

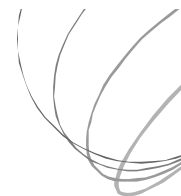
South Lanarkshire Council

Report to Members on the 2005/06 Audit



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Key Messages

Introduction

In 2005/06 we looked at the key strategic and financial risks being faced by the Council. We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our key findings, summarising key outcomes in 2005/06 and the outlook for the period ahead.

Key outcomes from 2005/06 audit

We have given an **unqualified** opinion on the financial statements of South Lanarkshire Council for 2005/06.

The Council had corporate governance systems in place during 2005/06 that operated well within a sound control environment. Risk management arrangements, however, require to be improved and embedded throughout the organisation.

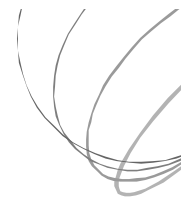
The Chief Executive provided his annual report for 2005/06 to the Council in June 2006. The report highlighted the Council's most important achievements of the previous year, outlined progress with ongoing major areas of work and identified issues to be addressed in 2006/07.

Each year we review the reliability of the Council's arrangements to prepare SPIs. Once again this year we were able to assess the arrangements for each indicator as being reliable. In 2005/06 many indicators demonstrated improvement in year on year performance, but in over a quarter of cases performance had fallen.

In setting its 2005/06 budget the Council's strategy was to maintain an unallocated general fund balances at existing levels as a hedge against unforeseen circumstances. The position achieved at the end of 2005/06 was broadly in line with the amount planned.

In the previous year we highlighted the level of balances held in the Repair and Renewal Fund following large transfers to this fund in 2004/05. Further transfers were made to the fund during 2005/06. It is important that the Council keeps the level of this fund under review to ensure that funds are being built up and applied in accordance with its overall financial and reserve strategy.

Following the introduction of the prudential code in April 2004 the Council can decide locally on a capital investment strategy which must meet best value requirements as well as being affordable. The Council's prudential indicators for 2005/06 were set in February 2005 and significant increases in capital expenditure have been made under these freedoms as the Council seeks to improve its asset infrastructure, particularly in housing, schools modernisation and town centre regeneration.



In the three years to 31 March 2006 all five of the Council's significant trading operations achieved the statutory breakeven target, contributing an overall surplus of £20.985 million over the last the 3 years.

Outlook for future audits

In the course of our work we identified some of the strategic risks that the Council will need to manage in delivering on its stated objectives and priorities. These can be grouped into the following themes:

- Improving performance, delivering benefits;
- Working effectively with partners and stakeholders;
- Funding investment through efficiencies.
- Delivering physical improvements;
- Demonstrating good governance and real accountability;

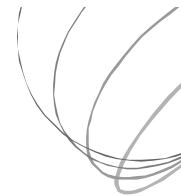
The Council has a culture of continuous improvement, reviewing practices and considering where there are opportunities to do better. It has recognised a need to underpin its efforts with further development of its corporate framework for performance management, building on existing good practice. Greater clarity and consistency in the manner in which detailed objectives are specified would also support further improvement in the delivery of services.

The Council has recognised that it needs better schools, housing and other physical infrastructure and assets. Plans are in place to achieve these aims and clear progress is being made. Robust asset management planning processes will be essential to ensure that future capital investment decisions make the best fit to corporate objectives. Effective medium and longer term financial planning will be necessary to support the Council's continuing programme of investment. The Council has recognised this agenda and made a start on the introduction of longer term scenario planning.

The Council is committed to a continuing programme of efficiency savings, with a broad framework for investment of the amounts released in education, social work, roads and community resources. Financial plans are predicated on achieving efficiency savings of 2.25% of expenditure in 2006/07 and 2.5% annually thereafter. The Government's Efficient Government initiative has also incorporated some assumed efficiencies into annual financial settlements.

Overall, the Council is well placed to meet continuing challenges in this area. It needs to develop its performance management information systems to allow it to track efficiency initiatives delivery against their objectives and confirm that there has been no loss of service quality. Increasingly it will require to work with partners to release efficiencies from the establishment of shared services.

The Council is making preparations for the impact of the forthcoming elections. While work to date has focussed largely on the practical implications of changes brought about by the upcoming elections some broad discussion of future political governance structures is also taking place with each of the political



groupings. Supporting incoming elected members to identify and implement effective arrangements that are most appropriate to the future circumstances of the Council presents a key challenge for the period ahead.

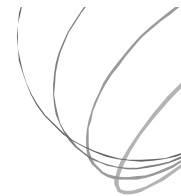
Continuing development of risk management, performance management and scrutiny arrangements will further strengthen the Council's corporate governance arrangements.

Community Planning structures were first established in 2000 and following a review in 2003 a range of improvements were implemented to processes and structures. However, there remains a risk that partners are unable to demonstrate the impact that community planning is having on users of services and the outcomes they experience. Further improvement work is now being planned including the development of a range of Key Performance Indicators and a progress reporting framework tied to the refreshed community plan.

To date South Lanarkshire Council is the only Scottish council to have implemented single status. In doing so it has significantly reduced its financial risk in comparison with others.

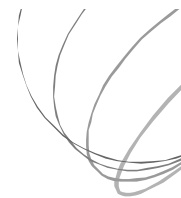
The Council has been in receipt of a number of equal pay claims which have been submitted to be heard at an Employment Tribunal. There remain significant uncertainties in relation to both the outcome of these claims, either as a general principle in law or on the merits of each individual case, and any financial settlement that may be required. Having taken legal advice the Council believes it has a valid defence and is disputing these claims. However, the extent of any financial impact will be unknown until the cases are heard. Any direct and consequential costs will have to be met from existing resources.

**Audit Scotland
October 2006**



Introduction

1. This report summarises the findings from our 2005/06 audit of South Lanarkshire Council. The scope of the audit was set out in our Audit Risk Analysis and Plan (ARAP), which was submitted to the Performance and Audit Forum on 14 August 2006. This plan set out our views on the key business risks facing the Council and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued a number of reports this year, and we briefly touch on some of the issues we raised in this report. Each report set out our findings and recommendations and the Council's agreed response. Appendix A of this report sets out the key issues highlighted in this report and the action planned by management to address them.
3. This is the final year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Council during the course of our audit work.



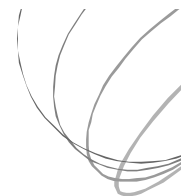
Performance

Introduction

4. In this section we summarise key aspects of the Council's reported performance and provide an outlook on future performance, including our views on the current status of identified risks. We also comment on the findings of national performance audit studies.

