

## Committee Minutes

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# Resource Management and Audit Scrutiny Panel

Edinburgh, 14 December 2006

**Present:-** Councillors Jackson (Convener), Dixon, Gordon Mackenzie, Maginnis, Munro, Scobbie and Wheeler.

**Also Present:-** Councillor Child.

## 1 Apology

Apologies for absence were received from Councillors Fallon and O'Donnell.

## 2 Minute

### Decision

The minute of the Resource Management and Audit Scrutiny Panel of 16 November 2006 was approved as a correct record.

## 3 Matter Arising from Minute of 16 November 2006

### 3.1 Revenue Monitoring 2006/07 – Half Year Position (Minute Item 4)

#### Decision

To note that the Executive of the Council on 12 December 2006 had approved the following recommendations from the Scrutiny Panel:

- (a) That a review of all inter-authority charging be undertaken as part of the ongoing budget review process.

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- (b) That all Directors be reminded of the importance of ensuring that appropriate management action was taken to bring expenditure into line with approved budgets.

(Reference – Executive of the Council 12 December 2006 (minute item 20).

#### **4 Audited Accounts 2005/06 and Auditor's Report 2005/06**

Audited Accounts for the Council are submitted to the Resource Management and Audit Scrutiny Panel as part of its audit function.

The Council on 26 October 2006 had considered a report by the Director of Finance on the Council's Audited Accounts for the 2005/06 financial year and had agreed:

- (a) To note the Audited Accounts of the Council for the 2005/06 financial year;
- (b) To note that the Auditor's Report for 2005/06 would be submitted to a future meeting of the Council;
- (c) To note that the reports would be considered by the Resource Management and Audit Scrutiny Panel as part of its Work Programme.

The Scrutiny Panel considered the Director of Finance's report together with the External Auditor's detailed report.

Karen Kelly (Head of Financial Services) advised the Panel that the External Auditor's report would be considered by the Council on 21 December 2006 which would give the Scrutiny Panel an opportunity to consider the report in advance of the Council meeting and report its decision to Council. Consideration of the Auditor's report alongside the audited accounts served to strengthen the Panel's role in the overall governance arrangements of the Council.

Karen Kelly then spoke to both reports and drew the Panel's attention to the following areas.

- The Auditor had provided an unqualified opinion of the financial statements.
- Five of the Council's Significant Trading Operations (STOs) had failed to meet the statutory requirement to break even over the three year period to 31 March 2006, with the result that the Council had failed to meet this statutory requirement.

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- The Auditor had appended an Action Plan to his report which identified key risk areas and outlined planned management action to address them.

Mark Taylor (Audit Scotland) spoke to his report and drew the Panel's attention to the following areas:

- The Auditor's report contained four main sections, covering performance, financial position, governance and financial statements.
- The Auditor had given an unqualified opinion on the financial statements of the Council.
- Five Significant Trading Operations had incurred deficits in the three years to 31 March 2006. In the case of three of these – Direct Cleaning, School and Welfare Catering and Other Catering, this was due to unplanned costs associated with the settlement of equal pay claims.
- Blindcraft and Refuse Collection STOs had experienced trading difficulties.
- As at 31 March 2006 the Council had no unallocated revenue balance to fall back on. Indeed earmarked commitments were in excess of available balances. A funding strategy to meet the costs incurred in relation to equal pay and restore unallocated reserves to planned levels during 2006/07 was in place.
- The Council received a Best Value Audit in 2006 and a report setting out the results of this was currently being prepared and would be published shortly. Accordingly, the Auditor's report avoided significant comment on aspects of performance that were considered as part of the Best Value audit.
- A number of key issues for the attention of elected members was outlined in an Action Plan appended to his report.
- Changes to accounting rules will have a major impact on the presentation of the 2006/07 annual financial statement. The Council should take the opportunity to review the presentation of its budget and summary financial results to members and the wider public to ensure transparency.
- In future all audit reports prepared by Audit Scotland will be published on their website at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
- This was the final year of the current appointment as auditors to the City of Edinburgh Council and the co-operation and assistance given by City of Edinburgh Council members and staff over the five years of the current appointment was gratefully acknowledged.

