

The Moray Council

**Report to Members and the Controller of Audit
on the 2008/09 Audit**

October 2009



 **AUDIT SCOTLAND**

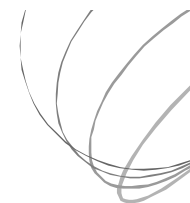


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Contents

Key Messages	1	Performance management and improvement	26
Introduction	3	Appendix A	37
Financial statements	4	Appendix B: Action Plan	38
Use of resources	9		
Governance and accountability	19		



Key Messages

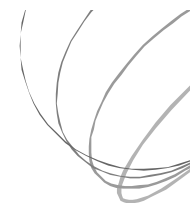
We have given an **unqualified** opinion on the financial statements of The Moray Council. Final accounts working papers were generally good and overall we were satisfied that the financial statements were prepared in accordance with the 2008 SORP. In particular, the council has followed the appropriate guidance in accounting for its £2 million deposit in Landsbanki, one of the Icelandic banks which went into administration in October 2008. Although an impairment loss of £0.4 million has been recognised within the financial statements, the council has taken advantage of Finance Circular 4/2009 to defer the impact on the general fund. Uncertainties remain as to how much the council will recover. Failure to secure preferential creditor status will have a significant impact on the amount of the deposit that is recoverable.

In 2008/09, The Moray Council spent a total of £298 million (revenue and capital) on the provision of public services. As at 31 March 2009, the council had total cash backed funds of £16.5 million including an unallocated general fund balance which exceeded its £5 million target by £2.1 million. This additional flexibility is likely to be required in the medium term to fund the significant financial pressures facing the council in the years ahead.

In his Foreword to the financial statements, the Chief Financial Officer reports that £0.7 million of the £2.7 million deficit for 2008/09 was for specific approved projects, and explains the main variances making up the remaining budget overspend of £2.0 million (1.1%). These include increased costs of caring for looked after children (£0.8 million) and elderly and vulnerable adults (£0.2 million), higher transport costs (£0.3 million) and lower than expected income (£0.6 million). Around £1.2 million of these costs are recurring and will impact on the budget outturn in the current and future years.

The Chief Financial Officer is currently investigating why the actual outturn was significantly greater than the projected outturn (£0.6 million overspend) reported to the Policy & Resources Committee in February 2009. In particular, he has asked why budget managers did not report significant variances against budget prior to the year end. The results of the review will be used to improve processes for alerting members and senior officers to potential overspends in sufficient time to enable corrective action to be taken. Good budgetary control is essential in the current economic climate.

The council is facing serious financial pressures in the next four years. When the council approved its 2008-2012 financial plan, savings of around £3 million were required over the four year period. The latest monitoring report projects an overspend of £2 million against budget in 2009/10. Steps have already been taken to restrict expenditure to that essential for direct service delivery for the remainder of the financial year. In addition to this projected overspend, the council faces additional financial pressures as a result of the recent flooding within Moray. Initial estimates of the costs of responding to this incident are between £1.8 and £2.7 million. The council has yet to hear whether its applications for assistance from the Scottish Government have been successful.



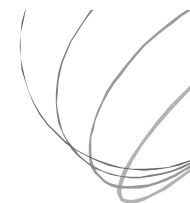
In September 2009, the Chief Financial Officer advised members that, given the substantial reduction in grant funding expected over the next four years, he now estimates that the council will need to make savings of around £5 million in 2010/11, and further savings totalling £15 million in the following three years. In order to achieve this level of savings the council will need to significantly reduce the level of services it currently provides. The council will shortly begin a public consultation exercise on its proposals for making these cuts.

The council is currently developing its own performance model, 'Moray Performs', based on the 'Virginia Performs' model used by the Scottish Government. The model aims to develop a more effective performance management system which focuses on the single outcome agreement and the council's local priorities. The programme is ambitious and covers many of the areas referred to in this report including workforce planning, asset management, procurement, performance management, and the implementation of the best value improvement plan. The council has a number of other major projects underway, and although steps have been taken to increase capacity, there remains the risk that the council will not be able to deliver all of its planned projects, and continue to manage 'business as usual'. Moray Performs is very much a 'work in progress' and it is too early to tell what impact it will have on the quality of services delivered to the people of Moray.

Historically, the council has been one of the best performers in national comparisons with over 40% of its statutory performance indicators in the top quartile. The most recent national comparison (2007/08 data) shows that the council has 38% of its SPIs in the upper quartile. Investment in performance management software has allowed performance information to be monitored, analysed and reported in a number of different ways. The council performed well in 63% of its performance indicators during 2008/09, with 19% requiring corrective action. In September 2009, the council approved a new performance management framework as part of its 'Moray Performs' modernisation programme.

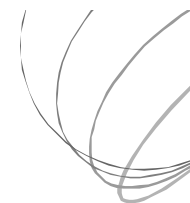
The council has well developed community planning structures and there is evidence of effective partnership working with, for example, the voluntary sector in improving the well-being of vulnerable children and their families. HMIE has just published a follow up report on progress made by the council and its partners in implementing the action plan resulting from its critical child protection report published in February 2009. The follow up report concludes that 'overall, encouraging progress has been made in a short time in tackling concerns raised in the initial inspection report'. A further follow up will be undertaken by HMIE inspectors in 2010

The co-operation and assistance given to us by The Moray Council elected members and staff during the year is gratefully acknowledged.



Introduction

1. This report summarises the findings from our 2008/09 audit of The Moray Council, focusing on the financial statements audit and any significant findings that have arisen from our review of the management of strategic risks during the year. A summary of the other reports issued during the year is provided at Appendix A.
2. The report reflects the new corporate assessment framework, based on the characteristics of a best value council, being developed for Best Value 2 (BV2) and joint scrutiny work. Our comments are made on the basis of information made available in the course of the annual audit supplemented by other work by Audit Scotland and other scrutiny bodies. We do not offer an overall best value judgement because we do not have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time and for that to form the basis of a proportionate best value audit. This report is a step towards that goal.
3. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. We mention the key findings from some of these reports and the implications for The Moray Council in the performance and use of resources sections of this report. Reports published in the last year of direct interest to the council are:
 - Improving energy efficiency
 - Civil contingencies planning
 - Mental health overview
 - The impact of the race equality duty on council services.
 - Asset management in local government
 - Strategic procurement
 - Overview of drug and alcohol services
4. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *Planned Management Action*. We do not expect all risks to be eliminated or even minimised. Instead, we expect the council to be aware of the risks it faces and have processes in place to manage them. Members should ensure that they are satisfied with the proposed management action, and that they have a process in place to enable them to monitor progress made in implementing the planned actions.
5. This report is addressed to members and the Controller of Audit and will be published on our website after consideration by the council. The Controller of Audit may use the information in this report for her annual overview of local authority audits report later this year. The overview report is published and used by the Accounts Commission as the basis for its annual briefing to the Scottish Parliament's Public Audit Committee and Local Government and Communities Committee.



Financial statements

Introduction

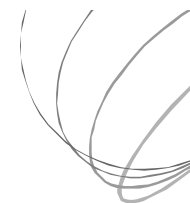
6. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources. In this section we summarise the key outcomes from our audit of the council's financial statements for 2008/09, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.
7. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of the council and its income and expenditure for the year
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
8. We also review the Annual Governance Statement by considering the adequacy of the process put in place by the council to obtain assurances on systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the council.

Audit opinion

9. We gave an **unqualified** opinion on the financial statements of The Moray Council for 2008/09.
10. The Local Government in Scotland Act 2003 requires councils to maintain and disclose trading accounts for significant trading operations, which are required to break-even over a three year rolling period. The council's four statutory trading organisations made aggregate surpluses in the three years to 31 March 2009.
11. The council submitted its unaudited financial statements to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation processes and working papers were generally good and this enabled the audit to progress smoothly. Audited accounts were finalised prior to the target date of 30 September 2009 and are now available for presentation to the council and publication.

Accounting practice

12. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice* (the SORP). Overall, we were satisfied that the council prepared its financial statements in accordance with the 2008 SORP.



Issues identified during the financial statements audit

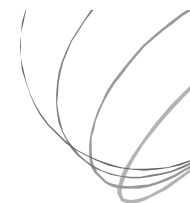
13. The council adjusted the financial statements to reflect the majority of our audit findings. As is normal practice, immaterial unadjusted errors were reported to the Chief Financial Officer in our ISA260 *Communication of Audit Matters to Those Charged with Governance* report. Details of significant accounting issues arising in the course of our audit are summarised below.

Investment in Landsbanki

14. The council had £2 million deposited with Landsbanki, one of the Icelandic banks which collapsed and went into administration in October 2008. As it is uncertain how much of this amount will be recoverable, the council followed the guidance set out in LAAP Bulletin 82 '*Guidance on the Impairment of Deposits with Icelandic Banks*' when preparing its financial statements. As a result, an impairment loss of £0.382 million has been recognised in the Income & Expenditure Account and the council has taken advantage of the statutory guidance set out in Finance Circular 4/2009 '*Local Authority Deposits Held with Icelandic Banks*' to defer the impact of the impairment on the general fund.
15. Prior to completion of the audit, LAAP Bulletin 82 was updated to reflect the latest best estimate of the amount that will be payable to investors. The resulting reduction (from 95% to 83%) is partially offset by the decision to pay interest on investments up until 22 April 2009. These changes reduce the amount the council expects to receive by £48,000. The council has not amended its audited financial statements to reflect this amount as it is not material.
16. There may be more changes to the expected recoverable amount as more information is received from the administrators of Landsbanki. In particular, failure to secure preferential creditor status will have a significant impact on the amount of the deposit that is recoverable.