Corporate objectives and priorities

5. The Council has a four year council plan entitled "Fourcast" 2003 —2007 which sets out its key themes and objectives which are subdivided into measurable actions and outcomes that require to be implemented during the four year period. The Council plan has performance targets that are consistent with the community plan and are monitored regularly. There is a clear link between the Council plan and most of the resource plans and service delivery standards and these address both core service delivery and a host of national, corporate and local initiatives. The six key themes in the Council plan are:
 - Creating successful communities;
 - Living in the community;
 - Modernising services;
 - Learning in the community;
 - Supporting our communities;
 - Resource management.
6. A total of 12 objectives are established across these priorities. They include the following pledges by the Council's ruling group:
 - Working in partnership with all sectors to promote a strong and diverse economy. Involving all local communities in physical, environmental, economic and social regeneration;
 - Establishing high quality learning and training opportunities which support learners of all abilities to achieve their full potential;
 - Working with our communities and partners to achieve quality of life improvements in local areas;
 - Working in partnership with others to promote the health and well being of citizens and communities;
 - Delivering services in a responsive, modern and cost effective manner; and
 - Maximising the potential of the workforce to ensure that the Council attracts and retains employees who are both valued and motivated.
7. Within the 12 objectives there are 57 actions with measurable outcomes to help the Council to establish if it has achieved its themes, objectives and actions.



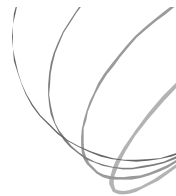
Overview of performance in 2005/06

Annual report

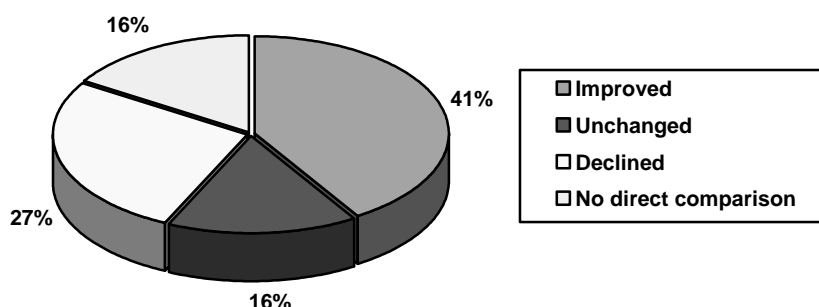
8. The Council's Annual Report and Accounts 2006 set out a number of achievements across the seven resource units, outlining areas of spending during 2005/06 and investment in a range of projects.
9. The Chief Executive provided his annual report for 2005/06 to the Council in June 2006. The report highlighted the Council's most important achievements of the previous year, outlined progress with ongoing major areas of work and identified issues to be addressed in 2006/07. Service performance improvements highlighted included:
 - primary schools modernisation programme which is running through to 2016 by which time the Council will have 69 new primary schools and refurbished another 55. This year sees the opening of 11 new primary schools;
 - secondary schools modernisation programme is delivering 19 state of the art secondary schools with the first of the new schools scheduled to open in the coming year;
 - the £800 million Home Happening programme which aims to upgrade every council home in the area. Survey results show 99% of tenants are satisfied with the quality of work done;
 - the Council has also been investing in residential facilities for senior citizens, roads, leisure facilities and investment in the regeneration of towns and villages;
 - working with partners, two major transport projects were completed, the opening of the Southern Orbital Road and the re-opening of the Larkhall railway line which provides a link to Glasgow; and;
 - the Council's Investors in People status was reconfirmed.
10. An update on the Council plan is circulated annually to all residents of South Lanarkshire. Fourcast 3 (council newsletter) was issued to all residents in August 2006. This incorporated a selection of statutory performance indicators grouped under appropriate corporate plan headings.

Statutory performance indicators

11. One of the ways of measuring the Council's comparative performance is using statutory performance indicators (SPIs). Historically, the Council's performance varies from indicator to indicator. In 2005/06 many indicators demonstrated improvement in year on year performance, but in over a quarter of cases performance had fallen.



2005/06 Statutory Performance Indicators- change from 2004/05



12. Each year we review the reliability of the Council's arrangements to prepare SPIs. Once again this year we were able to assess the arrangements for each indicator as being reliable.

Social Work Inspectorate Agency (SWIA) report

13. The Social Work Inspectorate Agency completed an inspection of the Council's social work resource. The report, issued in May 2006, concluded that people who use services had benefited from social work identity in South Lanarkshire. From discussions with key stakeholders, social work was viewed as a significant valued partner, with clarity of role and purpose. The report rated 2 areas as very good, 7 areas as good and 1 area as adequate. A fifteen point action plan was agreed with the Council. The Council developed an action plan which sets out targets and responsibilities for addressing the fifteen recommendations. The action plan is subject to routine monitoring within the resource and through quarterly meetings with the lead SWIA Inspector. The resource action plan is subject to six month and annual progress reports to the social work resources committee. A follow up two day inspection will take place in May 2007.

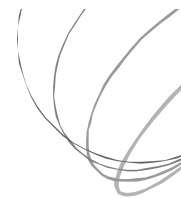
Performance outlook – opportunities and risks

Introduction

14. In our Audit Risk Analysis and Plan we identified some of the strategic risks to South Lanarkshire Council delivering on its stated objectives and priorities. These risks have been grouped into five risk areas which will drive and support service delivery. Risk exists in all organisations which are committed to continuous improvement and, inevitably, is higher in those undergoing significant change. The objective is to be 'risk aware', with sound processes of risk management rather than 'risk averse'. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.

Improving performance, delivering benefits

15. The Council aims to achieve further improvements in performance across its activities. This and the increasing expectations of stakeholders present significant challenges. The Council has a culture of continuous improvement, reviewing practices and considering where there are opportunities to do

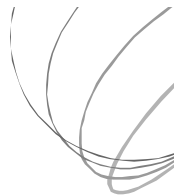


better. It has an extensive best value service review programme, carrying out over 150 best value service reviews since 1998, aimed at achieving improvements in services and/ or improving the efficiency of service delivery and is well placed to continue to examine its processes.

16. The Council has recognised a need to underpin its efforts with further development of its corporate framework for performance management, building on existing good practice. It is working towards the introduction of high level corporate health measures, more use of local performance indicators by individual resources and improvement to the monitoring of progress/slippage of specific projects and initiatives. These are key areas of development in ensuring that efforts are properly focussed, assist in the achievement of overall objectives and result in improved outcomes.
17. Greater clarity and consistency in the manner in which detailed objectives are specified would also support further improvement in the delivery of services. The Council has reinforced messages about the need to set clearly defined objectives at recent training events. Plans are also in place to develop a robust suite of service standards across the council's activities. A Leadership Development Group has been tasked with considering a suite of service standards/service charters and it is anticipated that a report will be submitted to the Corporate Management Team in November 2006.
18. As the Council continues to pursue a significant range of change projects aimed at delivering improvement it needs to ensure these are properly managed in order to deliver the anticipated benefits. An overview of the project management process for ICT projects was completed in May 2006 and management concluded that the Council's approach to project management represented best practice and was currently being used by the Council.
19. People play the key role in improving performance. The Council first achieved the Investors in People (IIP) Standard in 2004 and it was recently successful in renewing this accreditation.

