

Argyll and Bute Council

Report on the 2006-07 Audit

31 October 2007

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1. Executive Summary

Introduction

Grant Thornton UK LLP has been appointed by the Accounts Commission for Scotland as the external auditor of Argyll and Bute Council (the Council) for the five year period commencing 2006-07. Matters arising from our audit have been summarised in reports issued during the year (Appendix A). This report summarises the key elements of our audit and key messages for members.

We planned and performed our 2006-07 audit in accordance with our Audit Plan issued in January 2007. In accordance with the Code of Audit Practice, we have the following audit objectives:

Area	Key Findings
<p>Financial statements</p> <p>To provide an opinion on the Council's financial statements for the year ending 31 March 2007.</p>	<ul style="list-style-type: none"> We gave an unqualified opinion on the Council's 2006-07 financial statements on 28 September 2007. Our audit opinion, however, draws attention to a failure to comply with the statutory requirement that all significant trading organisations break even on a rolling three year basis. The Council is forecasting a £32 million funding gap over the next 5 years. This presents a significant challenge to develop a sustainable medium term financial strategy that delivers a balanced budget. The Council's finance team prepared well for implementing the 2006 Statement of Recommended Practice (SORP) and the standard of accounts and supporting working papers were good, ensuring statutory deadlines were met and few audit adjustments required.
<p>Governance</p> <p>To review and report on the Council's corporate governance arrangements, including: systems of internal financial control, arrangements for the prevention and detection of fraud and corruption, standards of conduct and the Council's financial position.</p>	<ul style="list-style-type: none"> We have concluded that the Council's systems of internal financial control are operating adequately and governance arrangements are well developed. The Council prepared well for the elections in May 2007 and good arrangements are place for member training and induction. Further work is required to develop a framework to support the inclusion of a Statement on Internal Control in the Council's 2007-08 accounts. The Council has not sufficiently prioritised participation in the National Fraud Initiative to improve arrangements to prevent and detect fraud and corruption.
<p>Performance</p> <p>To review and report on the Council's arrangements to achieve Best Value, other aspects of arrangements to manage performance as they relate to economy, efficiency and effectiveness in the use of resources and arrangements for preparing and publishing statutory performance indicators.</p>	<ul style="list-style-type: none"> The Council responded positively to Audit Scotland's Best Value report published in February 2006. The progress made by the Council provides a sound basis from which to take forward the improvement agenda. The Council must now focus on turning strategies into action to embed best value principles throughout the organisation. The Council has recently introduced a performance management system which offers significant potential to act as a key driver for improving economy, efficiency and effectiveness. The system needs to be rolled out across departments as a matter of priority and there remains significant scope for further improvement in the Council's overall framework for performance management. The Council's risk management arrangements are insufficiently developed as an effective operational management tool. A number of the Council's assets, are now either surplus to requirements, not fully utilised or no longer fit for purpose. In particular, nearly three quarters of the Council's 80 primary schools have occupancy rates of less than 60%.

Action Needed by the Council

Our audit identified the following key actions for the Council in the coming year. The Council should:

- develop a sustainable medium term financial strategy, aligned to corporate priorities, that explicitly incorporates anticipated efficiency savings and delivers a balanced budget;
- take action to address the significant deficits reported by some of its trading operations and ensure they continue to deliver best value;
- prepare early to ensure full compliance with the requirements of the 2007 SORP in the preparation of the Council's 2007-08 annual accounts;
- ensure an appropriate assurance framework is developed to support the inclusion of a Statement on Internal Control in the Council's 2007-08 annual accounts. This framework should include effective risk management arrangements, an extension of the role of internal audit to provide assurances on the operation of non-financial systems, and arrangements to enable Directors to provide signed 'statements of assurance' each year confirming the effective operation of systems of internal control;
- prioritise implementing the strategies and plans developed in response to Audit Scotland's Best Value recommendations, including accelerating the adoption of a performance management framework across all Council services; and
- bring forward plans to review how efficiently the Council manages its property portfolio to ensure the Council's property estate supports the achievement of corporate objectives, usage of buildings is optimised and surplus assets identified to reduce costs, improve efficiency and generate capital receipts.

Action plans have been agreed with the Council and included in our audit reports issued during the year (Appendix A).

Status of our Report

This report is part of a continuing dialogue between the Council and Grant Thornton UK LLP and is not, therefore, intended to cover every matter that came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Council's systems and work practices. The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place upon it.