Equal pay claims

17. The council has sought to limit its exposure to the financial risks associated with equal pay claims by agreeing to offer equal pay compensation payments to specific groups of employees as part of a compensation package. There remain uncertainties, however, over the actual costs that will be incurred to settle outstanding actual and potential claims in relation to equal pay legislation.
18. We have requested and received a specific representation from the Chief Financial Officer that actual and potential claims in relation to equal pay legislation have been reviewed and the amount recognised as a provision (£1.320 million) is the best estimate of the expenditure likely to be required to settle the present obligation at the balance sheet date.



Group accounts

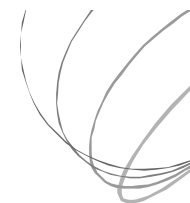
19. The diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to give a true and fair view of a council's income and expenditure.

Associates

20. The council consolidated the results of Grampian Joint Police Board, Grampian Joint Fire and Rescue Board, Grampian Valuation Joint Board and Moray Leisure Limited into its group accounts as associates in accordance with the 2008 SORP. Audit assurances were obtained through review of board minutes, internal audit reports and audited accounts, supplemented by the completion of a questionnaire by the auditors of Moray Leisure Limited.
21. The accounts of the Grampian Joint Police Board and Grampian Joint Fire and Rescue Board were qualified due to disagreement about the accounting treatment of FRS 17 pension costs. The Local Government Pension Reserve Fund (Scotland) Regulation 2003 provides the statutory basis for local authorities to remove FRS 17 based costs from the General Fund and replace them with actual pension contributions / payments made during the year. This Regulation does not, however, apply to the new pension schemes established by The Police Pensions (Scotland) Regulations 2007 and The Fire-fighters Pension Scheme (Scotland) Order 2007. Although the Scottish Government intend amending the Regulation to include these new schemes, there is currently no statutory basis for reversing the impact of the FRS 17 based costs on the Joint Boards' General Fund balances.
22. As a result, Grampian Joint Police Board's General Fund balance and Pensions Reserve are overstated by £4.025 million and Grampian Joint Fire and Rescue Board's General Fund balance and Pensions Reserve are overstated by £1.141 million as at 31 March 2009. The Moray Council's group accounts have not been amended for these overstatements as the council's share, £0.838 million, is not material and would not impact on the group's net assets as at 31 March 2009.

Trust funds

23. Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. The date of full implementation has, however, been deferred by the Scottish Charity Regulator until 2010/11. For 2008/09, reliance will again be placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.
24. The council has identified a number of charitable trusts which have been inactive for a considerable period, or have outdated purposes, and is currently considering options for reorganising its existing charities, including transferring some of them to the Scottish Communities Foundation.



Common good funds

25. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners, '*Accounting for the Common Good Fund*'. This guidance, which recognises the legislative distinction of the common good as a managed fund, requires disclosure of these funds within the council's financial statements and the establishment of a separate common good asset register by March 2009. In addition, the guidance requires councils to take 'reasonable steps' to maintain the asset register.
26. The Moray Council's financial statements contain an Income & Expenditure Account and Balance Sheet for its common good funds. A separate common good funds asset register is maintained as required by the guidance. The completeness of this asset register was confirmed by the Chief Financial Officer in the letter of representation provided in support of our audit of the financial statements.
27. Although the council has not undertaken a title deeds search of all its assets, because it considers such an exercise to be time consuming, expensive and possibly inconclusive regarding ownership, whenever an asset is identified for disposal the council checks the title deeds to determine whether or not it is owned by the one of the common good funds. The council believes that this is a reasonable approach to maintaining the common good fund asset register and ensuring its completeness.

Legality

28. Each year we request written confirmation from the Chief Financial Officer that the council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in our audit programmes. The Chief Financial Officer confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

IFRS adoption

29. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. Although some aspects of IFRS have already been adopted, 2009/10 is a key year in the transition to IFRS. Councils are expected to prepare a comparative balance sheet as at 1 April 2009, and are expected to account for PFI projects and prepare their whole of government accounts on an IFRS basis from 2009/10.

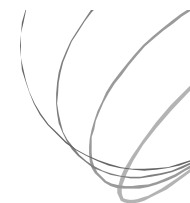


30. LAAP bulletin 80 provides local authorities with guidance, including an outline project plan with key milestones, on the implementation of IFRS. The Moray Council is currently using this guidance to prepare a draft project plan to ensure the smooth implementation of IFRS. Progress has been slow to date but is expected to improve with the availability of an additional resource with effect from October 2009. The council has appointed Ernst & Young to assist Finance staff with technical queries, and provide an independent review function based on their experience of IFRS conversions within other sectors.

Key risk area 1

Carbon reduction commitment

31. From April 2010 a new and complex system for charging for carbon emissions will be introduced by the EU. The council will be required to purchase and account for carbon credits to cover all of its non transport related energy usage. Incentives and penalties will be built into the system to encourage a reduction in carbon emissions. The council has estimated that carbon allowances will cost it in the region of £0.380 million in the first two years of the scheme (2010/11 and 2011/12).
32. In 2008, we published a report on *Improving Energy Efficiency*. Our report concluded that the public sector in Scotland has made progress in using energy more efficiently, recording a 5% decrease in energy consumption in councils for the three years to March 2007. However, the amount spent on energy, over the same period, increased by 47% due to price increases. Public bodies are recommended to develop and implement robust energy strategies and to encourage the necessary changes to culture and behaviour.
33. The Moray Council approved a Carbon Management Plan in March 2009 aimed at reducing carbon emissions by 30% over the next five years. As part of this plan, the council intends to implement energy saving projects across council premises, such as increased levels of loft insulation and installation of building energy management systems in schools to help control, manage and monitor energy use in buildings. Initial estimates suggest that energy savings of around £42,000 will be generated by these projects, together with reduced carbon dioxide emissions of almost 250 tonnes and a reduced carbon footprint of 60 tonnes.



Use of resources

Introduction

34. The efficient and effective use of resources is critical to achieving Best Value. Councils have significant resources in terms of finance, people and property. It is important that these resources are used in the most effective way to help the council to achieve its objectives and to support the delivery of high quality services

Financial management

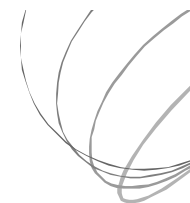
Financial results

35. The budget set for 2008/09 was based on a Band D council tax level of £1,135 with no planned contributions to or from the general fund. In 2008/09, The Moray Council spent a total of £298 million (revenue and capital) on the provision of public services.
36. The council's net operating expenditure in 2008/09 was £198.4 million. This was met by central government grants and local taxation of £187.8 million, resulting in an income and expenditure account deficit of £10.6 million. After taking account of statutory and non statutory adjustments, a general fund deficit of £2.7 million was achieved in the year, which when deducted from the general fund balance brought forward from 2007/08, results in a general fund balance of £9.3 million at 31 March 2009.
37. In his Foreword to the financial statements, the Chief Financial Officer reports that £0.7 million of the £2.7 million deficit was for specific approved projects, and explains the main variances making up the remaining overspend of £2.0 million (1.1% of budget). These include increased costs of caring for looked after children (£0.8 million) and elderly and vulnerable adults (£0.2 million), higher transport costs (£0.3 million) and lower than expected income (£0.6 million). Around £1.2 million of these costs are recurring and will impact on the budget outturn in the current and future years.

Budgetary Control

38. This year, because of the heightened importance of good budgetary control, we paid particular attention to how the council set and managed its budgets. The council has an established approach to policy led budgeting which has informed its recent budgets and four year financial plan. Further work is required, however, to fully integrate financial planning with community planning arrangements for the delivery of the single outcome agreement.

Key risk area 2



39. The Chief Financial Officer is currently investigating why the actual outturn against budget (£2.7 million overspend) was significantly greater than the projected outturn (£0.6 million overspend) reported to the Policy & Resources Committee in February 2009. In particular, he has asked why budget managers did not report significant variances against budget prior to the year end. The results of the review will be used to improve processes for alerting members and senior officers to potential overspends in sufficient time to enable corrective action to be taken.

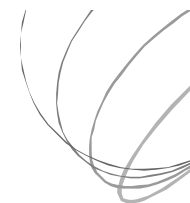
Reserves and balances

40. Table 1 shows the balance in the council's cash backed funds at 31 March 2009 compared to the previous year. Funds held by the council include a repair and renewal fund for financing expenditure incurred in repairing, maintaining, replacing and renewing fixed assets, an insurance fund to be used to meet any uninsured losses in the event of fire damage to school buildings, and a capital receipts reserve to fund future capital expenditure. At 31 March 2009, the council had total funds of £16.5 million, a decrease of £5.5 million on the previous year.

Table 1: Reserves and Funds

Description	31 March 2009 £ Million	31 March 2008 £ Million
General Fund	9.264	11.982
General Fund – Housing Revenue Account Balance	1.041	1.029
Repair and Renewal Fund	2.920	2.575
Capital Fund	-	2.639
Insurance Fund	1.343	1.296
Capital Receipts Reserve	1.954	2.485
	16.522	22.006

41. The council aims to maintain a general fund working balance of £5 million. At 31 March 2009, the council had earmarked amounts totalling £0.1 million and committed a further £2.1 million to specific projects in 2009/10, leaving an unallocated general fund balance of £7.1 million which is £2.1 million in excess of its £5 million target. This additional flexibility is likely to be needed in the short to medium term to address the recent flooding in Moray and other significant financial pressures facing the council in the years ahead. These are discussed in the financial planning section below.