Delivering physical improvements

20. The Council requires to have physical infrastructure and assets that are suitable and sufficient to meet the requirements placed on them in the provision of services, and the delivery on the themes and objectives set out in its four year plan, now and in the future. The Council has recognised that it needs better schools, housing and other physical infrastructure and assets. Plans are in place to achieve these aims and clear progress is being made.
21. Phase 1 of the primary school modernisation programme is currently underway and is being undertaken utilising two partner constructors under a five year partnering agreement. Phase 2 is scheduled to commence in July 2007. An advanced works agreement allowed work to commence in the last quarter of 2005 and management advise that work is progressing well and target completion dates are considered achievable. Work has commenced on four secondary schools in summer 2006

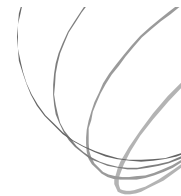


and will commence in the summer of 2007 on five new schools. Refurbishment work on two other high schools is scheduled to commence in 2008. All construction work on new and refurbished schools is expected to be completed by the summer of 2009.

22. The Council is making progress in delivering its £800 million Home Happening programme which aims to upgrade every council house in South Lanarkshire. Substantial investment has also been made into refurbishment to regenerate town centres and for rural development, with further improvements planned.
23. Robust asset management planning processes will be essential to ensure that future capital investment decisions make the best fit to corporate objectives. A corporate asset management plan was approved in 2005, with updates due to be submitted the Executive shortly. Improved asset management planning is now being rolled out to all resources. As well as improving decision making on asset maintenance and this will also inform decisions on the renewal, acquisition and disposal of assets.
24. Asset management planning is supported by a surplus property procurement programme. Details of properties potentially being declared surplus are circulated around the Council, enabling resources to take up existing properties before they are considered for sale.

Funding investment through efficiencies

25. The Council is committed to a continuing programme of efficiency savings, with a broad framework for investment of the amounts released in education, social work, roads and community resources. Financial plans are predicated on achieving efficiency savings of 2.25% of expenditure in 2006/07 and 2.5% annually thereafter. The Government's Efficient Government initiative has also incorporated some assumed efficiencies into annual financial settlements. If the Council is unable to achieve the required level of efficiencies this will threaten current spending plans and restrict the scope for further investment to support corporate priorities and objectives.
26. The Council's efficiency programme and arrangements to respond to the Efficient Government agenda are discussed in detail in paragraphs 73 to 82 below. Overall, the Council is well placed to meet continuing challenges in this area. The Council's best value reviews have contributed to the identification of efficiencies to release additional investment for front line services over a number of years with previous annual savings targets of 2% of expenditure being met.
27. A draft package of efficiency savings for 2007/08 has been produced and approved for further consideration by the corporate management team. The efficiency savings package proposed will form an integral part of the Council's annual budget setting process.

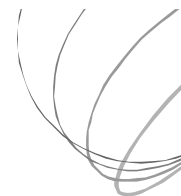


28. Effective medium and longer term financial planning will be necessary to support the Council's continuing programme of investment. Failure to project the longer term implications of spending decisions may restrict the ability of the Council to achieve objectives beyond the three year budgeting horizon. The Council has recognised this agenda and made a start on the introduction of longer term scenario planning. An overall financial planning framework covering the next five years has been recently submitted to the Corporate Management Team. We have been advised that work is underway on preparation of a 10 year budgeting framework.

Action Point 1

Demonstrating good governance and real accountability

29. Existing governance arrangements have served the Council well to date. However, they may not necessarily be the most appropriate for dealing with the changing environment in which it will operate in the future, with the introduction of proportional representation and multi-member wards in the upcoming 2007 elections. A more balanced approach to public performance reporting will also be an important element of the Council's accountability arrangements.
30. The Council is making preparations for the impact of the forthcoming elections. A review of operating documents such as standing orders and scheme of delegation is under way to ensure they are still fit for purpose. Accommodation requirements have been reviewed and plans put in place. Awareness sessions covering the implications of changed electoral arrangements have been held for councillors across all parties and managers. These have also provided an opportunity for members to discuss and obtain feedback on a wide range of issues such as dealing with enquiries, holding surgeries, relationships in multi-member wards, sharing information in multi-member wards, and attending local meetings such as community councils, tenants' organisations and school boards.
31. Plans are in place to develop a member induction programme in conjunction with the Improvement Service. Local input is anticipated on areas such as awareness of council structures and services.
32. While work to date has focussed largely on the practical implications of changes brought about by the upcoming elections some broad discussion of future political governance structures is also taking place with each of the political groupings. Supporting incoming elected members to identify and implement effective arrangements that are most appropriate to the future circumstances of the Council presents a key challenge for the period ahead.
33. A balanced approach to public performance reporting (PPR) is an important element of the Council's accountability arrangements. The Council has recognised a need to improve the balance of its reporting to the public, reviewing this area and building on current performance information such as



Fourcast progress reporting. Future improvements to PPR will be underpinned by planned developments in the Council's performance management system.

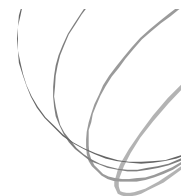
34. The Council's corporate governance arrangements, including the continuing development of risk management processes, are discussed in more detail in paragraphs 87 to 103 below.

Working effectively with partners and stakeholders

35. Increasingly the Council is dependent on partnership working to deliver service improvements. All partners need to be able and willing to work effectively in a joined-up manner and to achieve best value in the use of the overall public resource as a result. Formal duties to initiate facilitate and maintain community planning have been placed on the Council.
36. Community Planning structures were first established in 2000 and following a review in 2003 a range of improvements implemented to processes and structures. However, there remains a risk that partners are unable to demonstrate the impact that community planning is having on users of services and the outcomes they experience. Further improvement work is now being planned including the development of a range of Key Performance Indicators and a progress reporting framework tied to the refreshed community plan.
37. Increasingly the Council will require to work with partners to release efficiencies from the establishment of shared services. Preliminary discussions have taken place with neighbouring councils and the Council participates in the Clyde Valley Forum. Major challenges associated with partnership working will need to be addressed if genuine shared services are to be established and significant efficiencies realised. The Council is participating in a project examining the potential for shared services and shared best practice being led by Glasgow City Council.
38. In seeking new and innovative ways of delivering services the Council needs to identify and manage its risks in funding Arms Length and External Organisations. While some processes are in place within the two main grant paying resources there is no overall corporate policy which sets out procedures for 'following the public pound'. A detailed guidance note addressing these issues is currently in draft form, with the aim of having it formally approved by the end 2006.

