valuation, can be seen in exhibit 7 below.

**Exhibit 7: Movement in Net Pension liability 2009 to 2014**

	2009/10	2010/11	2011/12	2012/13	2013/14
	£million	£million	£million	£million	£million
Assets	382.1	420.1	418.8	492.5	531.6
Liabilities	(616.5)	(550.2)	(618.5)	(681.6)	(797.6)
<b>Net</b>	<b>(234.4)</b>	<b>(130.1)</b>	<b>(199.7)</b>	<b>(189.1)</b>	<b>(266.0)</b>

*Source: Perth & Kinross Council audited financial statements*

89. Whilst assets show a steady increasing performance, pension liabilities fluctuate more year on year. It is important to note however that this liability does not have any immediate impact on the council's financing requirements. The council will

## Financial position

continue to make annual contributions to the Pension Fund, through employer contributions, in accordance with triennial valuations carried out by the actuaries.

## Outlook

90. In February 2014 the council approved its budget for 2014/15 and a provisional budget for 2015/16. The net service expenditure budget set for 2014/15 is £330.2 million and represents an increase of 3.3% on that set for 2013/14 (£319.5 million). The 2014/15 provisional budget approved in February 2013 incorporated savings of £12.3 million with a further £3.2 million savings agreed as part of the February 2014 budget consideration. The 2014/15 budget plans to reduce the useable reserves by £4.1 million during the year.
91. The latest reported financial position for 2014/15 is projecting an underspend of £2.1 million (0.7% of budget) mainly as a result of underspends within Education & Children's Services.
92. The council will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. The council estimate savings of approximately £53 million will be required over the next five years. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years.
93. The council has a challenging transformation programme *Securing the Future - Towards 2015 and Beyond*, in place.

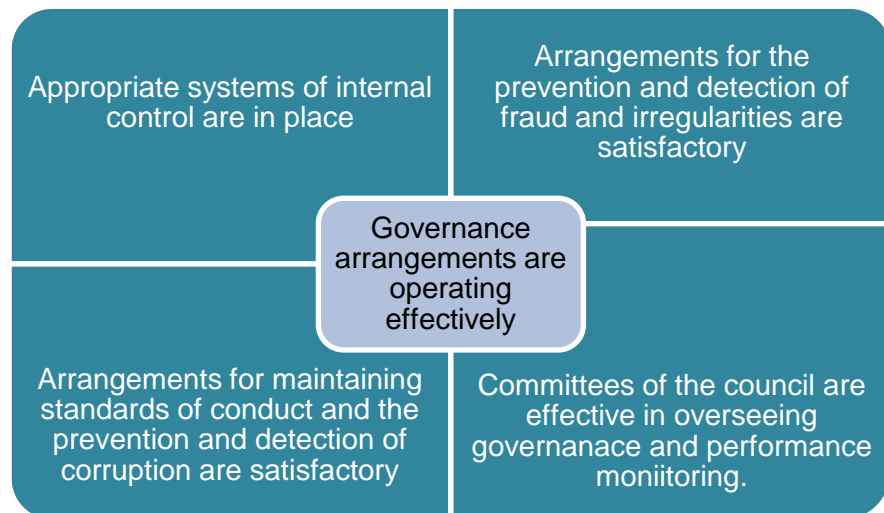
The programme has a large number of projects at both a corporate and service level. The transformation programme has been addressing fundamental issues such as the basis for delivering services (statutory or discretionary), the mode of delivery (provider or enabler) and the resources required over the last few years. The council intend to revisit this strategy in 2015 to ensure it continues to reflect good practice.

94. In addition to this, a number of years ago the council introduced "budget headroom" which set corporate savings targets in excess of the anticipated reductions in grant funding and agreed corporate pressures. This approach is intended to provide members with flexibility in choosing between different budget options and create capacity to:
  - offset future budget pressures in the medium term
  - allow for adverse movements in the council's overall financial position
  - consider investment in regeneration projects, transformational change or severance costs.
95. Through its transformation programme and budget headroom the council has actively accelerated savings in recent years to enable it to manage the anticipated financial challenges faced by the public sector. Whilst many of the more readily achievable savings have already been made, services are required to continue to identify recurring savings going forward.

## Financial position

96. The council recognises that there are likely to be difficult decisions ahead about prioritising services and allocating resources. Through its transformation work it has an on-going programme of service reviews through The Efficiency and Improvement Programme. This programme identifies workforce planning, procurement, asset management, shared services, efficiency reviews and process improvement as key areas for delivering future savings.

# Governance and accountability



97. Members of the council and the Proper Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of Perth & Kinross Council and for monitoring the adequacy and effectiveness of these arrangements.

## Corporate governance

98. The corporate governance framework within Perth & Kinross Council is centred on the council which is supported by the following standing committees.



99. Based on our observations and audit work our overall conclusion is that the governance arrangements within Perth & Kinross Council are operating effectively.

## Internal control

100. 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, trade payables, trade receivables, general ledger, cash & banking, non-domestic rates, council tax, housing rents, treasury management, benefits, capital accounting and SWIFT. Our overall conclusion was that Perth & Kinross Council had appropriate systems of internal control in place during 2013/14.

- 101.** In the financial statements the council publish an Annual Governance Statement based on its review of the effectiveness of the governance framework. The AGS is approved by the Scrutiny Committee in June 2014 prior to incorporation within the financial statements. The process the council uses to compile the AGS requires assurances to be received through the work of the Executive Officer Team, senior managers and internal audit. Specified officers are therefore required to undertake an annual self-assessment against the principles of the Local Code of Corporate Governance to inform the AGS.
- 102.** The AGS in 2013/14 was completed and approved by members without several of these self assessments being completed to allow a full picture of the governance arrangements across the council. Prior to completion of our audit these self assessments were obtained and the AGS updated to incorporate the capital planning and delivery process as an area for improvement. Officers have indicated that the process to obtain assurances is currently under review to ensure members are provided with enough information to allow them to assess whether the governance arrangements in the council are adequate.