Pension liabilities

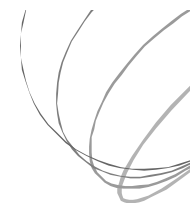
42. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. The council's estimated pension liabilities at 31 March 2009 exceeded its share of the assets in the Aberdeen City Council Pension Fund by £75 million, increasing from £63 million in the previous year. Based on the latest full actuarial valuation of the fund, the actuary has recommended that the council's contributions should be 19.1%, 19.2% and 19.3% of pensionable pay in 2009/10, 2010/11 and 2011/12 respectively.

Group balances and going concern

43. The widening diversity of service delivery vehicles used by local authorities means that group accounts are required to give a true and fair view of all council activities. The overall effect of inclusion of all of the council's subsidiaries and associates on the group balance sheet is to reduce net assets by £74.6 million, mainly due to the inclusion of Joint Board pension liabilities. All group bodies' accounts were, however, prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.
44. The council has an obligation to meet a proportion of the expenditure of the Joint Boards of which it is a constituent member. All of these boards (Grampian Joint Police Board, Grampian Joint Fire and Rescue Board and Grampian Valuation Joint Board) had an excess of liabilities over assets at 31 March 2009 due to the accrual of pension liabilities. In total these deficits amounted to £544.9 million, with the council's group share being £87.9 million.

Capital performance 2008/09

45. The council's prudential indicators for 2008/09 were set in March 2008. Capital expenditure in 2008/09 totalled £36.5million, an increase of £13.6 million compared with 2007/08. The main reason for the increase is due to increased expenditure on the council's flood alleviation schemes.
46. The capital programme experienced slippage of £5.3 million during 2008/09, representing 13% of the planned programme. This was mainly due to delays in the flood alleviation schemes (£3 million), and the roads and transport (£0.5 million) and schools (£1 million) programmes. All of this slippage has been added to the 2009/10 capital programme.



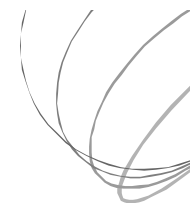
47. The trend in capital investment and sources of funds is reflected in Table 2.

Table 2: Sources of finance for capital expenditure 2006/09

	2006/07 Actual £M	2007/08 Actual £M	2008/09 Actual £M
Borrowing	9.2	5.2	12.6
Sale of Assets	2.8	3.6	3.5
Government Grants/Other	8.1	9.2	17.7
Capital Fund	5.4	4.9	2.7
Total	25.5	22.9	36.5

Financial planning

48. The council continues to face significant financial pressures in 2009/10 including increasing demand for community care services and out of area placements, reduced income from planning fees and building warrants and the council tax freeze agreed between the Scottish Government and COSLA.
49. The latest monitoring report for 2009/10 projects an overspend of £2 million against budgeted expenditure of £195 million at 31 March 2010. In order to address this overspend, the council has agreed to only incur expenditure essential to direct service delivery for the remainder of the financial year. The council acknowledges that this approach is unsustainable and that members will need to consider reducing services combined with a strong focus on delivering efficiency savings.
50. In addition to this projected overspend, the council faces additional financial pressures as a result of the recent flooding within Moray. Initial estimates of the costs of responding to this incident are between £1.8 and £2.7 million. The council has applied to the Scottish Government for funding under the Bellwin Scheme but even if approved this will only cover a proportion of the costs involved. Application has also been made for a capital grant to replace the bridge swept away by the floods. The council has yet to receive a response to these applications.
51. When the council approved its four year financial plan to 31 March 2012, in May 2008, savings of around £3 million were required over the four year period. In September 2009, the Chief Financial Officer advised members that, given the substantial reduction in grant funding expected over the next four years, he now estimated that the council would need to make savings of around £5 million in 2010/11, followed by three years of further savings in the order of £15 million. In order to achieve this level of savings the council will need to significantly reduce the level of services it currently provides. The council will shortly begin a public consultation exercise on its proposals for making these cuts.

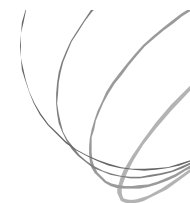


52. The change in government funding available for the council's flood alleviation schemes continues to put pressure on its capital programme with the council facing a £25 million shortfall in funding for the period to 31 March 2011. Beyond 2010/11, the position will remain uncertain until the Scottish Government announces its next financial settlement in 2010. The council estimates that if capital grant levels remain the same as the current settlement, additional annual savings would be required to fund additional borrowing of up to £41 million. The impact of construction industry inflation on the future costs of the council's capital projects, including the schools public private partnership project, will further impact on the projected shortfall in funding and increase the pressure on the council's budgets.
53. The council launched its 'Designing Better Services' project in March 2008. This project aims to identify opportunities to simplify, standardise and share processes in order to deliver service improvements and release financial efficiencies. The initial phase, completed in November 2008 identified a programme for change that could potentially deliver annual revenue savings of £4.4 million. Phase two, the design stage is now underway with six approved themes being investigated in detail. This process involves review of the options to establish a proposal for detailed design and the production of full business cases as to how these could be implemented. The council approved the implementation of the first business case, on procurement, in September 2009.

Key risk area 3

Treasury management

54. The crisis in the banking sector and the collapse of Icelandic banks, including Landsbanki, prompted the council to review its treasury management practices during 2008/09. The council has reduced investment risk by increasing the investment rating criteria for its approved list of counterparties. As a result, surplus funds are now only placed with certain UK banks, certain UK building societies, UK Local Authorities and Supranational bodies e.g. the European Investment Bank.
55. In addition, the council has reduced the amount of temporary investments it holds from £21.7 million at 31 March 2008 to £7.6 million at 31 March 2009. These funds have been used to repay £4.3 million of outstanding loans and fund capital expenditure during 2008/09. As a result, the council did not undertake any new long term borrowing during 2008/09 and achieved an annual net saving of £0.115 million from the early redemption of its loan.
56. The current economic climate means that borrowing rates are low. The council has a significant proportion of its debt at fixed rates and so its average cost of borrowing is 5.69%. As all of the council's borrowing is for periods in excess of 10 years, the council took the decision to borrow the majority at fixed rates in order to manage its exposure to increases in variable rate interest rates.



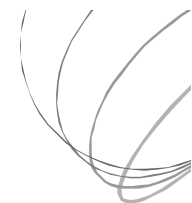
People management

57. The Moray Council faces particular challenges with regard to its workforce especially given its remote, rural location and the limited employment opportunities available for potential employees' partners. Generally there is a need to 'sell' the area as well as the post to attract potential candidates. Workforce planning is one of the six themes making up the council's ambitious modernisation programme, 'Moray Performs' (refer to paragraphs 110 and 111 for more details).
58. The council implemented its single status agreement in December 2006 and settled the majority of its equal pay claims in 2006/07. As at 31 March 2009, all single status appeals had been settled with 172 equal pay appeals still outstanding. Little progress has been made with these during 2008/09 due to conflicting judgements from Employment Tribunal 'test cases'. Until the legal position is resolved, there is risk that further equal pay claims may materialise. Although the council has set aside funds to deal with existing claims, these may not be sufficient to settle any future claims received. Additional costs will need to be funded from reserves which are already under pressure due to the current economic downturn.
59. In April 2008, the council approved a Corporate Workforce Plan for 2008/09 to address issues identified through previous years' data gathering and the 2006 employee survey. The plan covers the period to 2012 and includes actions to address the issues under three topics: workforce profile, recruitment and retention, and forward planning.
60. An overarching workforce strategy has recently been approved to focus and prioritise the required work. Revisions have also been made to the workforce plan to reflect progress with the 'Moray Performs' project, increasing the focus on corporate working, performance management, delivery of results and succession/exit planning. The changes required under the council's modernisation programme are wide ranging and will impact on the majority of council services. Employees and their managers will require to be supported through the change management process if the benefits required from the programme are to be achieved.

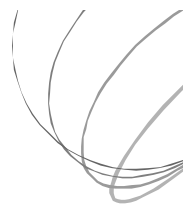
Key risk area 4

Asset management

61. Effective management of council assets helps the council achieve its objectives and get best value from its investment in property. Effective management benefits service delivery by making council buildings work better for staff and service users now and in the future. It also reduces the opportunity cost of money locked up in surplus property and reduces the council's carbon footprint. Asset management is one of the key areas being addressed under the 'Designing Better Services' theme of the council's modernisation programme, Moray Performs.



62. As part of the national study programme Audit Scotland evaluated the extent to which councils manage their property assets to ensure effective service provision and achieve value for money. The resulting report, *Asset management in local government*, concluded that strategic management was not well developed in the majority of councils. For Scottish councils as a whole, over a quarter of all properties were in poor condition and slightly less than that were not suitable for the services being delivered from them. More than half of Scottish councils did not have an approved corporate asset management strategy.
63. The council approved its first Corporate Asset Management Plan in September 2008. The plan acknowledged that asset management planning is an evolving process across the council with plans for different types of assets at various stages of preparation, and set out the actions required to develop asset management planning processes and additional performance measures.
64. Performance measures for the council's operational property portfolio were reported to its Policy & Resources Committee in December 2008. A mixture of statutory and local performance indicators were used to compare the 2007/08 position with the baseline established for 2006/07 under the following headings: property costs (revenue expenditure), condition, suitability, sustainability, accessibility and sufficiency. Performance against the relevant Single Outcome Agreement commitments was also reported
65. Progress against the 2008/09 Corporate Asset Management Plan was reported to council in June 2009, together with the findings from the national study. The report highlights that the condition of the council's buildings is in line with the Scottish average, whilst their suitability is better than average at 86%. Plans are in place to address these issues through increased planned maintenance and investment in the schools estate. A key element of this investment is the public private partnership project for two new schools. Final tenders for designing, building, financing and operating the new facilities were received in October 2009, and are currently being evaluated.
66. The Corporate Asset Management Plan 2009/10 sets out the asset management planning actions to be undertaken in the current year, including those required to address the key findings of the national study. A major part of the 2009/10 plan involves progressing proposals, agreed as part of the council's modernisation programme, to relocate to a new more cost effective office building. In addition to improving the suitability of the office accommodation available for its staff, the council estimates that relocation will reduce the present value of its operating costs over the next twenty-five years from £24.7 million to £21.0 million.