Best value

39. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response the Accounts Commission introduced new arrangements for the audit of best value based on a cyclical approach involving a full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out by the local auditor.



40. The Council is due to receive a full best value audit commencing in June 2007. In the meantime the Council is progressing areas for improvement identified in transitional best value audits carried out in the last two years. Key areas for development in the areas previously reviewed include inclusion of equal opportunities and explicit sustainability performance measures and targets in all service plans, and further development of performance management arrangements.

National studies

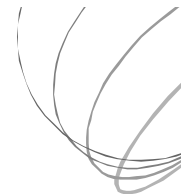
41. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year include reviews of public sector pension schemes and the National Fraud Initiative as summarised elsewhere in this document. Other reports published during the year and of direct interest to the Council are set out below. Further information on these studies and reports can be obtained for Audit Scotland's webpage at www.audit-scotland.gov.uk.

A mid-term report: a first stage review of the cost and implementation of the teachers' agreement *A Teaching Profession for the 21st Century*

42. In May 2006 Audit Scotland published the results of a review of the implementation of the teachers' agreement arising from the 'McCrone' report. This found that the agreement has brought benefits for the teaching profession, but the lack of performance measures makes it difficult to assess the wider impact of the £2.15 billion investment. The report recommends that the Scottish Executive work with other parties to the agreement to identify and report on a set of comprehensive performance measures.

Following the public pound – a follow-up report

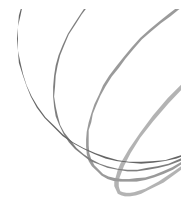
43. In 2004/05 we reported on the local results of a national study of the Council's funding of arms length and external organisations (ALEOs). In December 2005, Audit Scotland published the results of a study of council funding of ALEOs to provide information about their funding and how councils perform against the code of guidance on funding external bodies and following the public pound. This report stated that Scottish councils provided £220 million to 14,000 organisations - including companies, trusts and voluntary organisations - to deliver a wide range of council-related services such as support for people with disabilities and the management of leisure centres.
44. The Accounts Commission found that no council fully complied with guidance which sets out best practice principles when councils fund external organisations, although only five councils had a low level of compliance. South Lanarkshire Council was one of 18 councils demonstrating a moderate level of compliance with the code.



45. The report recommends that councils have a register of funding to external organisations, develop a corporate policy on free or subsidised use of council properties, vehicles and facilities, take a risk-based approach to dealing with the organisations they fund, and focus their resources on organisations who contribute to the Council's objectives, have arrangements for scrutiny and explore joint working with other councils.

Community planning – an initial review

46. In June 2006, Audit Scotland published its initial review of community planning arrangements. This found that community planning is progressing but complexities make aims difficult to achieve. While community planning partnerships have made progress, they need to do more to show how their work is improving public services. The report also calls on the Scottish Executive to support community planning more effectively. In particular the large number of national policy initiatives, each with their own funding arrangements can make it difficult for partnerships to plan and deliver effectively.



Financial position

Introduction

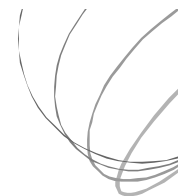
47. In this section we summarise key aspects of the Council's reported financial position and performance to 31 March 2006, providing an outlook on future financial prospects, including our views on potential financial risks.

Council tax and the general fund

Revenue performance 2005/06

48. The Council's net operating expenditure after appropriations in 2005/06 was £534.812 million after transfers of £5.304 million to the repairs and renewal fund, £0.926 to the insurance fund and £0.132 million to the capital fund. This was met by government grants and local taxation of £534.922 million resulting in a net general fund surplus of £0.110 million.
49. The budget set for 2005/06 was based on a Band D council tax level of £1,040. In his foreword to the financial statements, the Executive Director reports that the total revenue budget for 2005/06 was set with plans to end the year in a break even position. Thus the overall position was broadly in line with budget. There were a number of compensating under and overspends within individual resources. These include:
- Housing and technical resources net expenditure was £2.382 million higher than budget. Reasons for this set out in the annual report include increased demand for homeless accommodation and increased property repair costs, including higher than expected Improvement and Repair Grants.
 - Social work resources experienced an overspend on net expenditure of £2.034 million. Reasons for this include an increase in the number of young people accommodated and costs within older people's services.
 - Community resources experienced an overspend of £2.120 million. This is reported as being mainly due to financing and recycling costs.
 - Education resources underspent by £2.571m due to lower retirement costs.

We were advised by council officers that the overspend figures mentioned above include significant elements related to pensions and capital accounting entries. While accounting practice requires the inclusion of these entries within Resources' spend figures, they have no impact in the bottom line-line position for the Council. For this reason they are treated as non controllable costs in the monitoring of the Council's budget.



Reserves and balances

50. At 31 March 2006, the Council had total statutory funds of £47.447 million, including a capital fund established to aid delivery of the capital programme, a repair and renewal fund and an insurance fund that underpins the Council's self-insurance arrangements.

Reserves and Funds 2005/2006

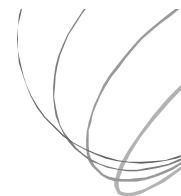
Description	2005/06 £ Million	2004/05 £ Million
General Fund	3.726	3.616
General Fund - Housing revenue account balance	2.544	4.184
Capital Fund	12.756	12.624
Usable Capital Receipts Reserve	0.280	0.085
Repair and Renewal Fund	23.557	18.253
Insurance Fund	4.584	3.658
	47.447	42.420

51. In setting its 2005/06 budget the Council's strategy was to maintain an unallocated general fund balances at existing levels as a hedge against unforeseen circumstances. The amount earmarked within the general fund for housing revenue account purposes was £2.544 million, leaving £3.726 million of unallocated reserves, broadly in line with the amount planned. Further amounts are earmarked within available funds for future energy, winter maintenance, and IT development costs and for the Clyde Gateway project.
52. In previous year we highlighted the level of balances held in the Repair and Renewal Fund following large transfers to this fund in 2004/05. Appropriations during 2005/06 have further increased the Fund by £5.304 million. We have been advised that there are firm commitments to utilise £19.908 million of these funds in the year ahead. It is important that the Council keeps the level of this fund under review to ensure that funds are being built up and applied in accordance with its overall financial and reserve strategy.