**Action plan no. 1**

### Internal audit

- 103.** 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.

- 104.** Our review of internal audit concluded that the internal audit service concluded that it generally operates in accordance with the Public Sector Internal Audit Standards with internal audit currently in the process of reviewing its procedures and documentation in order to become fully compliant. We placed formal reliance on the work of internal audit in payroll and non domestic rates although some aspects of internal audit's work for non domestic rates tested periods prior to 2013/14.

### ICT audit

- 105.** For the first time in 2012/13, councils had to apply to connect to the Public Services Network (PSN) to allow the sharing of electronic data with other public bodies, such as the Department of Works and Pensions. This entailed complying with the strict security measures of the PSN Code of Connection which, if fully met, resulted in the issue of a compliance certificate. The application and approval process is subject to annual review and could result in a disruption to operations and service delivery if there were any non compliance issues.

- 106.** A significant amount of information security work was undertaken by the council in 2013 in order to obtain PSN accreditation, with this being achieved in November 2013.
- 107.** The council set aside significant resources to meet the requirements of the Public Services Network (PSN) accreditation which are independently scrutinised to achieve compliance. In order to achieve and maintain accreditation, limitations were put in place on remote access to the council network and access to council resources, including email, from private devices. These restrictions may have reduced the council's flexible working arrangements.
- 108.** The additional costs of achieving PSN compliance in 2013/14 was £0.135 million however this does not include staff costs as no tracking of PSN related costs and resources was in place when PSN compliance work started in 2013. The spend included investment in laptops to facilitate secure connectivity to the council network for staff with a business critical need to access the network remotely.
- 109.** Officers highlighted the ICT service's ability to deliver project work and address non-business critical incidents and changes were impacted as a result of the prioritisation of PSN compliance activities. Also planned Windows and Microsoft Office upgrades were delayed due to the prioritisation of PSN compliance work; additional resources were then required to ensure upgrades could be completed prior to the 2014 compliance deadline.
- 110.** Downtime for major systems has also been required during the working day to ensure systems could be patched and/or upgraded within a compressed timeframe. However the impact on services and service users has not been assessed.
- 111.** In 2013/14 £0.7 million was earmarked for future use against PSN with an approved budget of £0.6 million for 2014/15, including staff costs, consultancy and hardware, to maintain the service delivery levels and continue to meet requirements.
- 112.** As a result of the work carried out, the information technology infrastructure has been strengthened although not without impact on service delivery, such as more frequent and up-to-date patching requiring system down-time during the working day. Re-accreditation assessment will take place later in 2014.

### Arrangements for the prevention and detection of fraud

- 113.** The council's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.
- 114.** Perth & Kinross 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.

- 115.** Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI although the council, following legal advice, did not submit the electoral register as part of the National Fraud Initiative submission. Audit Scotland's national report on NFI, noted that the council was one of only two councils in the UK that did not submit the electoral register for this purpose.
- 116.** To address this omission, the council has employed a contractor to undertake a data matching exercise for single person discounts using the register and other relevant data (including credit checks) to identify and investigate potential frauds.
- 117.** The council plan as a separate exercise to use an updated electoral register given the significant increase in individuals registered to undertake a further review. The format of this review has yet to be determined.

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

- 118.** The arrangements for the prevention and detection of corruption in Perth & Kinross Council are satisfactory however we note that the council's Fraud and Corruption Policy has not been updated since 2006 and therefore does not include

specific reference to the requirements of the Bribery Act 2010. The council is currently working with Police Scotland and has established an Integrity Group within the council to develop the approach to the prevention of fraud and corruption and to update the fraud & corruption policy.

- 119.** In response to Police Scotland advice, a new corporate risk was added to the corporate risk register around prevention of public sector fraud and corruption. This includes insider corruption through bribery or intimidation. The council recognise that better prevention, detection and systems to prevent public sector corruption across all services is essential to the approach to dealing with the current financial pressures. The risk register details various improvement actions and timescales to mitigate this risk.

### Correspondence referred to the auditor by Audit Scotland

- 120.** Part of Audit Scotland's duties as external auditors of Perth & Kinross Council is to consider concerns raised by members of the public about the council. If appropriate, we may investigate them further. During 2013/14 one area of correspondence resulted in additional disclosures being made by the council for a contingent liability. The council has a potential liability in respect of a possible claim intimated for loss of profit on the part of a contractor.



## Integration of adult health and social care

- 121.** 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. This will require:
- The establishment of a local integrated partnership and related governance arrangements.
  - Integrated budgets for health and social care.
  - Joint responsibility for strategic and locality planning in the area served.
- 122.** The council in May 2014 agreed that a Body Corporate Model as described in the Public Bodies (Joint Working) (Scotland) Act be adopted.
- 123.** An Interim Chief Officer was appointed by the council and NHS Tayside in April 2014, who is responsible for preparing the Integration Scheme and Strategic Plan which will define the scope of the new Partnership, the outcomes it will deliver and how these will be achieved.
- 124.** A Health & Social Care Integration Pathfinder Board for the Perth and Kinross Health and Social Care Partnership has already been established which includes elected members of Perth & Kinross Council, non-executive members of NHS Tayside Board and senior representatives from Perth & Kinross Council and NHS Tayside.
- 125.** An action plan has been agreed to guide the work of the Pathfinder Board, comprising eleven action points with details of progress considered at each Board meeting. A few of the main areas include:
- development of an Outline Draft Integration Scheme. This will be informed by a further “Model Scheme” which has been recently published by the Scottish Government and by the clarification in terms of the mandatory functions to the delegated, and other issues, provided by the Secondary legislation laid before the Scottish Parliament in October 2014
  - the development of the Strategic Plan. A Strategic Planning Group made up of all the relevant stakeholders as outlined in the Draft Secondary Legislation has been established. Existing policies are currently being looked at and discussions have commenced to migrate the key priorities and actions of those strategies into the Strategic Plan with a view to the Strategic Plan being approved, published and implemented from November 2015



- the appointment of a Chief Officer. It is anticipated that approval to delegate the appointment to representatives of Perth & Kinross Council and NHS Tayside will be sought at the meeting of the council in December 2014

126. Progress in these areas is formally being reported to council through the Housing & Health Committee with further informal briefings for Members planned in October.
127. Overall the council has made significant progress in implementing the required changes to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for purpose.