67. Data held about council tax payers and service users requires to be managed in the same way as physical assets held by the council. Data handling and security have received increased public and media attention recently as a result of a number of national incidents relating to lost data. During 2008/09, we reviewed the council's arrangements for data handling and security and concluded that, although the council has many aspects of an effective information security management system in place, more needs to be done. In particular, the council needs to increase awareness of data handling and security throughout the organisation; complete the encryption of portable devices and guidelines for staff working 'on the move' and from their homes; and develop information security procedures as set out in the information security policy.

Key risk area 4

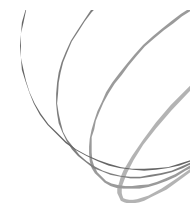
Procurement

68. Local authorities spend significant sums of money annually on purchasing goods and services and as part of the efficient government initiative, the Scottish Government anticipated that scope existed for significant financial savings through improved procurement procedures and practices. The McClelland report on procurement published in March 2006 confirmed that significant savings were possible but concluded that public sector procurement processes still had weaknesses in resources, skills, organisational structures and practices.

69. In response to the McClelland report the Scottish Government introduced the Public Procurement Reform Programme (the Programme) in April 2006. In July 2009, Audit Scotland reported the extent to which the Programme had progressed nationally. The report, *Strategic Procurement*, concluded that while some significant steps had been made, more work was required before the Programme could achieve its full potential:

- there was no systematic basis for reporting savings directly attributable to the Programme.
- savings from collaborative contracts are being achieved more slowly than expected.
- there are wide variations in the quality of purchasing data, practice and skill levels.

70. Procurement is one of the key areas being addressed under the 'Designing Better Services' theme of the council's modernisation programme, Moray Performs. The council continued to improve its procurement practices during 2008/09, including development of an e-procurement system which links with the council's existing financial management system. The new system, which is currently being rolled out to Services, is expected to provide secure access to suppliers, realise economies of scale by focusing common spend on single suppliers, improve service delivery through improved communication and reduce the volume of paper processed and stored. Performance measures for procurement have also been established to enable efficiency savings to be measured.



71. The council is a member of Scotland Excel and continues to review national contracts to ascertain whether they provide best value for the council. Recurring savings of £0.7 million were generated during 2008/09, from these national contracts and review of block contracts for childcare services and learning disability housing support services.
72. The Procurement Team's contribution to the Procurement Reform Programme was recognised by the Scottish Government in a letter from the Scottish Procurement Directorate in April 2009. The letter thanks the team for their active support of Procurement Scotland and highlights the Directorate's plans to use the council's training programme for authorised procurers as the basis for developing training materials to be used throughout the public sector.
73. Following an appraisal of a range of options designed to improve procurement practices, the council has recently approved the establishment of a centralised procurement function in order to rationalise the number of teams involved in procurement and thus to secure efficiency savings and service improvements. Savings of £1.1 million are predicted from year 3 onwards as a result of reduced staffing and keener prices from national contacts.
74. Audit Scotland recently surveyed Scottish local authorities to establish the nature of information held by councils on procurement processes, obtain information on key procurement statistics and establish if individual councils have plans in place to implement the key recommendations from the McClelland report. The council's response demonstrated a good awareness of procurement issues and that plans are in place to address the findings of the McClelland report.

Key risk area 4

Shared services

75. In the *Overview of the local authority audits 2008* report, the Accounts Commission commented on the lack of progress in developing shared services and recommended that councils should give this high priority in the light of current financial pressures and the drive for efficiency.
76. The Moray Council is committed to developing shared services with its neighbouring authorities and has taken the lead in progressing the North of Scotland Local Authorities (NOSLA) shared financial services project. External consultants have concluded that creating a shared revenues and benefits service for seven councils across the North of Scotland is feasible; although substantial investment of around £6 million will be required. Annual savings are estimated at £3.7 million following a payback period of around 4.5 years. Five of the seven councils have recently agreed to submit a bid to the Scottish Government seeking a financial contribution towards the costs of the next stage of the project (detailed design and implementation). We will continue to track the progress of this project throughout the remainder of our audit appointment.



Outlook

77. Clearly we are in a period of reduced economic growth with big implications for the council's resources and the demand for services. The council needs to remain alert to the impact of the recession on the community it serves and what that means for its own objectives and services. At the same time as the council tries to support its local economy and provide best value services, it is likely to face a reduction in resources.



Governance and accountability

Introduction

78. We believe that an effective council is committed to high standards of probity and can demonstrate high standards of governance and accountability. It has effective political and managerial structures and processes to govern decision-making and the exercise of authority within the organisation, supported by mature and effective relationships between members and officers.

Overall arrangements

79. Corporate governance is about direction and control of organisations. Councils are large complex organisations and so good governance is critically important. The council has acknowledged that it needs to improve the corporate governance arrangements in place both within the council and within the community planning partnership. As part of the 'Moray Performs' project, work is ongoing to develop joint governance and scrutiny arrangements for the council and its community planning partners in the following areas:

- **The focus of governance: vision and outcomes for Moray** – ensure that the community planning partnership is underpinned by a common vision and understanding of the outcomes for Moray that is understood and agreed by all partners
- **Working effectively in clearly defined functions and roles** – set out a clear statement of the respective roles and responsibilities of members, senior officers and staff
- **Promoting and demonstrating the values of good governance** – ensure that expected standards of conduct and behaviour are clearly defined and communicated through codes of conduct, protocols and management standards
- **Taking informed, transparent decisions** – ensure that those making decisions, whether for the council or the partnership, are provided with information that is fit for purpose, relevant, timely and gives clear explanations of technical issues and their implications. Risk management is embedded into the culture of the partnership with members and officers recognising that risk management is part of their job
- **Developing member and officer capacity and capability** – ensure that members and officers have the skills, knowledge, experience and resources they need to perform their roles
- **Engaging the community and other stakeholders in demonstrating accountability** – ensure effective engagement with local people and all local stakeholders including partnerships



- **Effective partnerships: working with external organisations** – review reasons for supporting existing external organisations, the benefits and links with the council’s objectives. Ensure members who represent the council on these bodies know their role and responsibilities and are adequately supported
- **Delivery of high quality services** – ensure that users receive a high quality of service, whether directly or in partnership, or by commissioning
- **Making best use of resources** – ensure that best use is made of resources
- **Developing citizenship and local democracy** – encourage a wide range of people to stand for election and apply for appointed positions. Encourage all sectors of the community to engage with, contribute to and participate in the work of the council and its partners

80. This is an ambitious programme of work and will take some time to complete. Without effective governance arrangements, there is a risk that the council and its partners will fail to deliver the outcomes set out in the Moray single outcome agreement.

Key risk area 4

81. As part of this process, the council has assessed its own arrangements against the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government* and concluded that ‘Good governance is evident in many elements of the council’s management arrangements. The wider obligations from the single outcome agreement and the need for transformational change to address likely financial pressures will bring new governance challenges to the council and its partners’. An action plan has been developed to address areas for improvement over the next two years.

Audit & Performance Review Committee

82. Effective scrutiny is central to good governance, with a significant role for members in scrutinising performance, holding management to account on service delivery and supporting the reform and modernisation agenda.

83. The Audit and Performance Review Committee meets regularly to receive reports from internal and external audit and scrutinise performance. During 2008/09, its remit was extended to include monitoring of progress against the targets and performance indicators included in the single outcome agreement.

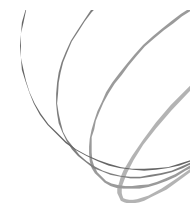


84. Last year, we reviewed the committee's effectiveness against CIPFA's guidance note '*Audit Committee Principles in Local Authorities in Scotland*' and concluded that, overall, the committee complies with the expectations set out in CIPFA's guidance note. In order to achieve full compliance, the committee requires to:
- introduce a mechanism to ensure that internal and external audit recommendations are implemented.
 - ensure that the reports from Audit Scotland's national study programme are considered and the council's existing arrangements reviewed in light of the recommendations and best practice reported.
 - have formal procedures in place for the selection of the Chair including the best practice expectation that the position be held by a member independent of the council's administration. Currently, both the Chair and Deputy Chair are independent of the council's administration.
 - consider members' training needs and the skills they require to effectively serve on the committee. Given the key role played by the committee in the council's governance and scrutiny arrangements, consideration should be given to making key training mandatory for all members.
85. With effect from 2009/10, we are required to present our ISA260 '*Communication of audit matters to those charged with governance*' to the committee for their consideration before we sign the auditor's opinion on the financial statements. As part of the planning process for 2009/10, we will discuss the implications of this new requirement on our audit timetable with the Corporate Management Team and agree an appropriate date for the committee to receive our report.

Key risk area 5

Member training

86. The Accounts Commission recommends that councils give priority to the continuous professional development of their members. In addition, the council's 2008 Best Value progress report highlighted that elected members need to see the importance of continuous personal development if they are to be better equipped to provide the strategic leadership required to manage the council effectively. In particular, the report noted that elected members need to do more to demonstrate consistent strategic leadership and develop their role in all of the council's corporate affairs.
87. The council recently reviewed its existing statement of the roles and responsibilities of elected members and confirmed that it reflects the current modernisation agenda. In order to support members in their role, a programme of training is currently being developed covering the following key competencies: Political leadership – providing vision; Community leadership; Communication skills; and Working in partnership. All members have a personal development plan in place and have recently agreed to complete a record card for all personal training and development undertaken.