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### **Decision**

- 1) To note the decision of the Council of 26 October 2006.
- 2) To note the Council's Audited Accounts for the financial year 2005/06.
- 3) To note the Auditor's unqualified opinion of the financial statements in the Audit Certificate to the Council's Accounts for 2005/06.
- 4) To note the Auditor's report for 2005/06, and the action which has been agreed to address the areas requiring improvement.
- 5) To note that the Auditor's report would be considered by the Council on 21 December 2006.
- 6) To advise the Council of the Scrutiny Panel's decision.

(References – Act of Council No 11 of 26 October 2006; reports (2) no CEC/107/06-07/F and RMA/015/06-07/F by the Director of Finance, submitted.)

### **Declaration of Interests**

Councillors Jackson and Wheeler declared a non-financial interest in the above item as Directors of **tie** Limited.

## **5 Monitoring of Internal Audit**

As part of its Audit responsibilities, the Scrutiny Panel considered a report by the Council's Chief Internal Auditor on the performance of the Internal Audit Section for the period 1 July to 30 September 2006.

Ian Stirton (Chief Internal Auditor) summarised the main elements of his report and drew the Panel's attention to the following areas:

- During the above period the Internal Audit Section had carried out work in a variety of sections within the Council and funded bodies and had produced 22 final reports which had been agreed with management and action plans put in place to implement the Internal Audit recommendations.
- During the period under review the Section had continued to divert resources into risk management in order to continue the drive to embed a culture of risk management throughout the Council.
- Training had been provided to managers across the Council to encourage risk management. At the request of the Department of Services for Communities a further risk management workshop had been organised to

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assist that department with the preparation of a new departmental Risk Register.

- The reference in the Auditor's Report for 2005/06 (see item 4 above) to progress made by the Council in relation to improvements in risk management had been encouraging. Indeed, other local authorities were now approaching Edinburgh seeking information on their approach to risk management issues.
- Three major reports had been issued by the Internal Auditor during the above period relating to Risk Management – Health and Social Care, Pensions Fund Payroll and Housing Benefit – Quality Control.

In response to questions from Panel Members on the report on Housing Benefit - Quality Control, Alistair Nairn (Revenues Manager) reported that some staff resources had been diverted from routine sample checking work to concentrate on project work such as development of a comprehensive complaints procedure. Mr Nairn was confident that dedicating staff resources to quality control issues would yield long term improvements and benefits.

In addition, Mr Nairn reported that an industrial dispute within the Revenues and Benefits Division had been resolved within the last two weeks. This resolution would enable new working arrangements within the division to be implemented.

### **Decision**

To note the report by the Council's Chief Internal Auditor.

(Reference – report no RMA/016/06-07/F by the Council's Chief Internal Auditor, submitted.)

## **6 Capital Investment Programme – Financial Resource Planning and Project Delivery**

On 16 November 2006 the Resource Management and Audit Scrutiny Panel noted that the Chief Executive would report to the Executive of the Council and the Resource Management and Audit Scrutiny Panel in December 2006 on improving financial resource planning and project delivery.

The Executive of the Council on 12 December 2006 had considered a report by the Chief Executive which detailed major projects comprising over £500m of investment within the Council's Capital Investment Programme. The report also provided information on projects supported by funding from the City's Growth Fund.