Acknowledgements

We would like to take this opportunity to thank the Chief Executive, the Head of Strategic Finance, and other officers who have been involved in the 2006-07 audit for their assistance and co-operation.

Grant Thornton UK LLP

31 October 2007

2. Financial Statements

Introduction

We have audited the Council's 2006-07 accounts in accordance with our Audit Plan issued in January 2007. The key messages arising from our financial statements audit are contained in our report issued in September 2007, and summarised below.

Audit Opinion

We gave an unqualified opinion on the Council's 2006-07 financial statements on 28 September 2007 that included an explanatory paragraph referring to a failure to comply with the statutory requirement that all significant trading organisations break even on a rolling three year basis.

The Council's finance team prepared well for implementing the 2006 SORP and the standard of accounts and supporting working papers were good, ensuring statutory deadlines were met and few audit adjustments required. The adjustments that were made to the accounts following our audit amended the reported deficit in the draft accounts from £0.686 million to show a surplus of £0.385 million in the published accounts.

Implementation of the 2006 and 2007 SORP

The Council's accounts are prepared in accordance with the requirements of the 2006 Statement of Recommended Practice (the SORP). The 2006 SORP contained a number of significant changes to improve the presentation of local government accounts, including replacing the Consolidated Revenue Account with an Income and Expenditure account that reports actual financial performance for the year.

In preparing the 2006-07 accounts in accordance with the new SORP, the Council restated the 2005-06 accounts, resulting in the reported deficit for that year increasing from £0.367 million to £5.050 million. Statutory adjustments ensure there is no overall impact on the Council's general fund position.

The 2007 SORP will introduce further changes to the presentation of the Councils accounts and the Council will again have to plan well in advance to ensure it is adequately prepared to implement the new requirements. The key changes for 2007-08 accounts include:

- replacement of the fixed asset restatement reserve and capital financing reserve by a revaluation reserve and capital adjustment account;
- implementation of Financial Reporting Standards 25, 26 and 29 which introduce changes to accounting for financial instruments. This may impact on how the Council accounts for premiums from debt rescheduling; and
- an additional note to the group accounts disclosing the value of assets and liabilities and gross income and expenditure of charitable funds.

2. Financial Statements

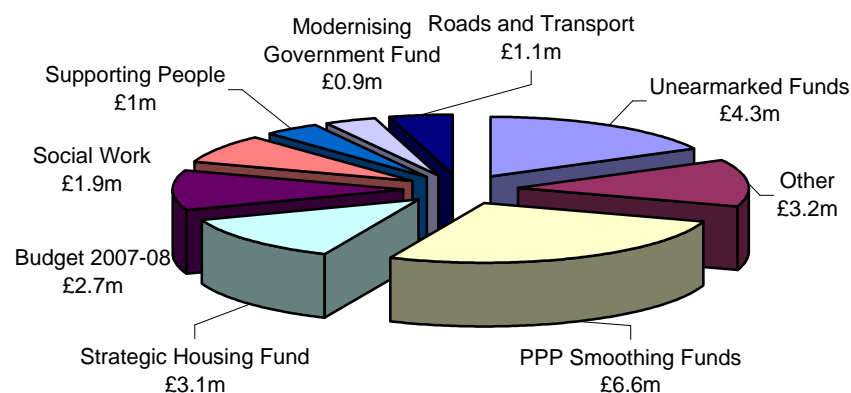
Overall the Council is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It has a record of responding positively to audit issues and changing accounting practice. In 2006-07 Grant Thornton provided a training event for the Council's finance staff on issues emerging from the 2006 SORP that helped the Council prepare for its introduction. We have agreed to provide a similar training event on the 2007 SORP to support the Council's preparations for its implementation.

Financial position

At the financial year end, the Council held usable reserves of £29.9 million (£18.2 million 2005-06), representing 14% of net operating expenditure. The Council held a balance of £24.8 million in its General Fund at 31 March 2007. The Council's reserves policy is to retain unearmarked reserves of at least 2% of its net operating expenditure. At 31 March 2007 the Council's unearmarked reserves totalled £4.3 million, representing 2.2% of net operating expenditure, in line with the Council's reserves policy.