## Welfare Reform

128. 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 also continue to face uncertainties over the roll out of the Universal Credit.
129. The Scottish Parliament's Welfare Reform Committee published a *Report on Local Impact of Welfare Reform* in June 2014. This report highlighted that when the reforms come into full effect it is estimated that they will take more than £1.6 billion a year out of the Scottish economy.

130. The estimated impact on the Perth & Kinross Council area is to take out £35 million from the local economy, around £380 a year for every adult of working age. This is less than the Scottish average of £460 a year.
131. The council has been effectively monitoring and planning ahead to mitigate against the impact of the reforms. Welfare reform changes have been well communicated through an extensive programme of awareness sessions which set out the changes and the financial impact on local residents. The council has also developed a virtual hub on its website to help provide a single point of reference for those residents in need and to guide them on a wide range of welfare reform and welfare rights issues.
132. Additional funding of £0.8 million was received in March 2014 from the Scottish Government for Discretionary Housing Payments. The council has launched a Discretionary Housing Payments campaign to encourage the uptake of the scheme through:
- poster display in a variety of venues throughout local communities including schools, libraries, GP surgeries and local Housing Offices
  - writing to all tenants in the Perth & Kinross area who are receiving Housing Benefit when that benefit does not cover the full cost of their rent
  - working closely with partners to ensure that all tenants

throughout the area are aware of the scheme

- monitoring of arrears of individuals where housing benefit is restricted due to under occupancy

133. An internal audit report in March 2014 concluded that “*the arrangements in place within the council provide an appropriate platform for continuing the developments associated with rolling out Welfare Reform*”.
134. Current housing rent arrears at 31 March 2014 were £1.1 million (2012/13: £0.9 million). This increase continues into 2014/15 with arrears rising to £1.2 million after the first six months of the year. The council recognise through its Rent Arrear Improvement Action Plan the need to continue to support tenants to maximise their incomes to meet their responsibilities in respect of rent through a range of preventative and supportive approaches.
135. The 2013/14 in-year collection rate for council tax (97.2%) has improved from the previous year and remains above the national average of 95.2% (2012/13). Due to the improved in-year collection rate and the improved performance in collection of previous years' debt the council tax arrears have decreased to £16.2 million (2012/13: £16.8 million).
136. Overall the council effectively manage and monitor the impact of welfare reform and continues to develop arrangements to support vulnerable people and communities as changes to welfare reform are introduced.

## Housing and council tax benefits performance audit

137. A performance audit of benefits was reported in December 2013 and an action plan agreed with the council. The audit concluded that in view of the loss of subsidy the council has more work to do in meeting its vision and improving accuracy and ensuring that its intervention activity is effectively targeted on risk. The audit highlighted the following areas:
- the service has successfully cleared its backlog and achieved an improved speed of processing for 2012/13 which was above the Scottish average
  - increased work from DWP's Automated Transfers to Local Authority Systems notifications and the significant increase in caseload as a result of the current economy
  - decreasing number of experienced staff
  - the council's performance dipped in 2013/14 due to preparations for, and implementation of, the various welfare reform changes
138. Further performance reports have been submitted to Audit Scotland together with details of the action being taken to address the issues raised in the report.
139. The council has further embedded the on-line claims system and as from July 2014 introduced Risk Based Verification. Other actions to address the issues raised include:

## Governance and accountability

- a weekly exercise identifies the reasons for delays in assessments
- recruitment of additional staff and increased contractual hours and overtime for current staff
- a full timetable for intervention is now in progress
- accuracy and quality processes were amended to combine risk and random based checks
- training for benefits staff has been undertaken covering specifically official errors
- reasons for official errors identified and remedial action taken with the 2013/14 claim official errors below the lower threshold

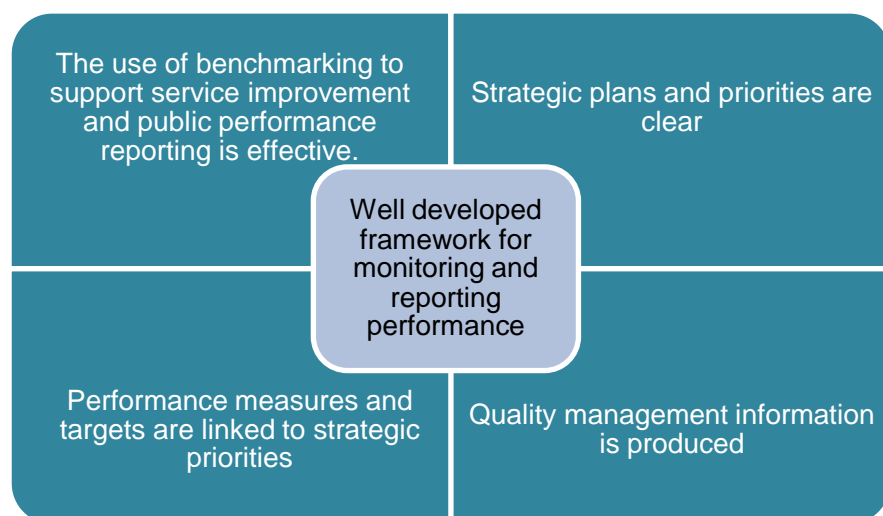
## Outlook

140. 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.

141. 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.

## Best value, use of resources and performance



142. 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.