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Bill Ness (Head of Property Service and Contingency Planning) gave a brief overview of the Chief Executive's report and advised the Panel as follows:-

- The Council managed a significant Capital Investment Programme comprising over £500m of investment and included major projects such as the Usher Hall Redevelopment, School's PP2 and Corporate Office Rationalisation (FFF).
- Delivery and management of such a significant programme was complexed and further complicated by the requirements for the Council to be accountable and open to scrutiny. This regime involved the Council in significantly greater levels of consultation with stakeholders, planning and related bodies and the local communities.
- The Council was also subject to onerous procurement tendering procedures which had tended to make its capital projects less appealing to the market, leading to prolonged tendering periods.
- The Council does, however, have good project management arrangements, based on treasury guidance which provided a corporate focus to the management of major projects.
- Construction inflation was currently running at 12% in Edinburgh and this had a significant impact on costs.
- The construction industry in the city was currently over-committed and experiencing a skills shortage.
- The costs of raw materials, particularly steel, had an adverse effect on the Council's ability to accurately forecast costs.
- The Chief Executive's report proposed a number of measures for implementation now including improvements in programme management, capital receipts, and overprogramming.
- The front line responsibility for managing the overall capital programme will rest with the recently formed Corporate Asset Management Group which will report to the Council's Management Team on a bi-monthly basis and will scrutinise and challenge all departmental programming, spend and financial commitment.
- Responsibility and accountability for individual projects must, however, remain for the present with the responsible Service Director through the approved Investment Steering Group model.

Councillor Child (Executive Member for Sustainability and Finance) indicated that the report by the Chief Executive highlighted a number of significant issues

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and challenges facing the Council. Addressing the issues will require a level of discipline both from elected members and council officials. Historically, the Council have not been particularly good at planning and monitoring major capital projects. She felt that there was merit in expanding the planning period for large capital projects from the current three years to five years.

Karen Kelly (Head of Financial Services) indicated that, in order to meet the criteria, capital projects must –

- (i) have created a new asset;
- (ii) improved an existing asset; or
- (iii) extended the life of an existing asset.

### **Decision**

To note the decision of the Executive of the Council of 12 December 2006 and the report by the Chief Executive.

(References – Executive of the Council 12 December 2006 (minute item 8); report no E/408/06-07/CE by the Chief Executive.)

### **Declaration of Interests**

Councillors Jackson and Wheeler declared a non-financial interest in the above item as Directors of **tie** Limited.

## **7 Revenue Monitoring 2006/07 – Six Month Position**

Standing Order 87(8) requires the Executive of the Council to refer monitoring reports on the Council's Revenue Budget to the Resource Management and Audit Scrutiny Panel at intervals to be determined by the Executive.

The Executive of the Council on 12 December 2006 had considered a report by the Director of Finance on the Council's Revenue Budget at the six month stage and the projected outturn for the 2006/07 financial year.

The Executive had agreed, amongst other things, to refer the Director's report to the Resource Management and Audit Scrutiny Panel as part of its work programme.

Karen Kelly (Head of Financial Services) spoke to the Director of Finance's report and advised the Panel as follows:

- The position at month six showed a projected deficit of £1.922m, a deterioration of £0.7m from the £1.222m projected at period five.

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- The Director of Services for Communities had reported that the pressures identified within homelessness had been further reduced from £0.9m to £0.6m on the General Fund and from £1.7m to £0.3m on the HRA account.

Frank McGrail (Head of Operational and Service Support, Children and Families) addressed the Scrutiny Panel in relation to the Revenue Budget for the Children and Families Department. In particular he drew the Panel's attention to the following points:

- The half year monitoring report indicated a projected net pressure of £3.6m for the Children and Families Department in the current year.
- The Education Minister had announced £60m of additional funding for schools on 27 November 2006. The Directors of Finance and Children and Families were currently reviewing the conditions relating to the Council's share of this additional funding. Accordingly, any potential impact from these additional resources had been excluded from the current report.
- Budgetary pressures continue to be monitored and the Department had a robust regime in place to control expenditure, including a Budget Working Group chaired by the Director of Children and Families.
- Despite the Department's robust efforts there still remained a £0.76m shortfall.
- Historically, "needs led services" in the areas of Children and Families had been significantly underfunded. Levels of underfunding in these areas were not unique to Edinburgh and required to be addressed at a national level.