Action Point 2

Rents and the housing revenue account

53. The Council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. The budget set for 2005/06 was based on an average weekly rent level of £45.05, an increase of 3.5% on the previous year. The budget set for 2006/07 was based on a further increase in rent levels of 3.5%.



54. There was a deficit of £1.640 million on the Council's housing revenue account. The Executive Director has reported that this was as a result of additional expenditure on property, increased demand for homelessness services, spending on care of gardens and increased investment in IT systems. The annual deficit is set against an accumulated surplus of £4.184 million, allowing the remaining funds of £2.544 million to be used in future years to help pay for the housing capital programme.

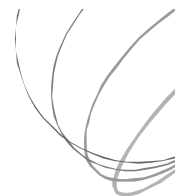
Group balances

55. 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 had an excess of liabilities over assets at 31 March 2006, mainly due to the accrual of pension liabilities. In the case of Strathclyde Police and Strathclyde Fire and Rescue these deficits were substantial at over £1 billion. The Council's share of these liabilities is £445.083 million. The overall effect of inclusion of the Council's associates on the group balance sheet is to reduce net assets by £438.040 million substantially as a result of these liabilities. All group bodies' accounts have been 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 grant and council tax.

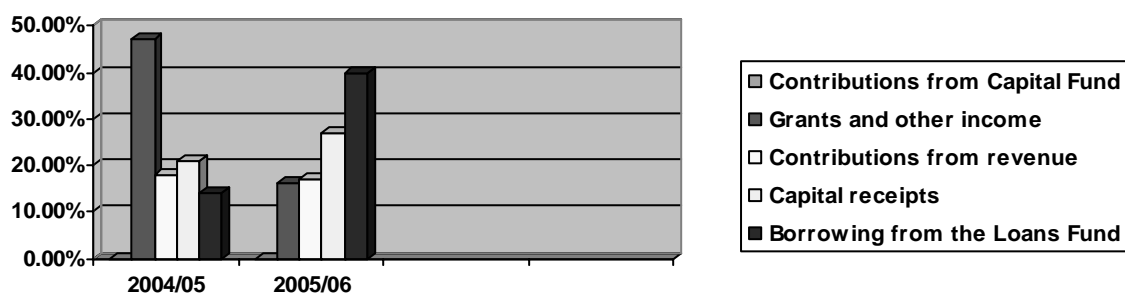
Spending on assets and long-term borrowing

Capital performance 2005/06

56. Following the introduction of the prudential code in April 2004 the Council can decide locally on a capital investment strategy which must meet best value requirements as well as being affordable. The Council's prudential indicators for 2005/06 were set in February 2005 and significant increases in capital expenditure have been made under these freedoms as the Council seeks to improve its asset infrastructure, particularly in housing, schools modernisation and town centre regeneration.
57. Capital expenditure in 2005/06 for general services and HRA combined totalled £151.741 million, rising from £109.412 million in 2004/05 and £ 87.352 million in 2003/04, the last year of central capital controls. Capital investment in the last two years was funded as shown below. As the Council has increased its capital spending the proportion funded by debt has increased significantly with aggregate long and medium term borrowing at 31 March 2005/06 of £439.721 million.



Sources of finance for capital expenditure



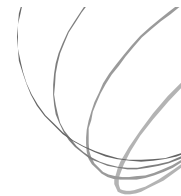
58. Around 68% of long and medium term loans at the year-end mature after more than 10 years. Slightly over 10% of debt is repayable within the next five years.
59. Budgeted capital expenditure for 2005/06 was £155.476 million. Capital budgets were underspent by £3.735 million (2.4%) indicating a degree of slippage. The Executive Director has reported that this is mainly due to revised timing of payments on General Fund Capital Programme projects.

Forward capital programme

60. General services capital plans for 2006/07, 2007/08, and 2008/09 anticipate annual capital expenditure of £102.649 million, £81.8 million and £73.448 million respectively. This is expected to be funded by a number of sources including capital receipts, grants and other contributions and further increases in borrowing totalling £185.149 million over the three years.

Significant trading operations

61. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations, which are required to break even over a three year rolling period. The first three year period ended in 2005/06.
62. The Council has five significant trading operations (STOs), facilities management, fleet services, grounds maintenance, roads, building maintenance. In the three years to 31 March 2006 all STOs achieved the breakeven target with an overall surplus of £20.985 million for the 3 years.



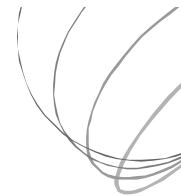
Financial outlook

Current budget

63. Aggregate budgeted expenditure for 2006/07 is £586.483 million. The 2006/07 budget was based on a Band D council tax level of £1,076 an annual rise of 3.46%. Within this figure, there are investments totalling £12.856 million, including:
- Contribution to affordability gap for schools modernisation programme used for non- recurring items - £1.5 million;
 - General investment in Education: funding required to meet increased charges from the Scottish Qualifications Agency - £1.100 million;
 - Continuing investment in roads - £1.500 million; and
 - Funding required to fully fund increases in fees paid to care home providers - £3.134 million.
64. A high level revenue budget for 2007/08 has also been set. This is based on the Council's commitment to hold future council tax increases to 1% above the prevailing rate of inflation.
65. Local authorities have yet to be provided with details of provisional Scottish Executive Aggregate External Finance allocations for 2008/09. The Council has yet to agree a high level revenue budget or issue an indicative Council Tax level for 2008/09.

Equal pay

66. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an Employment Tribunal.
67. Following cases pursued against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2005/06. There are risks for councils not only on whether traditionally female roles have been underpaid but also in relation to many mainly male manual workers in areas such as cleansing, grounds maintenance and building trades receive bonus payments that typically are not available in areas such as catering and cleaning staff where the workforce is predominantly female.
68. In 1999, the Council commenced a rolling programme of best value reviews which included equal pay audits covering every service, reviewing all staff's salary in terms of equal pay. Where an individual review identified that it was appropriate, back pay was paid to relevant groups of employees. These



reviews were carried out over a 5 year programme culminating in the full implementation of single status on 1 April 2004.

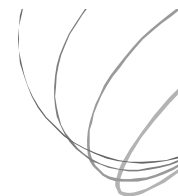
69. Notwithstanding this, the Council received 922 equal pay claims of which 827 have now been submitted to be heard at an Employment Tribunal. There remain significant uncertainties in relation to both the outcome of these claims, either as a general principle in law or on the merits of each individual case, and any financial settlement that may be required. This issue is highlighted as a contingent liability in balance sheet note 10. No expenditure is recognised in the 2005/06 accounts in relation to these claims or in relation to any similar claims that may be received in the future.
70. Having taken legal advice the Council believes it has a valid defence and is disputing these claims. However, the extent of any financial impact will be unknown until the cases are heard. Any direct and consequential costs will have to be met from existing resources.