### Arrangements for securing Best Value

143. The 2008 Best Value Review highlighted that the council demonstrated a strong commitment to best value and continuous improvement and that the council and its partners shared a clear and ambitious vision and were committed to the Perth and Kinross single outcome agreement (SOA). The council has continued to demonstrate this commitment.
144. The council has a strong track record of partnership working and the *Community Plan/Single Outcome Agreement 2013-2023* aims to continue this and outlines an ambitious vision for the area centred around the five strategic objectives:
- Giving every child the best start in life
  - Developing educated, responsible and informed citizens
  - Promoting a prosperous, inclusive and sustainable economy
  - Supporting people to lead independent, healthy and active lives
  - Creating a safe and sustainable place for future generations.
145. The council's *Corporate Plan 2013-2018* sets out how the council will support the Community Plan and identifies the high-level strategic objectives the council is working towards to meet local needs. The transformation programme *Securing the*

*Future - Towards 2015 and Beyond*, was updated in 2013 and identified a large number of projects at both a corporate and service level designed to help address the continuing financial pressures.

146. The programme is underpinned by the Medium Term Financial Plan with the council considering the latest plan in October 2014. The plan sets out the likely savings targets over 5 years to 2019/20 using three scenarios low, mid-range and high level changes in the assumptions used (e.g. pay award, demographics, government settlements, council tax increases, fees and charges). The mid-range assumptions highlight that cumulative savings of approximately £53 million may be required in the next five years (low: £13 million; high: £92 million). This is put in the context of the cumulative savings achieved in the 5 years to 2014/15, which are estimated to be £56 million.

### Use of resources

147. Through its transformation programme the council has actively accelerated savings in recent years to enable it to manage the anticipated financial challenges faced by the public sector. The council recognises that there are likely to be difficult decisions ahead about prioritising services and allocating resources. Through its transformation work it has an on-going programme of service reviews looking at delivery models that may lead to further efficiency savings, including cultural and leisure

services, reshaping older peoples care, housing service redesign, waste management, youth services and legal services.

148. The Scrutiny Committee remit includes examining activities and performance of services and the council, assessing risk management arrangements and conducting a programme of scrutiny reviews. The fifth scrutiny review currently underway is charging for services.
149. The council also utilises a wide range of information to assess the effective use of resources as part of its planning process. Key efficiency highlighted by the council in its annual efficiency statement in 2013/14 include:
- more efficient use of council buildings including areas such as remodelling the schools estate, sharing office accommodation and the Perth office programme which is aimed at rationalising the council's property portfolio
  - the introduction of modern ways of working and new technology including reviews of on-line payments
  - workforce planning measures across all services including a further voluntary severance scheme
  - improved local tax collection levels
  - reduced management and supervisory costs across a number functions
  - shifting of the balance of care with a reduction in the number of residential placements in favour of

## Best value, use of resources and performance

community based services (including the changes arising through self-directed support)

- commissioning of services rather than direct provision
- review and renegotiation of service level agreements with the voluntary sector
- collaborative contract arrangements to deliver savings

### *Workforce management*

150. Since 2009, the council has implemented a range of workforce management measures which were designed to make the best use of opportunities to reshape the workforce on an on-going basis, enable service redesign and deliver a leaner workforce whilst avoiding compulsory redundancies where possible.
151. The council's *Our People Strategy 2010-15* approved in December 2010 was an approach to have a clear focus on people priorities in order to support the council's plans to transform services and deliver its priorities. The strategy is supported by a workforce plan which is updated regularly.
152. In March 2014 Audit Scotland published *Scotland's public sector workforce: Good practice guide*. This guide is currently being considered with the council's response expected to be reported to committee in December 2014. In early 2015 the council plans to integrate its strategy with its workforce planning priorities.

153. The council has also sought to reduce the workforce through early retirements, voluntary severance schemes etc. These decisions need to be affordable, fully funded, demonstrate value for money and support service delivery. An initial scheme was run in 2011/12 with a further voluntary severance scheme (for non teaching staff) launched in September 2013. During 2013/14 the council paid exit packages to 135 individuals leaving the council's employment (mainly through retirement or under the voluntary severance arrangements) at a one off cost of £2 million with anticipated annual recurring savings of £2.3 million.

### *Risk management*

154. The council considered the Corporate Risk Management Strategy in November 2013 and updated the corporate risk register. The Strategy has been revised to align to the council's five new Strategic Objectives and ensure that the key risks associated with their delivery are effectively managed. In turn, the council's performance and risk management reporting mechanisms, at a corporate and service level, have also been reviewed to ensure significant issues and risks linked to the council's key priorities continue to be identified and acted on early.

### *Procurement*

155. The public procurement reform programme aims to drive continuous improvement in public sector procurement. In 2009

## Best value, use of resources and performance

the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. In 2013 the council achieved a PCA score of 59%, which is classed as 'improved' and demonstrates a further improvement on the 2012 score of 54%.

156. As part of the Procurement Strategy 2011-15 an improvement action plan is revised annually following the PCA to ensure appropriate emphasis is given to any issues highlighted. The improvement plan in 2014/15 will focus on the two lowest scoring areas in the PCA:

- contract & supplier management (38%)
- key purchasing processes & systems (40%)

157. Further to the improvement work emanating from the Procurement Strategy 2011-15, the Corporate Procurement Team have been working with Internal Audit to prepare the council for the likely impact of the Procurement Reform (Scotland) Act.

## Performance management

158. The council has a strong focus on performance management and has a sound framework for monitoring and reporting performance against the council's priorities.
159. There is good alignment between the *Community Plan/Single*

*Outcome Agreement 2013-2023* and the council's corporate plan. The *Corporate Plan 2013-2018* is supported by services' *Business Management and Improvement Plans* (BMIPs). This is a well established approach to planning and performance management within the council.