Angela Leitch (Head of Performance and Community Engagement, Services for Communities), addressed the Panel in relation to budgetary pressures within the Department of Services for Communities. She drew the Panel's attention to the following points:

- At month six pressures had been identified, leading to a projected overspend of £1.632m.
- The significant pressures within the departmental budget arose from the Strategic Waste Fund/Waste Disposal, Housing and Regeneration Rent Arrears/Bed and Breakfast and Central Support Recharges.
- The Department's Senior Management Team had agreed robust action to address the shortfall which were outlined in the Director of Finance's report.

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- In terms of the Strategic Waste Fund Programme work was ongoing to confirm the level of revenue which could be used rather than capital expenditure.
- There was real and significant pressure on temporary accommodation and bed and breakfast accommodation and measures had been identified to try to speed up housing benefit applications including holding meetings with the Revenues and Benefits Division in an attempt to obtain the same relaxation for temporary accommodation (TA) and bed and breakfast that can be applied for hostel accommodation together with any other concessions which would increase housing benefit income.

Thereafter Cathy King (Head of Service, Housing and Regeneration, Services for Communities) outlined measures being taken by the Department to address the rising number of homeless presentations and incomplete housing benefit claims which was putting pressure on bed and breakfast and rent arrears budgets. She outlined the factors contributing to increase homelessness which included a number of issues such as the provision of affordable housing, the use of Council stock to provide temporary accommodation and the role played by the private rental sector.

Councillor Child (Executive Member for Sustainability and Finance) welcomed the management actions being taken to address the current overspend. However, she stressed that department's must remain vigilant in their efforts to bring expenditure into line with budgets.

### **Decision**

To note the report by the Director of Finance and the following decision of the Executive of the Council of 12 December 2006:

- 1) To note that the Chief Executive had instructed all service directors to exercise control over expenditure and ensure that expenditure remained in line with the approved budget, other than the exceptions approved by the Executive at its meeting on 14 November 2006 and detailed at paragraph 2.5 of the Director's report.
- 2) To instruct all service directors to monitor management action being implemented and its actual impact on expenditure.
- 3) To note the projected overspend of £1.922m and the updated figures reported by the Director of Services for Communities in relation to homelessness.
- 4) To note that steps were being taken to undertake a budget realignment exercise which, together with further training for budget managers, would seek to assist in the cultural shift towards greater budget responsibility and control.

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- 5) To note that the 2005-2006 audit report to elected members had highlighted concerns over the management actions reported and the risk that corrective action was not effective in addressing significant adverse variances or in recovering previous budget deficits under the budget flexibility scheme.
- 6) To note the significant impact the projected overspend for 2006-2007 would have on budget discussions for 2007-2008.

(References – Executive of the Council 12 December 2006 (minute item 14); report no E/384/06-07/F by the Director of Finance, submitted).

## **8 Building Design Services – Revenue Budget**

On 14 November 2006 the Executive of the Council noted that a report on Building Design Services would be considered in the next cycle of meetings.

The Executive on 12 December 2006 had considered a report by the Director of City Development detailing the revenue budget position for Building Design Services (BDS) following their transfer to City Development.

The Executive of the Council had noted the results of the analysis of the Building Design Services revenue budget and the implications for the overall Council revenue budget and had referred the report by the Director of City Development to the Resource Management and Audit Scrutiny Panel.