Single status

71. In 1999 a Single Status agreement was reached between Scottish local authorities and trade unions that Single Status which would harmonise the terms and conditions of manual and Administrative, Professional, Technical and Clerical workers covering pay, working hours, leave and negotiating mechanisms. There was a presumption that Single Status would be cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.
72. The original national Single Status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, was extended by agreement between local authorities and unions to April 2004. To date only South Lanarkshire Council has implemented single status. In doing so it has significantly reduced its financial risk in comparison with other Scottish councils.

Efficient government

73. The efficient government initiative is a central part of the government's programme of investment, reform and modernisation and is a five year programme aimed at attacking waste, bureaucracy and duplication in Scotland's public sector.
74. The Efficient Government Plan sets targets to achieve £745 million of cash-releasing savings, and £300 million of time-releasing savings, by 2007/08. It is anticipated that local government as a whole will contribute £325 million in cash-releasing savings to the overall target. Although the Scottish Executive (SE) has not notified councils of the efficiency savings they should achieve each year, it is anticipated that South Lanarkshire Council's contribution to the target will be £9.781 million over three years, equating to £3.150 million for 2005/06. As noted in the table below, *Planned efficiency savings 2005/08*, the Council has identified efficiencies above this level.

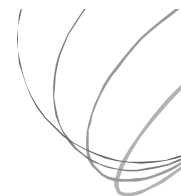


75. The majority of these assumed efficiency savings have been incorporated into annual financial settlements, presenting an immediate challenge as efficiency gains through service redesign are likely to take longer than one year to be fully realised. Failure to achieve the level of savings anticipated will increase financial pressures and may impact adversely on services provided. In order to claim an efficiency a council needs to demonstrate that service outcomes have been maintained or improved.
76. Based on information supplied by councils across Scotland, it is apparent that:
- few councils have a system in place to properly monitor, measure and report efficiency gains and that effort is still required to ensure that appropriate guidance is issued to staff to clarify what constitutes an efficiency;
 - the level of projected efficiencies varies significantly between councils;
 - the majority of planned efficiencies relate to areas and projects other than the SE's five key work streams of procurement, asset management, absence management, streamlining bureaucracy and shared support services; and
 - plans for projects to create time releasing efficiencies are not well developed and little in the way of efficiencies is expected to be generated by 2007/08 through shared support services. In both cases this is indicative of the time required to develop plans for fundamental service redesign.
77. Within South Lanarkshire Council efficiency savings of 2% of expenditure were built into 2005/06 budgets with annual savings of 2.25% planned in 2006/07 and 2.5% thereafter. The following table sets out the latest planned efficiency savings expected by the Council for the 3 years.

Planned efficiency savings 2005/08

	Projected Cashable Savings £'000	Projected Non Cashable Savings £'000	Total	Cashable Savings anticipated by SE against £168m target £'000
Total 2005/06	9,019	989	10,008	3,150
Total 2006/07	9,102	659	9,761	3,397
Total 2007/08	9,000	-	9,000	3,234
Three year total	27,121	1,648	28,769	9,781

78. Achieving efficiencies to the extent planned presents the Council with a continuing challenge, building further savings on top of those achieved in previous years. Overall, the Council has an established efficiency agenda which has been operating for several years and is well placed to respond to this.



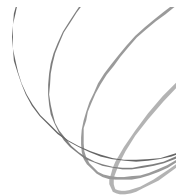
79. There is evidence of strong corporate leadership and scrutiny, with the Council's Executive Committee being responsible for an overall assessment of progress and performance. Planned revenue efficiency savings are currently mainly managed by resource directors who are responsible for identifying and delivering efficiency savings initiatives. The Corporate Management Team has recently decided that the Best Value Lead Officers Group will have responsibility for Efficient Government, with the Chief Executive leading this agenda.
80. Although the Council is making good progress in implementing processes and procedures to measure and monitor efficiency savings, these are still being developed. In common with other councils, more work is required to ensure that appropriate guidance is issued to staff to define and clarify what constitutes an efficiency and how it can be identified, measured, monitored and reported.
81. In addition, the Council needs to develop its performance management information systems to allow it to track efficiency initiatives delivery against their objectives and confirm that there has been no loss of service quality. The Council have stated that their efficiency exercise is based on the principle that there should be no impact on front line services. However, without clear baseline information covering cost and service outcomes, the Council will find it difficult to evidence that identified efficiencies have not impacted adversely on service provision.

Action Point 3

82. The Improvement Service has commissioned an external partner to develop and implement measures of productivity and efficiency in local government services. These measures will be available for Councils' to assist in their forward planning and to aid them in demonstrating their efficiency gains for the financial year 2006/07.

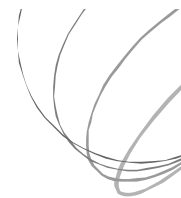
Pension liabilities

83. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, and the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions including projecting increased life expectancy. A recent Audit Scotland report on public sector pension schemes highlighted that the combined funding shortfall and unfunded liabilities of the six local government pension schemes in Scotland may be as high as £53 billion. In addition there are proposals to amend the Local Government Pension Scheme which are designed to reduce the ongoing cost although these have not yet been implemented.
84. In accounting for pensions, Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to



paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised on the face of annual accounts.

85. The Council's estimated pension liabilities at 31 March 2006 exceeded its share of the assets in the Strathclyde Pension Fund by £168.558 million, decreasing from £180.060 million in the previous year. While the net liabilities in the main scheme have fallen unfunded liabilities for discretionary pensions where the Council agrees to fund an early retirement have increased by £19.779 million during the year.
86. A full actuarial valuation of the Strathclyde Pension Fund was carried out in March 2005. Factors such as the volatile stock markets and increasing life expectancy have resulted in the funding level, calculated as the ratio of fund assets to past service liabilities, falling from 88% at 31 March 2004 to 80% as at 31 March 2005. The actuary is required to make a 3-year assessment of the contributions that should be paid by the employing authorities as from 1 April 2006 to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions normally 5% - 6% of salary. This shows that budgeted contributions are expected to rise from 260% of employee contributions in 2006/07 to 280% by 2008/09.