160. The council produce an Annual Performance Report based around the council's Corporate Plan and the Community Plan/Single Outcome Agreement (SOA) outcomes with links to higher level and partnership objectives. The council's website also provides links to further details on specific performance at a service-level. The 2013/14 Annual Performance Report was considered by the Council in October 2014.
161. Council services in the 2014/15 BMIPs report the annual performance for 2013/14. Performance is also reported against the relevant local outcome. The council has a good approach to internal verification and review of performance indicators, with a planned programme of reviews for future years.
162. The council's PPR material also incorporates customer satisfaction findings. There is also a customer facing summary report following the SOA outcomes structure and highlighting key aspects of performance.
163. The Strategic Policy & Resources Committee considered a report in November 2013 about re-energising the corporate approach to community consultation/engagement. The



committee approved:

- the introduction of an annual or biennial survey to replace Viewfinder
- a review and re-launch of the approach taken by services
- the establishment of a Community of Practice Network to support improvement in customer consultation, promote co-ordination across and between Services.

**164.** Overall, Perth and Kinross has a comprehensive Public Performance Reporting (PPR) approach and framework that incorporates a range of material for different audiences. We are satisfied that appropriate performance management arrangements were in place within Perth & Kinross Council for 2013/14.

## Overview of performance targets in 2013/14

**165.** The Annual Performance Report 2013/14 summarises the council performance against the Community Plan/SOA 2013/23. The latest report in October 2014 showed performance improvements in eight of the local outcome areas with the other five demonstrating consistent performance over the last three years. Within these local outcome areas the report does identify areas where performance has significantly decreased and explains the reason for the decline and any remedial action being taken to address these areas.

**166.** The council reports the Scottish Local Government Benchmarking Framework (LGBF) indicators. It includes a checklist of these within its corporate guidance for BMIPs. A review of the 2013/14 BMIPs shows that the majority of the indicators were reported. The council provides comparison over time and against targets within its services annual performance reports, SOA performance reports and LGBF.

**167.** In May 2014 the council considered its performance during 2012/13 against the LGBF indicators published by the Improvement Service in March 2014. The Improvement Service has ranked the council's performance across the sixty LGBF benchmarking indicators when compared to Scotland:

- 30% are in the upper quartile (2011/12: 23%)
- 30% are in the upper middle quartile (2011/12: 17%)
- 28% are in the lower middle quartile (2011/12: 28%)
- 12% are in the lower quartile (2011/12: 8%)
- 24% of indicators in 2011/12 were unranked

**168.** Of these 60 indicators performance in comparison with 2011/12 highlighted that 34 had improved, 20 had declined and 6 indicators where analysis was not possible due to lack of data.



## Statutory performance indicators

**169.** 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.

**170.** 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.

**171.** 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) for 2012/13 has been carried out by Audit Scotland's Performance Audit and Best Value section, the results of which were reported to the Accounts Commission in June 2014.

**172.** Individual assessments were also reported to councils' Chief Executives, Leaders and Chairs of Audit Committees. These highlighted the extent to which their PPR material for 2012/13 either fully, partially or did not meet the criteria used in the evaluation. The results for Perth & Kinross Council in 2012/13 were 71% fully and 29% partially meeting the criteria (2011/12 PPR assessment: 33% fully and 67% partially meeting the criteria). A further evaluation of councils' approaches to PPR for 2013/14 is due to be carried out by Audit Scotland in Spring 2015.

**173.** Overall we are satisfied that appropriate arrangements were in place within the council for 2013/14.

## Assurance and improvement plan 2014-17

174. The Assurance and Improvement Plan (AIP) covering the period 2014 to 2017 is the fifth AIP for Perth & Kinross Council prepared by the Local Area Network of scrutiny partners for the council since the introduction of the shared risk assessment process. This has been published on Audit Scotland's website and was submitted to the council in May 2014.
175. The AIP identified that no specific scrutiny or further information was required. The AIP identified that targeted follow-ups was to be undertaken in relation to two national reports and details of our review are detailed below in Local performance audit reports. We will revisit the Shared Risk Assessment process for 2014/15 to focus scrutiny activity where it is most needed and to determine the most proportionate scrutiny response over the next three year period.

## Local performance audit reports

### *Arm's-length external organisations – are you getting it right?: A follow-up*

176. In May 2014 we issued *Arm's-length external organisations (ALEOs) – are you getting it right? A follow-up* report. This report provided a position statement on councils' use of ALEOs and in particular, on progress since the initial national report which was published in 2011.

177. Our report highlighted that overall the council demonstrated that many elements of good or best practice are evident in the governance arrangements in place for ALEOs. Further improvements were highlighted to strengthen the council's approach including:
- implementation of actions agreed with internal audit including updating the Code, updating standard SLAs and improvements to information reported in the central register of funding to external bodies
  - continued involvement in Horsecross Arts Ltd to ensure the recovery plan is implemented and the intended impact on the longer term transformation of the organisation is realised
  - ensuring that the Code is complied with including ensuring that members have considered half yearly or annual reports on these ALEOs
  - agreeing a criteria set for the skills and expertise required of members being appointed to ALEO boards
  - ensuring written agreements with the ALEOs, where the council participates as a decision maker, are in place

### *Major capital investments in councils: A follow-up*

178. In June 2014 we issued *Major capital investments in councils: A follow-up* report. This report provided a position statement on councils' major capital investments and in particular, on

progress since the initial national report which was published in 2013.

179. Our report concluded that overall the council having considered the national report is taking actions to strengthen its arrangements although the impact of these improvements has yet to be fully realised. The improvements in the planning and governance arrangements are currently being implemented in line with the agreed action plans, with many of these areas to be completed by December 2014.

available resources and to challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the council achieving its key priorities.