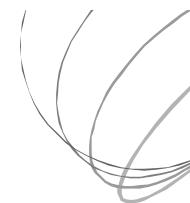
Internal audit

88. Internal audit plays a key role in the council's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. Each year we review the council's internal audit arrangements against CIPFA's revised Code of Practice for Internal Audit in Local Government 2006. Our review concluded that Internal Audit complied with the majority of the code during 2008/09.
89. Auditing standards encourage internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible. As part of our 2008/09 fee negotiations we agreed that internal audit would undertake the testing required to enable us to express an opinion on the financial statements for the following systems: payroll, accounts payable, non domestic rates, housing rents and housing and council tax benefits systems.
90. Our review of internal audit's work in these areas concluded that we could take partial reliance from the work undertaken. Before we can take full reliance from internal audit's work in an area we need them to test all of the key controls we rely on for our opinion audit using the sample sizes set out in our Audit Guide. We have provided internal audit with an extract from our Audit Guide setting out the minimum sample sizes required. The list of key controls we require to test each year has recently been updated and we will share this with internal audit as part of our 2009/10 planning process. We will continue to work with internal audit to ensure that we make the most effective use of our limited audit resources.

Key risk area 6

Systems of internal control

91. In his 2008/09 Annual Report the Team Leader (Internal Audit) provided his opinion that, based on the internal audit work undertaken during the year, reasonable assurance can be given on the adequacy and effectiveness of the council's control environment during the year to 31 March 2009.
92. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on a number of the council's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:
- budgetary control
 - accounts receivable
 - cash income and banking
 - main accounting system
 - council tax



Prevention and detection of fraud and irregularities

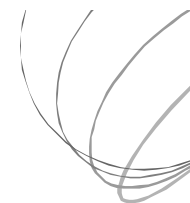
93. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy and response plan; a whistle blowing policy; codes of conduct for elected members and staff; and defined remits for relevant regulatory committees.

NFI in Scotland

94. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings for Scottish public bodies (£40 million to 2008). If fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.
95. The most recent data matching exercise was carried out in October 2008. The council has again responded positively to NFI and has made good progress in following up the recommended matches. All matches relating to Housing Benefit have been reviewed, although some investigations are still ongoing. From this work, the council has identified nine frauds, twenty four errors and overpayments totalling £63,000 as at September 2009.
96. There are a number of areas, however, where the council has yet to make a start on reviewing the recommended matches, including those relating to Blue Badges. The council needs to ensure that it reviews these matches in order to make the most of the NFI exercise for the detection and prevention of fraud. We will continue to monitor the council's involvement in NFI as part of the 2009/10 audit. National findings will be published by Audit Scotland in May 2010.

Housing Benefit

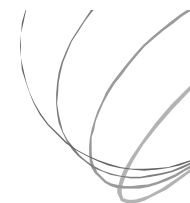
97. From April 2008, Audit Scotland took over inspecting the housing and council tax benefit functions from the Benefit Fraud Inspectorate in Scotland. All councils' benefits services are being risk assessed by a specialist team of Audit Scotland staff over a two year period.



98. In July 2009, the findings from the risk assessment of the council's benefits service were reported to the Chief Executive and management team. The report concluded that the council:
- is committed to delivering a quality benefits service and paying accurate benefit to its customers
 - has a range of policies and strategies in place to support its aims and objectives
 - has formalised its approach to ensuring the accuracy and security of its caseload in its Quality Performance Strategy. All daily accuracy checks are carried out before a payment or benefit notification is issued to the customer which reduces the fraud and error in the caseload, and the amount of any resultant overpayments
 - has a recovery strategy in place for the recovery of housing benefit overpayments, but that this only applies to overpayments to private tenants. As a result, there is limited assurance that all customers are being treated equally regardless of tenure type
 - has appointed a Customer Service Analyst to review performance and develop customer services such as promoting benefits take-up, surveying customers, and developing on-line forms. To facilitate further improvement, the council needs to extend its planning process to include a full range of challenging targets/indicators for all performance areas and monitor performance against these
99. The council has developed an action plan in response to the risks identified in the report. Progress against this action plan will be reviewed as part of the next round of inspections which are due to start in 2010.

Partnership working and community engagement

100. Many council services are planned and delivered in partnership with other public, private and voluntary organisations, community groups and forums. These partnerships are of particular importance in tackling complex or cross-cutting issues. In addition, the council has a formal duty to initiate, facilitate and maintain a community planning process and ensure effective leadership within the Community Planning Partnership.
101. The council has well developed community planning structures and there is evidence of effective partnership working with, for example, the voluntary sector in improving the well-being of vulnerable children and their families. More work is required, however, to develop a register of all partnership working arrangements and assess their contribution to the delivery of the outcomes included in the single outcome agreement. This is being taken forward through the corporate governance theme of the 'Moray Performs' project.



102. In February 2009 the council received a critical inspection report setting out the findings from a joint inspection of services to protect children and young people in the Moray Council area. The inspection found significant weaknesses in some key areas and highlighted the need to improve the effectiveness of the North East of Scotland Child Protection Committee. The importance of undertaking rigorous risk assessments, using appropriate legal measures, and effectively sharing information between partners was stressed. HMIE has recently published a follow up report on progress made in implementing the action plan resulting from their initial report. The report concludes that 'overall, encouraging progress has been made in a short time in tackling concerns raised in the initial inspection report'. A further follow up will be undertaken by HMIE inspectors in 2010.
103. There is a lack of affordable local housing in Moray and an increasing number of complex problems associated with homelessness. The council did not achieve its target in 4 out of 5 of its 2008/09 homelessness performance indicators. In addition, the council received a report from the Scottish Housing Regulator during 2008/09, which graded its homelessness service as 'fair'. Key areas identified as requiring attention were a heavy reliance on bed and breakfast accommodation, the length of time taken to secure permanent accommodation for homeless people, and the need to manage temporary accommodation better. Although steps are being taken to address these areas through the Homelessness Improvement Plan agreed with the Regulator, there is a risk that the council and its partners will be unable to provide the level of service necessary to meet demand and comply with legislation on homelessness.

Key risk area 7

104. The council is committed to community engagement and has had a Consultation and Engagement Strategy in place since 2007. A Community Support Unit has recently been established to provide support to and capacity building for area forums, community councils, community associations and other community groups. The Community Planning Partnership is one of ten pilots for the national "Better Community Engagement" programme. A steering group, consisting of community and voluntary organisations reporting to the Partnership's Community Engagement Group, is currently developing a programme of training on community engagement for partners.

Outlook

105. Partnership working is critical to the council's success. We are developing our approach to the audit of partnerships through the new approach to best value and, in future, shall increasingly be looking at the contribution of partners as well as the council's own contribution to the delivery of outcomes. We expect to see further developments in clarifying accountability, governance and public performance reporting in 2010/11.



Performance management and improvement

Introduction

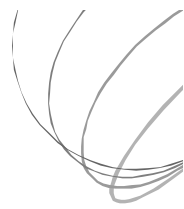
106. We believe that an effective council has a clear and ambitious vision for what it wants to achieve for its communities. The vision is effectively promoted by the member and officer leadership of the council and supported by staff and partners. It is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery.

107. An effective council has a performance management culture which is embedded throughout the organisation, and a comprehensive performance management framework which is integrated with service planning and delivery. The council is able to demonstrate significantly improved outcomes for citizens and more effective and efficient services because of its performance management arrangements. The council's public performance reporting clearly sets out service standards, and is balanced in its presentation of the council's strengths, weaknesses and challenges for the future.

Vision and Strategic Direction

108. In December 2007, the council published its priorities for 2008 – 2011. These are to:

- protect communities across Moray and lobby the government to provide maximum funding for flood alleviation schemes and to simplify flooding legislation
- improve levels of achievement and attainments in Moray schools
- develop modern care services for older people and allow people to be cared for in their own homes for as long as possible
- make Moray safer and improve road safety, reduce anti-social behaviour and lessen the impact that the drink culture has on communities
- work with the public and private sectors to maximise the number of affordable homes to rent and buy in Moray
- encourage residential and commercial development in rural communities
- support and lobby for an Elgin bypass and improve the roads infrastructure in Elgin in order to alleviate traffic congestion
- support and promote economic development in Moray and support the sustainable growth and development of the tourism industry.



109. Moray's single outcome agreement (SOA) for 2009/10 was developed from the key partnership strategy documents already in place including the council's priorities, the community plan 2006-2010 and the 2008/09 SOA. The Community Planning Partnership approved the 2009/10 SOA in May 2009. Last year we commented that the council needed to do more to improve the linkages between the various planning documents so it was clear how delivery of the council's priorities and the national outcomes would be achieved. This year, the council has introduced a template for its Service Improvement Plans which aims to do just that. Our review of the 2009/10 Service Improvement Plans confirms that there are clear links between the individual service actions, the council's priorities and the national outcomes.

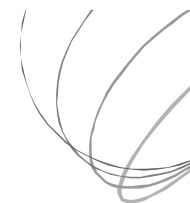
110. In 2008, the council approved an ambitious modernisation programme, 'Moray Performs', based on the 'Virginia Performs' model used by the Scottish Government. The programme is being developed under the following six key themes:

- community planning and the single outcome agreement
- performance management framework
- public service improvement framework
- workforce planning
- designing better services
- corporate governance arrangements.

111. A member of the Corporate Management Team has taken responsibility for each of the themes and an officer/member project board has been set up to monitor progress. More information on the individual themes is included within the use of resources, governance and accountability and performance management and improvement sections of this report.