A more detailed analysis of the Council's £24.8 million reserves balance is contained in Figure 1 below:

Figure 1 - Analysis of 2006-07 General Reserves



The Council continues to face significant financial pressures and is currently forecasting a £7 million funding gap by 2008-09, which is in excess of its existing unearmarked reserves balance of £4.3 million. This annual funding gap will be recurring, unless the Council takes action to reduce costs or increase efficiency, and recent forecasts project a £32 million funding gap over the next 5 years. The projected funding gap emerges from a range of financial pressures including:

- additional costs from single status and equal pay agreements that are estimated to increase staff costs by up to 9%;
- significant backlog maintenance costs for existing buildings and the Council's roads network;
- additional costs associated with a growing elderly community; and
- existing long term financial commitments to fund the waste management PPP scheme and the Schools NPDO.

2. Financial Statements

The projected funding gap presents the Council with a significant challenge to develop a sustainable five year financial strategy that delivers a balanced budget. In order to achieve this, the Council must review all aspects of its operations and seek cost reductions through the achievement of efficiency savings and reductions in service volumes or provision where appropriate, in accordance with corporate priorities.

In order to develop medium term financial planning, and to better support the efficiency and improvement agenda, the Council should:

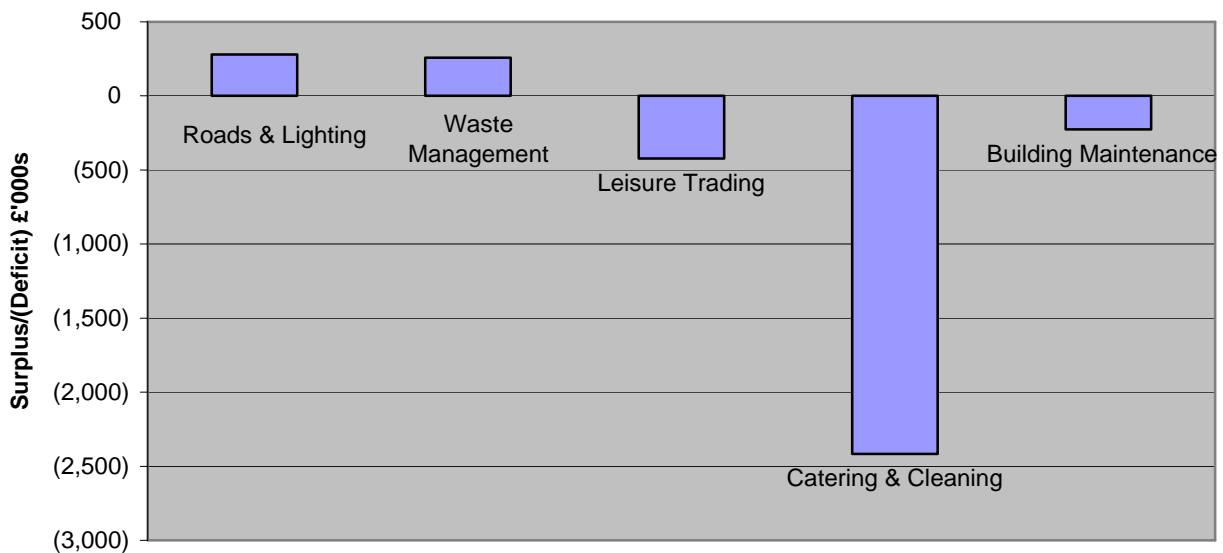
- more clearly align its budget to corporate priorities;
- develop clearer plans for the use of all earmarked reserves;
- improve the linkage between financial and performance management, including use of benchmarking and development of unit costs information; and
- build planned efficiency savings into its budget management, monitoring and reporting arrangements.

The Council has already developed a set of financial strategy baseline projections to identify the funding gap and has committed in its action plan for the interim report on Best Value to address the above issue.

Trading Accounts

Three of the Council's five trading accounts reported deficits for 2006-07 and have not met their financial performance target to break even over a three year period as shown in the Figure 2 below:

Figure 2 - Trading Accounts - Analysis of 3-Year Financial Performance



The Council undertook a review of its trading accounts in December 2006, and will reclassify Leisure Trading and Waste Management as non-trading activities from 2007-08 onwards. In addition, the Building Maintenance trading account has closed following the transfer of the Council's housing stock to the Argyll Community Housing Association (ACHA).