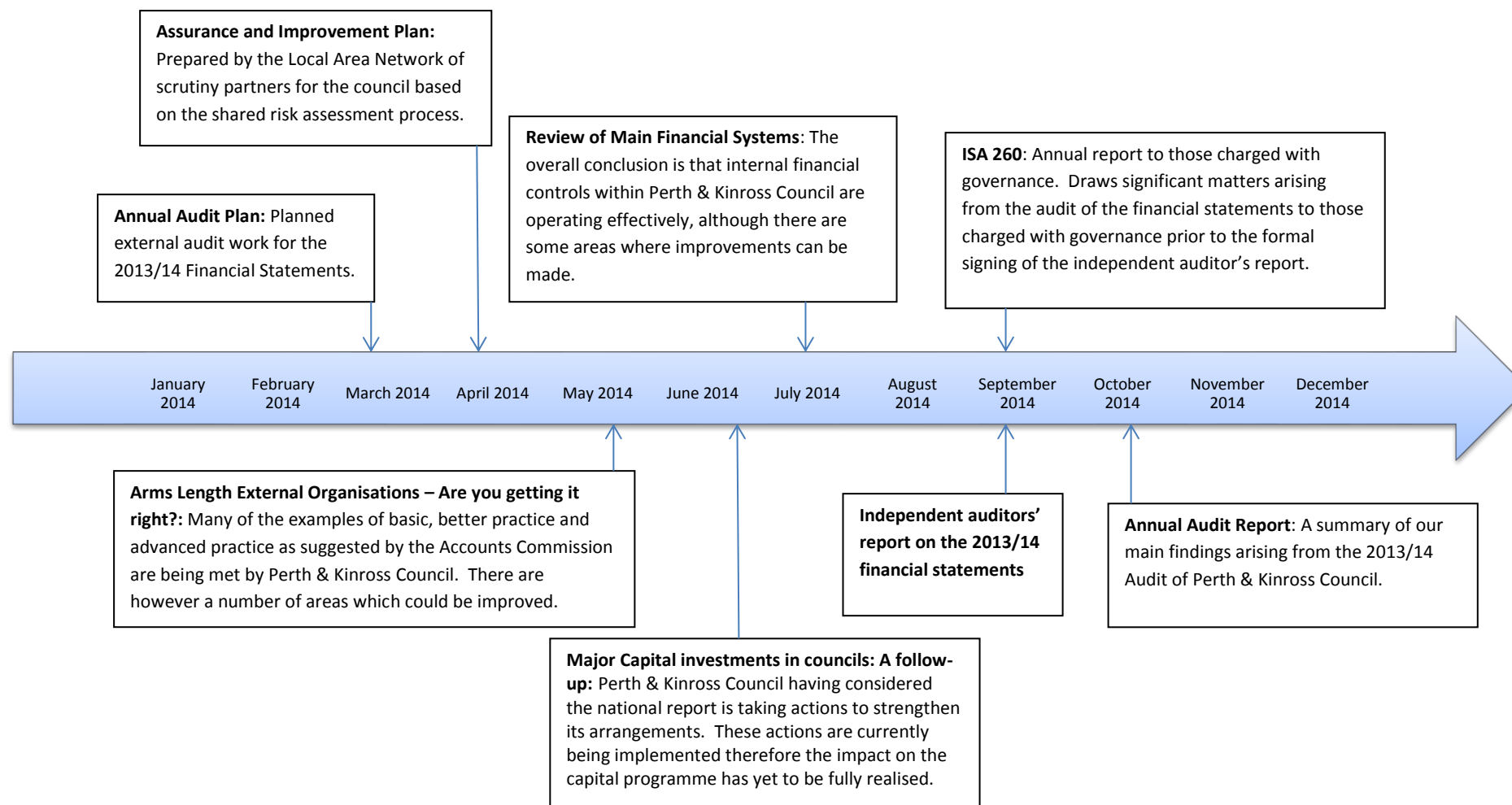
## National performance audit reports

180. The council regularly report the findings from our national reports to members including an assessment of current practices against good practices and the agreement of actions to ensure further improvements. A summary of national performance audit reports, along with local audit reports, is included in Appendices I and II.