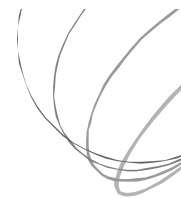
Governance

Introduction

87. In this section we comment on key aspects of the Council's governance arrangements during 2005/06. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2005/06

88. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviours at the upper levels of the organisation. In previous years we have concluded that the Council had systems in place that operated well within a sound control environment and have reached the same conclusion this year.
89. A Statement of Internal Control (SIC) is included within the annual financial statements, with the aim of providing assurance to stakeholders on the adequacy of arrangements. The Council concluded that governance arrangements were operating satisfactorily in 2005/06.
90. At a corporate level the Council has appropriate arrangements in place to prevent and detect inappropriate conduct and corruption. These arrangements include codes of conduct for elected members and staff, a whistle blowing policy and defined remits for relevant regulatory committees.
91. The Council's Performance and Audit Forum adheres to CIPFA's guidance note Audit Committee Principles in Local Authorities in Scotland and provides a sound contribution to the overall control environment. Its effectiveness is being kept under review by the Council.
92. 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. We performed an annual review of the Council's internal audit arrangements and found that the function continues to be well managed and operates to a high standard. There were staff shortages during the first half of the year, however, audit days delivered came within 2.5% of the total plan and productivity levels were in excess of expectations.
93. Risk management is an essential component of the governance framework in any well managed organisation. The council wide risk register was implemented during 2006 and is still to be fully embedded. Progress is being made with the development of resource risk registers.
94. The Council has recognised a need to focus further on business continuity planning. We carried out a review of the business continuity planning arrangements within the ICT service as part of the 2005/06



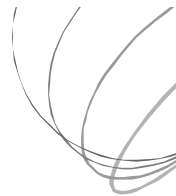
audit. A follow-up review of the action taken in response to the recommendations contained within the original report was completed in June 2006 and we concluded that the Council was progressing well in implementing the original action plan with four out of five recommendations being completed

Systems of internal control

95. In her annual report for 2005/06 the Risk and Audit Manager provided her opinion that, based on the internal audit work undertaken during the year, reasonable assurance could be placed upon the adequacy and effectiveness of the Council's internal control system.
96. Recommendations made in internal and external audit reports are monitored by management and internal audit, with progress reported to the Performance and Audit Forum. Our 2005/06 audit also included follow-up of progress made in implementing previous audit recommendations. The majority of recommendations have been implemented or progress is satisfactory. Outstanding recommendations are being taken forward by the Council.
97. 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 opinion work:
- Payroll
 - Creditors payments
 - Housing rents
 - Housing benefits
 - Council tax benefits
 - Treasury management
 - Non-domestic rates
 - Main accounting system
 - Budgetary control
 - Debtors
 - Income management
 - Capital accounting

Prevention and detection of fraud and irregularities

98. At the corporate level, the Council has appropriate arrangements in place to prevent and detect fraud. Each year Audit Scotland gathers information on actual cases of fraud identified by councils. In 2005/06 we reported that the Council had 157 cases of benefit fraud with losses totalling £450,728 and 7 cases of non-benefit fraud with losses totalling £12,354.
99. Under the National Fraud Initiative (NFI), councils compare information about benefit applicants, students, public sector employees and pensioners with other public bodies to find fraud and errors. The initiative also enables bodies to detect overpayments made in error or through honest misunderstandings. The findings of the 2004/05 exercise were published in May 2006, highlighting that across Scotland £15.1 million of fraud, overpayments and savings were found, including:
- 270 cases where pensions were being paid to people who had died;



- 564 cases of public sector employees and pensioners either fraudulently claiming housing benefits or receiving them in error;
- 215 cases of housing benefit overpayments to students; and
- 53 cases referred to the Procurator Fiscal and 32 employees who have been dismissed, disciplined or who resigned as a result of the initiative.

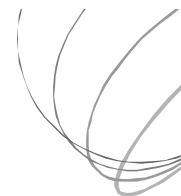
100. South Lanarkshire have actively participated in this initiative and, as of May 2006, had identified benefit overpayments to the value of £489,315 of which 53% relates to fraud. The balance covers errors by claimants (42%) and by benefits administration personnel (5%). Payroll to payroll matches, students, pensions, and payroll benefits identified small numbers of fraud, claimant error and council error.

101. Audit Scotland is working with the Audit Commission to widen the scope of the NFI during 2006/07. Public bodies will provide information again in October this year and will have fresh information to investigate in early 2007.

Governance outlook

102. Continuing development of risk management, performance management and scrutiny arrangements will further strengthen the Council's corporate governance arrangements.

103. The forthcoming local government elections in May 2007, bringing the introduction of proportional representation and multi-member wards, have potential implications for the political make-up and governance of the Council. The Scottish Executive's intention is also to remove barriers to encourage the widest possible range of people to serve as councillors, with changed remuneration arrangements for members. These reforms will require significant input from the Council to ensure its governance arrangements are fit for purpose, including committee structures, role/remits of members and arrangements for training new members.



Financial statements

Introduction

104. In this section we summarise key outcomes from our audit of the Council's financial statements for 2005/06. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.

105. We audit the financial statements and give an opinion on:

- whether they present fairly the financial position of the Council and its expenditure and income for the period in question; and
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

106. We also review the Statement of Internal Control by:

- considering the adequacy of the process put in place by the Chief Executive and Council to obtain assurances on systems of internal control; and
- assessing whether disclosures in the Statement are consistent with our knowledge of the Council.

Overall conclusion

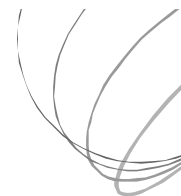
107. We have given an **unqualified** opinion on the financial statements of South Lanarkshire Council for 2005/06.

108. The Council's unaudited financial statements were submitted 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.

109. Audited accounts were finalised prior to the target date of 30 September 2006 and are now available for presentation to the Council and publication. The financial statements are an essential means by which the Council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

Accounting practice

110. 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'). A number of narrative amendments and accounting presentation amendments were made to the figures included in the



unaudited accounts provided for public inspection. These had no effect on the surplus for the year. The accounts have not been adjusted to correct two financial misstatements. These misstatements are not material to the financial statements.

111. The Council has continued to disclose its consolidated revenue account on the basis of its committee structure, and not on the service expenditure analysis prescribed by the Best Value Accounting Code of Practice (BVACOP), albeit that such an analysis is included by way of a note. The 2006 SORP, which will apply for the 2006/07 financial statements, will make it optional for the Council to prepare their accounts on the basis of its committee structure or on the service expenditure analysis prescribed by BVACOP.

112. There are weaknesses in the system for preparing bank reconciliations due to their elaborate and complex nature. This makes it more difficult for managers to understand them, and therefore increases the risk of any errors going undetected. We were advised that a new income management system will be introduced in June 2007. Management are confident that the new system will address the weaknesses of the current system and Internal Audit will be part of the steering group involved in implementing the new system.