112. The council has a number of other significant projects underway, such as the major programme for flood alleviation and proposals to build two new schools through a public private partnership scheme. Inevitably, any significant change carries with it risks that expected benefits are not delivered, or that they are only delivered at greater time and cost. Although the council has increased its capacity to deliver change through the appointment of an additional two project managers, the introduction of the single outcome agreement and 'Moray Performs' programme will continue to stretch the council's capacity to deliver all of its planned projects at the pace required. A focus on major change projects is also likely to limit the ability of individuals to manage 'business as usual'.

Key risk area 4

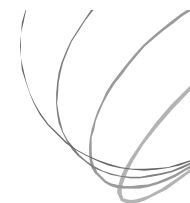


Performance management

113. The council has made significant progress in developing its performance management framework in recent years. Investment in performance management software has enabled performance information to be monitored, analysed and reported in a number of different ways. Quarterly performance reports are submitted to service committees and the Audit & Performance Review Committee with 'traffic light' indicators highlighting good and poor performance, and additional narrative providing explanations and planned actions to address poor performance.

114. A revised performance management framework, developed as part of the 'Moray Performs' modernisation programme, was approved in July 2009. The new framework aims to reflect the council's service reporting and scrutiny needs in response to the single outcome agreement (SOA), Best Value 2 audit requirements and the change in approach to the reporting of statutory performance indicators with effect from 2009/10 (see paragraph 124 for details). There are seven elements to the revised framework:

- **SOA Local Delivery Action Plans** – key actions within the local outcomes are to be developed, ensuring targets are SMART and measurable milestones are set. Performance information will be reported to the Full Council and the Audit & Performance Review Committee.
- **Service Outcomes** – will measure the impact on the community of the activities of the service over a number of years. Indicators for all services are to be developed. Information will be reported to the relevant service committee.
- **Service Standards** – these are a minimum standard set externally through statute or similar or set by the council itself, to which a customer is entitled and below which service delivery must not fall. Information will be reported to the relevant service committee.
- **Service Improvement Plans** – existing arrangements for approval and monitoring by service committees will continue. Information will be reported to the relevant service committee.
- **External Inspections** – existing arrangements for approval and monitoring to service committees are to continue. Information will be reported to the relevant service committee as required.
- **Statutory Performance Indicators** – these are to be reviewed in line with the national Direction. Information will be reported to the relevant service committee.
- **Other statistical data** – data provided to committees is to be reviewed to ensure relevance. Information will be reported to the relevant service committee where the information does not fall under one of the previous categories.



115. The introduction of the new framework requires a change to the current performance reporting arrangements. Service committees will only receive high level information focusing on the work of the service. Management information will still be collected but not routinely reported to committee. In addition, the Audit & Performance Review Committee will focus on the scrutiny of the SOA and the key service outcomes which link to actions in the community plan, corporate plan and service improvement plans. Service performance information will no longer be reported to the Audit & Performance Review Committee. The effectiveness of these arrangements will be crucial to demonstrating that community outcomes are being achieved. We will review the implementation of the revised performance management framework as part of our 2009/10 audit.
116. As part of the 'Moray Performs' project, the council has adopted the Public Service Improvement Framework self-assessment tool which requires the council to systematically and comprehensively review its activities in order to identify its strengths and areas for improvement. Following successful pilots within the Corporate Policy Unit and Development Services, the council plans to review all of its remaining services over the next year. The delivery of the resulting service improvement action plans will be critical to the council's drive for continuous improvement and its ability to deliver the national outcomes set out in the single outcome agreement.

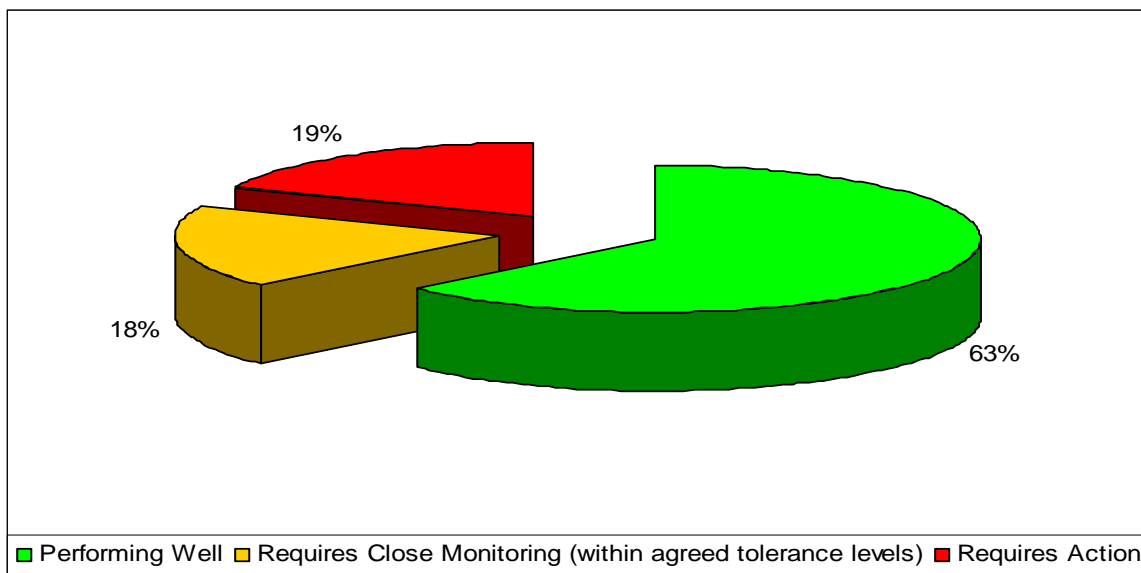
Key risk area 4

Overview of performance in 2008/09

117. Reports on service performance indicators are reported quarterly to service committees and the Audit & Performance Review Committee. A summary of the four quarters was reported to the Audit & Performance Review Committee in August 2009. Using a 'traffic light' system, this report sets out, for each service, the number of performance indicators that were performing well (green), require close monitoring (amber), and require action (red). The following chart summarises the council's performance against its 2008/09 performance indicators.



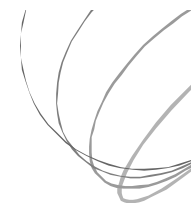
Chart 1: Summary of the council's performance indicators 2008/09



118. Although the number of indicators varies between quarters, the overall performance is broadly static, with between 62% and 65% of indicators performing well, between 17% and 20% requiring close monitoring, and between 15% and 21% requiring action. Within individual services, however, the picture is more mixed. For example, Planning and Regulatory Services showed significant improvement between quarters 1 and 4, whilst the percentage of Community Care and Criminal Justice indicators categorised as performing well slipped from 70% in quarter 1 to 57% in quarter 4.

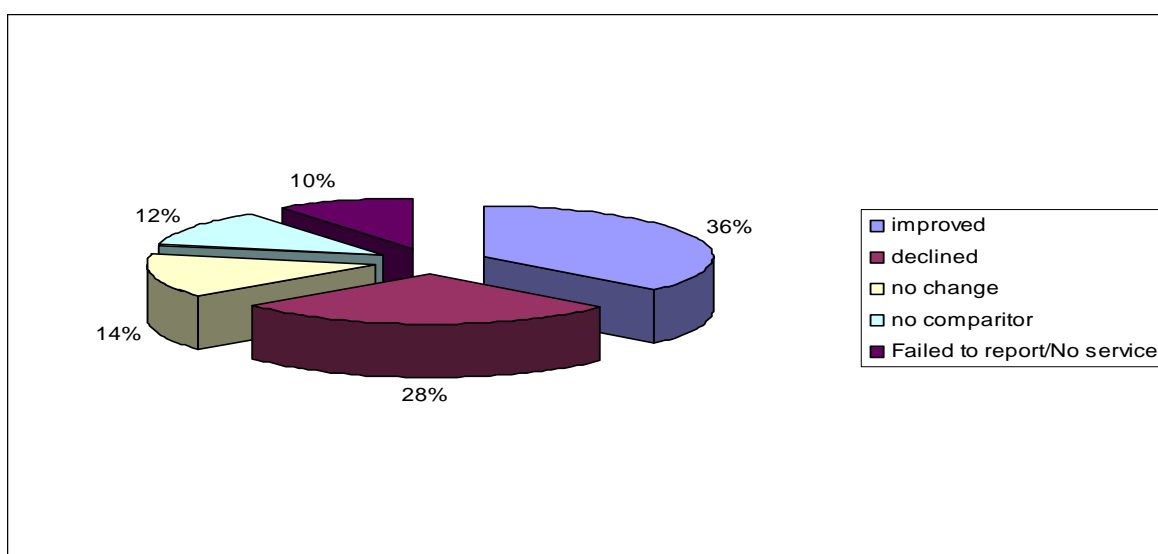
Statutory performance indicators

119. Another way of measuring council performance is through the statutory performance indicators (SPIs). These provide a consistent form of measurement for councils to review their performance over time and to make comparisons with other councils. Historically, The Moray Council is one of the better performers in national comparisons with over 40% of its SPIs in the upper quartile, although performance varies across the organisation. The most recent national comparison (2007/08 data) shows that the council has 38% of its SPIs in the upper quartile.



120. In 2008/09, the council saw an improvement in 36% of its reported indicators whilst performance in a further 28% declined. The council is no longer required to report the majority of these declined indicators under the new approach to SPIs (see paragraph 124 for details of the new approach).