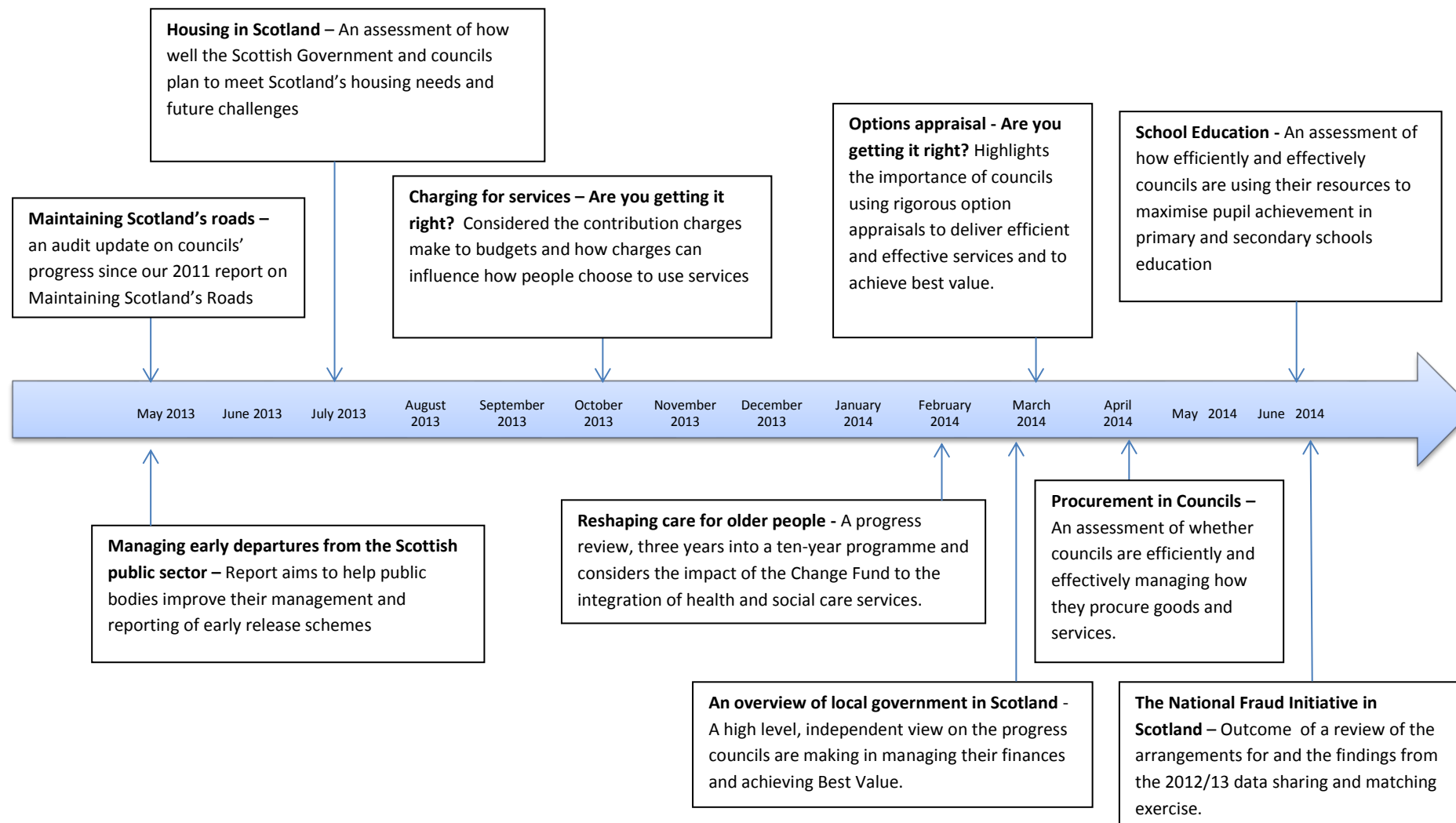
## Outlook

181. In common with other councils, Perth & Kinross Council 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 become increasingly difficult, councils will have to focus on making the very best use of all

## Appendix I – Summary of local audit reports



## Appendix II – Summary of Audit Scotland national reports



## 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 Planning Risk	Assurance procedure
<p><b>Financial management</b></p> <p>Along with all other public bodies in Scotland, the council is facing the prospect of having to make significant budget savings. At the same time as the council aims to support the local economy and maintain service provision, it is likely to face a reduction in resources.</p> <p><i>Risk: the council may not be able to secure the efficiencies required without impacting on services.</i></p>	<p>Monitored the management of the financial position. Budget setting processes, and medium term financial plan and Securing the Future Toward 2015 and Beyond Strategy. Budget monitoring presented to members.</p> <p>Refer to <i>Financial position</i> section of this report.</p>

Audit Planning Risk	Assurance procedure
<p><b>Performance Management</b></p> <p>The council's performance indicates a relatively positive picture overall with only a few areas of performance declining. However, effectively managing performance will remain a key challenge as financial pressures increase. The council will need to use its performance information to understand and manage the impact of spending decisions.</p> <p><i>Risk: the council's resources are not directed at priority areas and outcomes are not demonstrated.</i></p>	<p>Monitored the management of performance. Review of procedures to complete statutory performance indicators.</p> <p>Refer to <i>Performance management</i> section of this report.</p>
<p><b>Control environment</b></p> <p>A robust system of internal financial controls is essential to reduce the risk of material error in the financial statements. In times of economic challenge, the council's financial systems may be exposed to increased risk of fraud or manipulation.</p> <p><i>Risk: the council's financial position is exposed to error. Fraud and manipulation may not be detected.</i></p>	<p>Review of key financial systems – Review of Main Financial Systems reported in June 2014.</p> <p>Review of governance arrangements. Refer to <i>Governance and accountability</i> section of this report.</p>

## Appendix III – Significant audit risks

Audit Planning Risk	Assurance procedure
<p><b>Prevention &amp; detection of fraud and irregularities</b></p> <p>The council's Fraud and Corruption Policy has not been updated since 2006 and therefore does not include specific reference to the requirements of the Bribery Act 2010.</p> <p>The council did not submit the electoral register as part of the National Fraud Initiative submission. There is no evidence that the council have undertaken data matching using the register to identify potential frauds.</p> <p><i>Risk: council policies and procedures in relation to the detection and prevention of fraud are not up to date and do not reflect current legislation.</i></p>	<p>Review of National Fraud Initiative participation.</p> <p>Audit Scotland's national report on NFI, noted that the council was one of only two councils in the UK that did not submit the electoral register for this purpose.</p> <p>Refer to <i>Arrangements for the prevention and detection of fraud</i> section of this report.</p>
<p><b>Capital expenditure</b></p> <p>In 2012/13 the council's general fund capital programme was underspent by 38% and the housing revenue capital programme by 21%.</p> <p><i>Risk: through delay of investment or improvement to the asset base the council is unable to deliver efficient and effective services and contribute to a prosperous, sustainable and inclusive economy for its area.</i></p>	<p>Monitored the arrangements for managing the capital programme. Local audit report <i>Major capital investment in councils: A follow-up</i> report issued in June 2014 commenting on arrangements.</p> <p>Refer to <i>Local performance audit reports</i> section of this report.</p>



## Appendix III – Significant audit risks

Audit Planning Risk	Assurance procedure
<p><b>Welfare reform</b></p> <p>The council are assessing the impact of welfare reform on council tenants' arrears. In 2012/13 rent arrears have increased with further increases anticipated during 2013/14.</p> <p>In addition on 1 April 2013 council tax benefit was replaced by a council tax reduction scheme to be administered by the council. The council needs to ensure that it has robust controls in place to effectively administer the scheme.</p> <p><i>Risk: the council do not meet the challenges arising from the implementation of the welfare reform.</i></p>	<p>Housing and council tax benefit performance audit reported in December 2013.</p> <p>Internal audit's review of welfare reform, including the review of the council tax reduction scheme.</p> <p>Refer to <i>Welfare reform</i> section of this report.</p>
<p><b>Group sustainability</b></p> <p>One of the council's subsidiaries (Horsecross Arts Ltd) highlighted material uncertainty surrounding solvency of its operations last year. The 2012/13 audited accounts have however now been received and Horsecross Arts Ltd accounts have been prepared on a going concern basis.</p> <p><i>Risk: the council's group entities are unable to provide services.</i></p>	<p>Audited accounts received for 2013/14.</p> <p>Contact with Horsecross Arts Ltd auditors re going concern.</p> <p>Local audit report <i>Arm's-length external organisations (ALEOs) – are you getting it right?: A follow-up</i> report issued in May 2014 commenting on arrangements.</p> <p>Refer to <i>Local performance audit reports</i> section of this report.</p>