2. Financial Statements

The Council has a duty to demonstrate best value and competitiveness from its operations and acknowledged, when considering the unaudited accounts, that it will require to demonstrate best value and competitiveness for these services. It has outlined a timescale for bringing forward reviews in the action plan related to our interim audit report issued in October 2007.

We note that the significant deficits recorded by the catering and cleaning trading account result partly from the impact of equal pay settlements and the outcomes from the single status agreement. However, this trading account is unlikely to meet its financial break-even target for the foreseeable future and the Council should take action to address these significant deficits and consider whether it continues to deliver best value.

The Council agreed to address these matters in its action plan response to our interim report issued in October 2007.

Housing Stock Transfer

The Council transferred its housing stock with a net book value of some £44.8 million to ACHA on 21 November 2006 under a large scale voluntary transfer arrangement. As part of this arrangement, the Scottish Executive repaid the Council's outstanding housing loan debt of £36.5 million, together with a further £1.3 million to cover early repayment costs and the existing premium incurred when the Council re-scheduled its HRA debt some years ago. The Scottish Executive also met 'breakage costs' of £9.5 million charged by the Public Works Loans Board in respect of the early repayment of debt.

Following the stock transfer, the Council retains overall strategic responsibility for housing and will be required to work closely with ACHA and other housing associations to ensure the continued delivery of high quality housing for its residents. Figure 1 above shows that the Council has set aside some £3.1 million of its reserves for strategic housing purposes. The Council has also set up a Strategic Housing and Communities Forum as part of its community planning arrangements. A strategy and framework for use of the £3.1m of reserves for strategic housing purposes has been agreed. However spending is dependent upon proposals being brought forward.

Single Status and Equal Pay

The Council has recognised that its current pay structure is not consistent with the requirements of the Equal Pay Act 1970 and this is reflected in compromise payments of £4.2 million to some categories of female employees in February 2006. The Council has made a provision of £2.6 million in its accounts for costs associated with the implementation of the Single Status Agreement (Red Book) which contains national conditions of service for local government employees.

The Council has not yet implemented a new pay and grading model but has made a final offer to employees following its meeting on 20 June 2007. The Council estimates that implementation of this model will add £6.2 million (8.6%) to its annual wage bill from 2008-09, assuming the model is implemented before the end of the 2007-08 financial year. The Council intends to 'fund' this additional cost by removing 136 whole-time equivalent staff (2.5% of establishment) from its workforce, largely through natural wastage and limiting future recruitment.

It is important that the Council formalise its agreements on single status and equal pay issues with employees in the near future, to establish financial certainty over the likely costs associated with implementing the new agreements, to resolve existing claims for compensation, and to limit the potential for future claims to emerge.

Key actions going forward

In summary, the key recommendations arising from our audit of the financial statements are that the Council should:

- develop a medium term financial strategy that delivers a sustainable and balanced budget in line with corporate priorities;
- establish clear and transparent plans for using all reserves;
- take action to address the significant deficits reported by some of its trading operations and consider how they will continue to deliver best value; and
- take early action to prepare for the implementation of the 2007 SORP.

3. Governance

Introduction

In accordance with the 2006-07 Audit Plan we have reviewed key aspects of the Council's governance arrangements during 2006-07. The detailed recommendations from our governance review are contained in our interim report issued in October 2007 and our key findings summarised below.

Overview of arrangements in 2006-07

We have concluded that the Council's systems of internal financial control and governance arrangements are operating adequately. Key findings from our review included:

- the Council has not undertaken a fundamental (zero-based) review of service needs and relative priorities in preparing its budget estimates for some time and there is no clear link between the Council's budget and the priorities contained in the corporate plan;
- the Council currently operates six separate payroll runs for its staff and pays some workers monthly and others fortnightly. There is scope to rationalise the number and frequency of payroll runs to improve operational efficiency.

The Head of Strategic Finance's Statement on the Systems of Internal Financial Control (SIFC) is included within the annual accounts and concludes that reasonable assurance can be placed on the adequacy and effectiveness of the Council's internal financial control systems.

Prevention and detection of fraud and corruption

At a corporate level, the Council has adequate arrangements in place to prevent and detect fraud and corruption. These arrangements include codes of conduct for elected members and staff, a whistle blowing policy and defined remits for relevant regulatory committees. Our review identified some scope for improvement in overall arrangements, in particular:

- there is currently no requirement for members and officers to evidence that they have read and understood the code of conduct; and
- there is no central register of staff interests and hospitality that is updated regularly.