Action Point 4

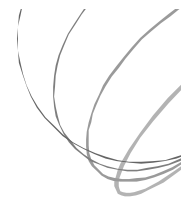
Potential equal pay costs

113. As noted above the Council is in receipt of a number of equal pay compensation claims. There remain significant uncertainties in relation to both the outcome of these claims, either as a general principle in law or on the merits of each individual case, and any financial settlement that may be required. This issue is highlighted as a contingent liability in balance sheet note 10. No expenditure is recognised in the 2005/06 accounts in relation to these claims or in relation to any similar claims that may be received in the future.

114. Accounting for such circumstances is very much a matter of professional judgement. We have requested and received a specific representation from the Executive Director that having considered the requirements of the Statement of Recommended Practice and Financial Reporting Standard 12 his view is that no provision is required in 2005/06 for possible expenditure arising from these claims. Based on review of the available evidence we were satisfied that this is a reasonable approach.

Group accounts

115. Arrangements for the preparation of group accounts were mandatory for the first time in 2005/06. The widening diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to present fairly the activities of an authority. This has become more important



with the *Prudential Code for Capital Finance in Local Authorities* which requires authorities to take note of all their commitments, including those in alternative service delivery vehicles.

116. The 2005/06 financial statements reported the consolidated position of the South Lanarkshire Group (council plus associate entities) for the first time in accordance with recommended accounting practice.

117. The published annual financial statements are a key component of accountability and public reporting arrangements. Significant effort was required to ensure that the Council was able to provide the required information to its stakeholders.

Public finance initiative (PFI)

118. In January 2006 we provided a final comment on value for money aspect of South Lanarkshire's schools PFI project. We concluded that the analysis prepared by the Council's financial adviser demonstrates a firm basis for the Council's overall value for money assessment, although we believe that the Council should consider the basis for the Public Sector Comparator estimate of facilities management costs. This element is significantly different from the cost in the preferred bid. A limited comparison to other projects indicates that the preferred bid cost is reasonable.

Legality

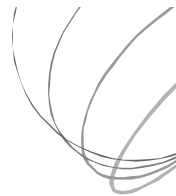
119. Each year we request written confirmation from the Executive Director that the Council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Executive Director has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the Chief Executive and the Corporate Management Team, the financial transactions of the Council were in accordance with the relevant legislation and regulations governing its activities.

120. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

121. Overall the Council is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It has a record of responding positively to audit issues and changing accounting rules. Challenges ahead include a number of changes that have been made to the 2006 SORP:

- replacement of the consolidated revenue account with a traditional income and expenditure account;

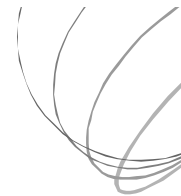


- a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit;
- replacement of the statement of total movement in reserves with a statement of total recognised gains and losses; and
- similar changes to the housing revenue account and group accounts.

122. These changes will have a significant impact on the presentation of the 2006/07 annual financial statements to make them more consistent with the accounts of other public and private sector entities. The Council should take this opportunity to review the presentation of its budget and summary financial results to members and the wider public to ensure that financial planning and activity is fully transparent.

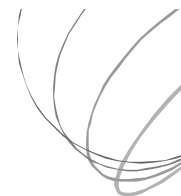
Change of external auditor

123. Regular rotation of auditors is required by auditing standards and is an important component in guarding against perceived or actual threats to auditors' objectivity and independence. Audit Scotland's policy is to rotate auditors at least once every five years. Where the audit is carried out by Audit Scotland staff rather than a private firm, the engagement lead and other key staff will be rotated.
124. This is the final year of our current appointment to the audit of South Lanarkshire Council. From 2006/07 PricewaterhouseCoopers LLP will become the Council's appointed auditor. The change of auditor represents an opportunity to build on existing good practice to continuously improve the accounts preparation processes in partnership with the incoming auditor.



Final Remarks

125. The members of South Lanarkshire Council are invited to note this report. We would be pleased to provide any additional information that members may require.
126. We have made a number of recommendations in the various reports we have issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate. Attached to this report is a list of significant matters arising from the audit which we consider to be of particular interest to members.
127. The co-operation and assistance given to us by South Lanarkshire Council members and staff over the five years of our audit appointment is gratefully acknowledged.



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
1	28.	Strategic financial planning Effective medium and longer term planning will be necessary to support the Council's continuing programme of investment. <i>Risk: Failure to project the longer term implications of spending decisions unduly restricts the ability of the Council to achieve objectives beyond the three year budgeting horizon.</i>	A report was submitted to the Corporate Management Team in August 2006 outlining a long-term financial strategy. This will be developed in conjunction with the Council Plan.	Paul Manning, Head of Finance	31 March 2007
2.	52.	Repairs and renewal fund The balance of the repairs and renewals fund is substantial, increasing by a further £5.304 million in 2005/06. <i>Risk: funds are being accumulated without a clear strategy for their future application.</i>	It has been a consistent feature of the Council that we have an ambitious capital programme designed to meet the priorities of our infrastructure needs. A constant practice in the management and funding of this programme has been the use of the Repairs and Renewal Fund. We have a track record in utilising this in the delivery of our capital strategy; future commitments can also be demonstrated. To suggest that there has been any risk associated with this approach is not supported by evidence. However, it is anticipated that there will be a reduction in the value of the fund by the end of year 2006/07.	Paul Manning, Head of Finance	Balance within fund to be reviewed at end of year 06/07



Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
3.	81.	<p>Efficiency programme</p> <p>Significant year-on-year efficiencies are required for the Council to balance its budget, fund planned investments and to meet targets set out for the government's Efficient Government programme.</p> <p>Risks: the Council is unable to achieve the efficiencies necessary.</p> <p>It is unclear the extent to which savings comply with definitions of efficiency.</p> <p>Savings achieved impact on service quality and outputs to a greater extent than planned.</p> <p>The Council will be unable to demonstrate that attained efficiencies have not impacted adversely on service performance.</p>	<p>For nine years it has been Council policy to seek, on an annual basis, efficiency savings which do not impact on frontline services. The degree of scrutiny by senior officers and politicians ensures this.</p> <p>Indirectly, efficiency savings result in improvements in frontline service. To date, at least the amount released has been directed into the enhancement of frontline services.</p> <p>The Council is at present reviewing its performance management arrangements and an action plan is being prepared for the introduction of a corporate performance management I.T system to address this issue.</p>	Paul Manning, Head of Finance / Kay Brown, Head of IT	Ongoing
4.	112.	<p>Bank reconciliation</p> <p>There are weaknesses in the system for preparing bank reconciliations due to their elaborate and complex nature.</p> <p>Risk: accounting errors are undetected.</p>	<p>The introduction of the new income management system which is being developed with the support of internal audit will address the weaknesses identified in the present arrangements.</p>	Patrick Murphy, Head of Housing & Technical Resources Finance & IT	30 June 2007