## Appendix III – Significant audit risks

Audit Planning Risk	Assurance procedure
<p><b>Housing benefit subsidy</b></p> <p>In the last two years the council has lost subsidy of £0.227 million as a result of exceeding the lower threshold for local authority error.</p> <p>A recent audit of housing and council tax benefit identified that there is no routine analysis of overpayments raised to determine the cause and to identify any necessary changes or additions to processes, procedures or training that could minimise error and subsequently financial losses for the council.</p> <p><i>Risk: benefit subsidy is lost through inaccuracies in the council processing benefit claims.</i></p>	<p>Housing and council tax benefit performance audit reported in December 2013.</p> <p>Review of key financial systems including benefits processes. Ongoing review of benefits subsidy cases for subsidy claim due to be submitted in November 2014.</p> <p>Refer to <i>Housing and council tax benefits performance audit</i> section of this report.</p>
<p><b>Business Continuity</b></p> <p>A recent internal audit report highlighted weaknesses in the council's business continuity management arrangements, including ensuring:</p> <ul style="list-style-type: none"> <li>• the adequacy of procedures to be followed in the event of an incident</li> <li>• the council's processes prioritise the recovery of critical services</li> <li>• ongoing review and testing of these arrangements.</li> </ul> <p><i>Risk: roles, responsibilities and critical services are unknown leading to disruption of service delivery.</i></p>	<p>Reliance on internal audit follow-up of actions in relation to business continuity.</p>

## Appendix III – Significant audit risks

Audit Planning Risk	Assurance procedure
<p><b>Workforce planning</b></p> <p>The council has implemented a range of workforce management measures which are designed to make the best use of opportunities to reshape the workforce on an on-going basis, enable service redesign and deliver a leaner workforce whilst avoiding compulsory redundancies. A voluntary severance scheme (for non teaching staff) was launched in 2013/14.</p> <p><i>Risk: adverse impact on the continuation and quality of services provided.</i></p>	<p>Reviewed process for voluntary severance scheme and ensured payments were in line with the scheme.</p> <p>Refer <i>Workforce management</i> section of this report.</p>
<p><b>Public Services Network (PSN)</b></p> <p>The council exchanges data with many other public bodies and in so doing makes use of Cabinet Office sponsored arrangements to share electronic data with other public sector bodies. The PSN is the mechanism that allows the council to share data and services. The council must re-apply annually to the Cabinet Office to be allowed to connect to the government secure network.</p> <p>The council's PSN Code of Connection Compliance Certificate is subject to annual renewal.</p> <p><i>Risk: disruption to service delivery across the council.</i></p>	<p>Monitored the council's arrangements for PSN compliance.</p> <p>Refer to <i>ICT audit</i> section of this report.</p>

## Appendix III – Significant audit risks

Audit Planning Risk	Assurance procedure
<p><b>Tayside Contracts</b></p> <p>The council has an interest in Tayside Contracts Joint Committee (TCJC) and this body is included in the group accounts. In 2012/13 the accounting treatment was agreed and it was noted that the Minute of Agreement would be revisited to ensure it reflected the actual operation and governance of TCJC.</p> <p><i>Risk: the minute of agreement does not reflect the actual operation of TCJC.</i></p>	<p>Legal agreement now planned for completion later this year.</p> <p>Refer to <i>Report to those charged with governance</i> section of this report.</p>
<p><b>Charitable bodies</b></p> <p>The Charities Accounts (Scotland) Regulations 2006 as amended set out the accounting and auditing rules for Scottish registered charities. These apply to all local authority registered charities and from 2013/14 an audit of a registered charity's financial statements where the local authority is sole trustee is required.</p> <p>Some charities are recognised as being connected by having common or related purposes, or by having a common controlling body or administration, for instance a group of trustees that meet quarterly to consider a number of trusts at the same time. These charities have the option of preparing a single set of accounts to send to OSCR instead of preparing individual accounts.</p> <p><i>Risk: the council does not comply with these regulations and statutory reporting requirements.</i></p>	<p>Connected charities audit completed with an unqualified opinion.</p> <p>Refer to <i>The audit of charities financial statements</i> section of this report.</p>

## Appendix III – Significant audit risks

Audit Planning Risk	Assurance procedure
<p><b>Common Good Borrowing</b></p> <p>The Kinross Common Good has been in debt to the council over several years and as at 31 March 2013 the outstanding balance was £0.017 million. Common Good funds do not have powers to receive advances from the council's loans fund and in our view this is therefore technically a breach of statute.</p> <p><i>Risk: this technical breach is not resolved prior to the 2013/14 financial statements preparation.</i></p>	<p>Debt repaid following the sale of Kinross Town Hall during 2013/14.</p>

## Appendix IV – Action plan

Action plan no./ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1/102	<p><b>Annual Governance Statement</b></p> <p>The council's processes for obtaining assurance over its governance framework across the council were not followed with several self-assessments not completed when members considered whether the Annual Governance Statement reflected the arrangements operated.</p> <p><b>Risk</b></p> <p>The governance framework is not operating effectively to provide adequate assurance to those charged with governance.</p> <p><b>Recommendation</b></p> <p>The council should review its arrangements to ensure members have adequate information to allow them to assess whether the governance arrangements in the council are adequate.</p>	Officers are currently reviewing the processes for obtaining assurance over its governance framework.	Head of Legal Services	30 June 2015