Bill Ness (Head of Property Service and Contingency Planning) gave an overview of the report and highlighted the following issues:

- BDS was now located within the Corporate Property and Emergency Planning division of City Development.
- While Building Design Services covered its costs and overheads it had inherited an unrealistic income generation target and it was this issue that specifically needed to be addressed.
- Following an allocated £446,000 overspend for the financial year 2005/06 the projected budget for 2006/07 resulted in a total shortfall of £1,467,958.
- The budget difficulties for BDS arose from a variety of contributory factors which had been present for some time.
- These contributory factors related to changes in workload, the use of external design teams for specialist work such as the Usher Hall, decline in core workload and the requirements to use revenue rather than capital

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budgets for feasibility work. At the core of the problem was an historical income budget that no longer related to fee-earning capacity coupled with the historically unrealistic nature of this income budget.

**Decision**

- 1) To note the decision of the Executive of the Council of 12 December 2006 and the report by the Director of City Development.
- 2) To note that the Director of City Development would be reporting to a future meeting of the Executive on a review of the operation of the Building Design Services Section and that the report would be subject to the Council's call-in process.

(References – Executive of the Council 12 December 2006 (minute item 15); report no E/406/06-07/CD by the Director of City Development, submitted.)

**9 Council Tax on Second Homes and Long Term Empty Properties – Consideration of Discretionary Charging Policy**

The Executive had asked the Council Solicitor to report on the status of the guidance issued by the Scottish Executive giving local authority's discretion to reduce or retain Council Tax discount on second homes and long-term empty properties to between 10% and 50%.

The Executive of the Council on 12 December 2006 had considered a report by the Director of Corporate Services which advised on the status of the guidance issued by the Scottish Executive.

The Executive had agreed:

- 1) To note the advisory status of the Guidance and that the Council is required to follow the terms of the Regulations.
- 2) To refer the Director's report to the Resource Management and Audit Scrutiny Panel.

**Decision**

To note the decision of the Executive of the Council of 12 December 2006 and the report by the Director of Corporate Services.

(References – Executive of the Council 24 May 2005 (minute item 11), and 26 July 2005 (minute item 10), Resource Management and Audit Scrutiny Panel 23 June 2005 (minute item 8) and 11 August 2005 (minute item 3.1); report no E372/06/07/CS by the Director of Corporate Services, submitted.)

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### **Declaration of Interests**

Councillor Gordon Mackenzie declared a financial interest in the above item as his wife was the owner of a second home and, accordingly, took no part in the Scrutiny Panel's consideration of this item.

Councillor Wheeler declared a financial interest in the above item as the owner of a second home and, accordingly, took no part in the Scrutiny Panel's consideration of this item.

## **10 Scheme of Assistance for Home Owners – Progress on Pilot Projects**

The Executive of the Council on 14 November 2006 had considered a report by the Director of Services for Communities which gave an update on the development of the Scheme of Assistance for Home Owners since its launch in April 2006. The Director's report also outlined progress on the pilot projects at Holyrood and Lochview Court, Coillesdene House, Maidencraig Court, Reid's Close and Lochend Corolites.

The Executive had agreed:

- 1) To note the initial findings from piloting the Scheme of Assistance.
- 2) To refer the report by the Director of Services for Communities to the Resource Management and Audit Scrutiny Panel.
- 3) To seek a further report in May 2007 to provide a review of the first full year of the Scheme of Assistance pilot.

### **Decision**

To note the decision of the Executive of the Council of 14 November 2006 and the report by the Director of Services for Communities.

(References – Executive of the Council 6 September 2005 (minute item 14); and 14 November 2006 (minute item 25); Resource Management and Audit Scrutiny Panel 6 October 2005 (minute item 6) and 10 November 2005 (minute item 3.2); report no E/336/06-07/SfC by the Director of Services for Communities, submitted.)

## 11 Craigmillar Joint Venture Company (PARC) – Progress Report

The Executive of the Council on 28 November 2006 had considered a report by the Director of City Development on the progress of the Craigmillar Joint Venture Company established in March 2003 by the Council and the EDI Group to take forward the regeneration of Craigmillar.