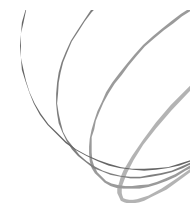
Chart 2: Changes in SPIs between 2007/08 and 2008/09



121. Each year we review the council's arrangements for preparing the SPIs and assess the reliability of the resulting indicators. We place reliance on Internal Audit's work in this area. Last year we raised our concerns about the quality of some of the working papers provided to support the SPIs and highlighted that Internal Audit had prepared a report, including an agreed action plan, to improve the procedures in place for the preparation of SPIs in future years. Despite this, the quality of working papers provided to support the 2008/09 SPIs remained variable. Internal Audit has recently submitted a report on their review of the 2008/09 SPIs to the Audit & Performance Review Committee.

122. Two indicators (learning centre and learning access point users and street cleanliness) were classified as unreliable compared with two (social enquiry reports and domestic noise complaints) in 2007/08. In addition, the council failed to report 3 indicators (social enquiry reports, gross administration cost of a benefits case and traffic light repairs).

123. The council publishes an annual Performance Indicators Public Performance Report which summarises SPI performance against the previous year and analyses how many have improved and declined by more than 15%. As noted at paragraph 113, performance information is monitored quarterly at service committees and action taken to address areas of poor performance.



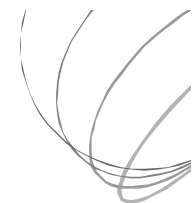
124. The approach to the SPIs is changing with effect from 2009/10. The Accounts Commission has specified 25 indicators, and asked councils to report a range of local performance indicators demonstrating that they are securing Best Value across a number of corporate management and service performance categories. It is essential that the council revisits its arrangements for ensuring that published performance information is, as far as is practicable, accurate and complete. In particular, all officers involved in the collection, checking and reporting of performance information should be made fully aware of their responsibilities and the contents of the SPI Guidance issued by Audit Scotland.

Key risk area 8

Public performance reporting

125. The council's annual public performance report was published in October 2009 providing information on performance against the Scottish Government's five strategic objectives which form the basis of Moray Community Planning Partnership's single outcome agreement. The report provides a balanced view of the council's achievements during the year. Key areas highlighted include:

- flood alleviation schemes continue to progress with the Forres scheme now complete, the Rothes scheme on course for completion in December 2010, and the River Findhorn and Pilmuir scheme at the detailed design stage. Work on the Elgin scheme is also at the design stage with a report expected to be submitted to the Scottish Government by the end of the year. Construction works are scheduled to commence around June 2010 and will take just over three years to complete
- the percentage of young people entering further and higher education rose from 49.1% in 2006/07 to 51.6% in 2007/08, a five year high for the area, although lower than the Scottish average of 56%
- the council recycled 44% of household and business waste in 2008/09 and is consistently one of the top authorities in Scotland for recycling. It is acknowledged that, as the amount of waste produced by households continues to rise, this recycling rate will be difficult to maintain without significant investment in waste treatment alternatives
- in order to meet identified housing needs, 255 affordable houses are required each year for the next five years. In May 2009, the council reached agreements with housing developers to increase the percentage of affordable homes built as part of any new development from 20% to 25%
- a recent survey of Scottish children found Moray has the second highest percentage (6.1%) of children cycling to school.



126. The council continues to develop other approaches to reporting performance information to stakeholders. These include webcasting all committee meetings, displaying community care performance information on television screens at the local hospital and a direct web link to the local newspaper, the Northern Scot. A Moray Performs website has also been developed to inform the public how the Community Planning Partners are performing against their priorities.

Progress on delivery of the best value improvement plan

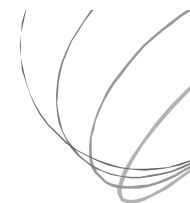
127. The council received a full Best Value review in 2005, with the report published in February 2006. The Accounts Commission requested that the council's progress in implementing its improvement programme be formally reviewed in 2007 and the findings from this work were reported in August 2007. The Commission requested a further progress report on continued improvement in The Moray Council be prepared as at June 2008. The 2008 Best Value progress report was published in February 2009 and concluded that:

The council continues to move in the right direction. It has demonstrated a real willingness to progress the improvement agenda and an increased openness to external advice. Since the last progress report, elected member leadership has improved, clearer priorities have been established and a systematic approach to managing performance is now becoming embedded. A more structured approach is required to manage strategic priorities. There are some areas where further progress needs to be made, including an increased commitment by elected members to their personal development. The council needs to ensure that its progress works through to continuous improvement in services.

128. All of the areas highlighted in the 2008 Best Value progress report are being addressed through the 'Moray Performs' modernisation programme. In particular, members have recognised the need for personal development and have recently approved the development of a training programme on key competencies including political and community leadership; communication skills; and working in partnership. Moray Performs is very much a 'work in progress' and it is too early to tell what impact it will have on the quality of services delivered to the people of Moray.

Risk Management

129. Risk management is an essential component of the governance framework in any well-managed organisation. Councils with mature governance arrangements embrace the concept of risk, recognising that awareness, discussion and management of risk represents strength in their management arrangements.



130. The council continued to develop its risk management arrangements during 2008/09. The risk management policy and strategy were revised in November 2008, and the corporate risk register was updated by the Corporate Management Team in March 2009. In addition, a formal risk management training programme has been developed for nominated service managers, head teachers and staff.

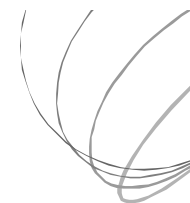
131. More needs to be done, however, to embed risk management throughout the organisation. In particular, processes need to be put in place to demonstrate how the risks identified within risk registers have been addressed through corporate and service planning, and to challenge whether the controls put in place are adequate to mitigate the identified risks. The council needs to ensure that it retains its focus on risk management following the resignation of its Risk Co-ordinator in May 2009.

132. The council's Risk Management Policy applies 'whether services are delivered in-house, through partnership arrangements or contracted out'. A community planning risk register is in place but more work is required to identify and manage the risks associated with the council's involvement in other partnerships. The council had planned to review these during 2008/09 but has delayed this exercise pending receipt of the CIPFA/SOLACE guidance on partnership risk. This guidance is expected to be published by the end of this year.

133. Business continuity planning is a key element of an organisation's risk management arrangements and should minimise disruption to important systems caused by major failures or disasters. Last year we reviewed the council's arrangements for business continuity planning and concluded that little progress had been made since the resignation of the Business Continuity Officer in 2006.

134. Since the appointment of the new Business Continuity Officer in August 2008, the council has addressed a number of the weaknesses in its arrangements for business continuity planning, including preparation of a Corporate Business Continuity Plan. More work is required, however, to develop business continuity plans at a service level, and to test and review their effectiveness.

Key risk area 9



Equality and Diversity

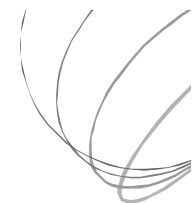
135. In 2008, we published a study examining how councils responded to their race equality duty, *The impact of the race equality duty on council services*. This study found that all councils have developed policies and processes on race equality. A number of initiatives are in place to meet the diverse needs of local communities, such as the provision of interpretation and translation services, and information packs for recent migrants. However, councils lack information about minority ethnic communities, their needs and experiences. Councils are also unable to show how race equality is routinely built into the design and delivery of services.
136. The council considered the findings from the national study as part of a report summarising the impact of the new Equality Bill in August 2009. The report highlights the council needs to produce a Single Equality Scheme covering all seven equality strands (age, disability, gender, gender identity, race, religion or belief, and sexual orientation). Plans are in place to complete this by the end of the year.
137. Work is underway to complete the council's programme of equality impact assessments. Progress has been slower than anticipated and efforts are being made to improve performance in this area. Equality impact assessments are required for all budget decisions, including these currently being considered as part of the council's efforts to balance its four year financial plan. These must be assessed as part of the planning and decision making process and ensure that the impact of budget savings does not fall disproportionately on the more vulnerable and disadvantaged members of society.

Outlook

138. The long term and complex nature of many of the outcome targets within the SOA, pose many challenges for performance management. For example, how can the council tell if its resources are making a difference? We recognise the challenges and whilst we have no plans to audit the outcome progress reports in 2010/11, we will pay attention to the systems The Moray Council has in place to monitor progress and take remedial action.



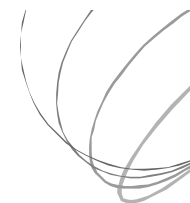
139. We are currently developing our approach to Best Value 2 by working with five pathfinder councils. From April 2010, we shall be rolling out the new approach to all Scottish councils. The timing of the council's best value audit will be determined by a risk assessment which we will report in March 2010. The risk assessment will be carried out in conjunction with other scrutiny bodies. That means that not only will it determine the timing and scope of the Best Value 2 audit of the Moray Council, but it will also identify the timing and scope of other scrutiny work. Along with the other bodies, we intend to publish a scrutiny plan for each council covering all scrutiny activity over a three year period.



Appendix A

External audit reports and audit opinions issued for 2008/09

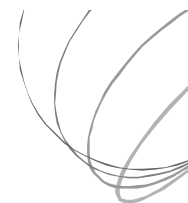
Title of report or opinion	Date of issue	Date submitted to Audit & Performance Review Committee
Annual Audit Plan	30 January 2009	8 April 2009
Strategic Audit Risk Analysis	30 March 2009	5 May 2009
Assurance on Internal Controls 2008 /09	25 June 2009	16 December 2009
Report on financial statements to those charged with governance	16 September 2009	Presented to Chief Financial Officer, Chief Executive and Convener (refer to paragraph 85 for new requirement for 2009/10)
Audit opinion on the 2008/09 financial statements	22 September 2009	16 December 2009 Submitted to Full Council 4 November 2009



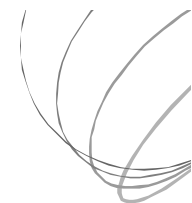
Appendix B: Action Plan

Key Risk Areas and Planned Management Action

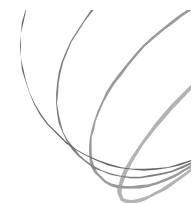
Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	29 & 30	<p>Adoption of International Financial Reporting Standards (IFRS)</p> <p>2009/10 is a key year in the transition to IFRS. Councils are expected to prepare a comparative balance sheet as at 1 April 2009, and are expected to account for PFI projects and prepare their whole of government accounts on an IFRS basis from 2009/10. The council is currently preparing a detailed project plan setting clear milestones for the work required to meet the timescales for adoption of IFRS.</p> <p>Risk: the council will be unable to produce IFRS compliant financial statements within the required timescales.</p>	<p>Information on leases and holiday pay is currently being collated with a view to producing the restated Balance Sheet by January 2010 and also to identify any impact on budgets.</p> <p>The Council's new PPP scheme does not commence until December 2011 and so will have no impact on the restated Balance Sheet.</p> <p>A detailed plan is currently being developed and staff resource will be assigned to individual tasks once the demand for accounting resource for DBS and PPP projects reduces.</p>	<p>Head of Financial Services</p> <p>Head of Financial Services</p>	<p>31 January 2010</p> <p>31 December 2009</p>
2	38	<p>Policy led budgeting</p> <p>The council has an established approach to policy led budgeting which has informed its recent budgets and four year financial plan. Further work is required, however, to fully integrate financial planning with community planning arrangements for the delivery of the single outcome agreement.</p> <p>Risk: the objectives set out in the single outcome agreement will be unrealistic, with insufficient resources available to meet all of their aims.</p>	<p>The single outcome agreement (SOA) priorities were all matched to council activities as part of the 2010/11 budget review papers provided to Councillors.</p> <p>A consultation process is now underway with staff, community groups and community planning partners on the administration Group's savings proposals. The papers for the consultation process include reference to the impact on the SOA.</p> <p>The SOA has been reviewed against the Council's Capital plan and will be reviewed again in light of pressure to reduce capital expenditure in future years.</p>	<p>Chief Financial Officer</p> <p>Chief Executive</p> <p>Chief Financial Officer</p>	<p>Completed October 2009</p> <p>31 December 2009</p> <p>28 February 2010</p>



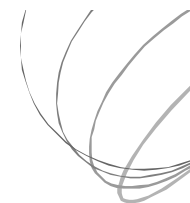
Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	48 to 53	<p>Financial pressures</p> <p>The council is facing significant financial pressures in the next four years. Latest estimates are that savings of around £5 million will be required in 2010/11, followed by three years of further savings totalling £15 million. In order to achieve this level of savings the council will need to significantly reduce the level of services it currently provides</p> <p>Risk: failure to achieve these savings will lead to even greater cuts in local services.</p>	<p>The Council announced a fundamental review of budget allocations in early summer 2009. To date savings of £12 million have been identified for consultation and the Council has formally recognised that further work will need to be done to achieve the anticipated requirement to reduce annual expenditure by £20 million over the next 4 years. The budget for 2010/11 will be considered by Council in February 2010.</p>	Chief Financial Officer	28 February 2010
4	57 to 74 79 & 80 110 to 112 114 to 116	<p>Moray Performs</p> <p>The council is currently progressing an ambitious modernisation programme, 'Moray Performs', based on the 'Virginia Performs' model used by the Scottish Government.</p> <p>The programme is wide ranging and covers many of the areas we comment on in this report, including the SOA, workforce planning, procurement and asset and performance management. In addition, the council has a number of other significant projects underway including the flood alleviation schemes and proposed PPP project.</p> <p>Risks: the council will not have the capacity to deliver all of its planned projects, and continue to manage 'business as usual'. Planned projects do not deliver the expected improvements or efficiency savings.</p>	<p>The Moray Performs programme is being overseen by the Moray Performs Board. The Board is chaired by the Depute Convener and the other members are the Leader of the Opposition and the Corporate Management Team.</p> <p>There is also a sub-committee in place to support the flood alleviation scheme and a Project Board for the Schools PPP project.</p> <p>The Corporate Management Team will continue to monitor progress against all major projects and take appropriate action to manage competition for the finite resources available.</p>	<p>Corporate Management Team</p> <p>Director of Environmental Services</p> <p>Director of Educational Services</p> <p>Corporate Management Team</p>	<p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p>



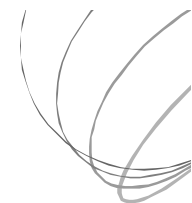
Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	82 to 85	<p>Audit & Performance Review Committee</p> <p>Overall, the committee complies with the expectations set out in CIPFA's guidance note '<i>Audit Committee Principles in Local Authorities in Scotland</i>'. Paragraph 84 sets out what the committee would have to do to achieve full compliance, including:</p> <ul style="list-style-type: none"> ▪ introducing a mechanism to ensure that internal and external audit recommendations are implemented. ▪ ensuring that the reports from Audit Scotland's national study programme are considered and the council's existing arrangements reviewed in light of the recommendations and best practice reported. <p><i>Risk: the remit of the Audit & Performance Review Committee does not fully comply with best practice.</i></p>	<p>The recent changes to performance management and reporting should result in more time becoming available for Audit & Performance Review Committee to deal with audit matters.</p> <p>A standard quarterly report to monitor the completion of agreed actions against internal audit reports will be implemented.</p> <p>The External Audit recommendations will be monitored by the Council after 6 months</p> <p>National reports tend to be provided to Audit & Performance Review Committee. The arrangements for this reporting will be formalised through the Council's Governance arrangements.</p>	<p>Team Leader (Internal Audit)</p> <p>Head of Financial Services</p> <p>Chief Legal Officer</p>	<p>31 January 2010</p> <p>31 May 2010</p> <p>31 May 2010</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
6	88 to 90	<p>Internal Audit</p> <p>We seek to rely on the work of internal audit wherever possible. We planned to rely on internal audit's work in a number of areas as part our 2008/09 financial statements audit.</p> <p>Our review of internal audit's work in these areas concluded that we could take partial reliance from the work undertaken. Before we can take full reliance from internal audit's work in an area we need them to test all of the key controls we rely on for our opinion audit using the sample sizes set out in our Audit Guide.</p> <p>As part of our 2009/10 planning process, we are currently discussing which areas of internal audit's work we will plan to place reliance on for our audit of the 2009/10 financial statements.</p> <p><i>Risk: maximum benefit will not be obtained from limited internal and external audit resources.</i></p>	<p>Internal Audit will work closely with External Audit to ensure testing of key controls accords with their requirements for the audit of the financial statements for 2009/10.</p>	<p>Team Leader (Internal Audit)</p>	<p>Ongoing</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
7	103	<p>Homelessness</p> <p>There is a lack of affordable local housing in Moray and an increasing number of complex problems associated with homelessness. The council did not achieve its target in 4 out of 5 of its 2008/09 homelessness performance indicators. In addition, the council received a report from the Scottish Housing Regulator, in 2008/09, which graded its homelessness service as 'fair'.</p> <p><i>Risk: the council and its partners will be unable to provide the level of service necessary to meet demand and comply with legislation on homelessness.</i></p>	<p>The Council has identified a range of actions to increase the supply of affordable housing to meet identified shortfalls. This includes:</p> <ul style="list-style-type: none"> - close partnership working with RSL's - increase in percentage of affordable housing contributions - initiating a Council new build programme. <p>Following receipt of the Inspection report the council submitted a Homelessness Improvement Plan which was accepted by the Regulator. Progress against the plan is being monitored quarterly and reported to members on a six monthly basis to members in order to minimise the risk that the council does not address the issues raised. The Regulator has asked for a progress report in April 2011.</p>	Chief Housing Officer	Ongoing
8	119 to 124	<p>Statutory performance indicators</p> <p>The quality of working papers provided to support the 2008/09 SPIs remained variable.</p> <p>Two indicators were assessed as unreliable in 2008/09 compared to two in 2007/08. In addition, the council failed to report three indicators.</p> <p>The approach to the SPIs is changing with effect from 2009/10. It is essential that the council revisits its arrangements for ensuring that published performance information is, as far as is practicable, accurate and complete.</p> <p><i>Risk: members and the public may not be provided with complete and accurate performance information.</i></p>	<p>This will be reviewed as part of the data validation referred to below.</p> <p>Three of the five indicators are no longer SPIs in 2009/10. Systems for the remaining two have been revised.</p> <p>A data validation exercise is planned to ensure all services have the necessary systems in place to provide complete and accurate published performance information.</p>	<p>Corporate Policy Unit Manager</p> <p>Chief Financial Officer</p> <p>Corporate Policy Unit Manager</p>	<p>28 February 2010</p> <p>Completed</p> <p>28 February 2010</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
9	130 to 134	<p>Risk management</p> <p>Further work is required to embed risk management throughout the organisation and to demonstrate how the risks identified have been addressed through corporate and service planning. Partnership arrangements for managing risk also require to be reviewed and business continuity plans developed for services.</p> <p><i>Risks: in the absence of a fully embedded process, the council may not have identified or managed all of its key operational risks. The council may not be able to continue to deliver services in the event of system failure.</i></p>	<p>Work is scheduled to assess whether synergies are possible in taking forward risk management and business continuity. This will maximise the opportunities to promote both disciplines with services as part of an on-going programme of work to embed risk management and develop business continuity plans both in the council and, where applicable, with our partners.</p>	<p>Team Leader (Internal Audit) and Head of Direct Services</p>	<p>Ongoing</p>