The Executive had agreed:

- 1) As part of the on-going Business Plan Review process, PARC brings forward a review/analysis of the Plans overall cost base/and income assumptions, and the match with the Plan Vision, projected outputs and deliverables. With particular reference to the key outputs required by stakeholders and the community.
- 2) PARC accept and work vigorously to achieving the key milestones, project outputs, and timescales identified in the report by the Director of City Development, with agreed six monthly project reportage to the Council and the Scottish Executive.
- 3) PARC review the effectiveness and improve accordingly its communication/consultation procedures with the local community in respect of bringing forward projects for implementation.
- 4) The Council reviews the current management contract with EDI Group with a view to identifying and implementing further necessary improvements in partnership working practices.
- 5) PARC seek to address, in a pro-active manner, project delay and submit for the consideration of the Council as shareholder, within the six monthly progress reports, the actions it has taken, and is taking to improve performance and the delivery timescale.
- 6) The progress report is remitted to the Council's Scrutiny Panels for their consideration.

### Decision

To note the decision of the Executive of the Council of 28 September 2006 and the report by the Director of City Development.

(References – Executive of the Council 28 November 2006 (minute item 4); report no E/356/06-07/CD by the Director of City Development, submitted.)

### Declaration of Interests

Councillors Gordon Mackenzie and Scobbie declared a non-financial interest in the above item as Directors of EDI.

## **12 Significant Trading Operations Performance Report – August/September 2006**

As part of its monitoring role, the Scrutiny Panel considered performance monitoring information on the Council's Significant Trading Operations (STOs).

The Executive of the Council on 12 December 2006 had considered a report by the Director of Corporate Services on performance monitoring information for the Council's STOs for the period August/September 2006. The Executive had agreed:

- 1) To note the performance of the Significant Trading Operations for the period August/September 2006.
- 2) To agree the proposed action to be taken to improve performance.
- 3) To refer the report to the relevant Scrutiny Panels.
- 4) That the Director of Corporate Services report further on other authorities who had implemented healthy eating regimes in schools and the impact on the uptake of the school meals.

Ian Raven (Performance and Development Unit Manager) gave a brief overview of the respective STO performances.

### **Decision**

To note the decision of the Executive of the Council of 12 December 2006 and performance monitoring information relating to City Fleet Maintenance Services and Direct Cleaning.

(References – Executive of the Council 12 December 2006 (minute item 12); report no E/370/06-07/CS by the Director of Corporate Services, submitted.)

## **13 Strategic Work Programme Monitoring Report – September 2006**

The Executive of the Council on 12 December 2006 had considered a report by the Director of Corporate Services setting out progress made in implementing the Council's Strategic Work Programme, together with the status of each project at September 2006.

The Executive had agreed to note the progress delivering projects and the projects requiring particularly close scrutiny and to refer the Director's report to the relevant Scrutiny Panels.

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Ian Raven (Performance and Development Unit Manager) gave a brief overview of the report.

**Decision**

To note the decision of the Executive of the Council of 12 December 2006 and the performance scorecards and improvement actions for the Finance and Corporate Services Departments.

(References – Executive of the Council 12 December 2006 (minute item 11); report no E/369/06-07/CS by the Director of Corporate Services, submitted).

**14 Performance Report – August/September 2006**

As part of its monitoring role, the Scrutiny Panel considers departmental performance reports.

The Executive of the Council on 12 December 2006 had considered a report by the Chief Executive setting out departmental performance scorecard data for the period August/September 2006.

The Executive had agreed:

- 1) To note the performance improvements being taken by all departments.
- 2) To refer the relevant departmental scorecards to the appropriate Scrutiny Panels for consideration.

Ian Raven (Performance and Development Unit Manager) gave a brief overview of the report.

**Decision**

To note the decision of the Executive of the Council of 12 December 2006 and the performance scorecards and improvement actions for the Finance and Corporate Services Departments.

(References – Executive of the Council 12 December 2006 (minute item 10); report no E/368/06-07/CE by the Chief Executive, submitted).