The Council is participating in the National Fraud Initiative (NFI) which is a nationwide data matching exercise run jointly by Audit Scotland and the Audit Commission. The NFI was a major success in its first year identifying £15.1 million of fraud, overpayments and forward savings nationally.

We found that the Council had not sufficiently prioritised participation in the NFI during 2006-07 and more needs to be done to develop arrangements for future participation and to improve arrangements to prevent and detect fraud and corruption.

Governance Framework

The Council has taken steps to improve arrangements for scrutiny of performance by both members and officers following the recent elections. Improvements include the development of member led Policy Performance Groups (PPG) with a specific performance scrutiny and improvement remit, the appointment of an independent chair to the Audit Committee, and more corporate working and performance focus at Senior Management Team meetings.

We identified a number of areas for further development, including:

- the Policy Development Group, in its February 2007 report, recommended that the Council create a 'Council Executive' comprising a maximum of nine members as its main decision making body. The Council accepted this main recommendation, but has appointed sixteen members to the 'Council Executive' and may not, therefore, fully achieve the benefits anticipated from streamlined decision making; and
- the role of area committees, their lines of accountability and scrutiny arrangements are not sufficiently clear. The agendas of area committees are largely dominated by planning decisions, the majority of which are minor in nature, and this is unlikely to make best use of area committee resources. Recent changes in planning law are likely to require less member involvement in considering more minor planning applications.

We will continue to monitor the effectiveness of the Council's political governance arrangements as they develop and, as an interim measure, we intend to undertake a review of the operation of the Council's Audit Committee against existing good practice standards as part of our 2007-08 audit.

The Council's Audit Committee has recommended that the Council prepare an annual Statement on Internal Control (SIC) to replace the SIFC in its financial statements. This approach, which has been agreed by the Executive Committee, will ensure the Council meets best practice in governance and the presentation of its financial statements going forward. The SIC provides assurance on the adequacy and effectiveness of all of the Council's systems (including those covering risk and performance) and is not restricted to financial systems only. The Council should ensure it has an appropriate assurance framework in place to support such a statement, including assurances from internal audit on the operation of non-financial systems.

We reviewed the Council's internal audit department against the eleven standards set out in the Code of Practice for Internal Audit in Local Government in the United Kingdom (the Code) issued by CIPFA and issued our draft report in May 2007.

Overall, we found that the Council has made significant progress in meeting Code requirements since Audit Scotland's national review of internal audit in 2001 and is fully compliant with eight of the Code's eleven standards and partially compliant with the remaining 3 standards. Following our review, we were able to formally place reliance on the work of internal audit to support our audit of both the Council's financial statements and statutory performance indicators.

The key finding from our review was that internal audit needs to be sufficiently resourced to deliver its audit plan effectively. Our report contained a number of other recommendations and an action plan has been agreed with the Head of Strategic Finance to address the issues raised.

Member and Staff Development

The Council prepared well for the elections in May 2007 and had good arrangements in place for member training and induction including the development of a "Councillor Training and Development" policy together with a programme for member induction and training. The Council has provided a range of induction training to members in line with its policy, but has yet to fully evaluate the outcomes from this training or consider how it should continue to support member training and development going forward.

The Scottish Local Authorities Remuneration Committee has recommended that all councils develop role profiles and competency frameworks for all members. Although the Council already has a role profile for members, there is no outcome based competency framework and no ongoing training and development programme. The Council intends to develop such a framework following completion of a national review by the Improvement Service.

The existence of a comprehensive performance management system is a key component in workforce planning. Such a scheme should cover the performance of all employees in the Council during the year, and assess their individual training and development needs.

We found, however, that completion of performance development reviews for staff are not being completed consistently across all Council services. In addition, the personnel department does not formally monitor or report performance in completing staff performance appraisals. In its response to our interim audit report the council has confirmed its HR system can record details of PDR completion and will report progress with PDRs.

Key actions going forward

In summary, the key recommendations arising from our governance audit are that the Council should:

- ensure it has an appropriate assurance framework in place to support the inclusion of a Statement on Internal Control in its 2007-08 annual accounts. This will require:
 - the operation of effective risk management arrangements across all council services;
 - internal audit to be sufficiently resourced to provide the required assurance on the adequacy of operational and financial systems, risk and performance management arrangements and governance; and
 - service Directors to provide signed 'statements of assurance' each year confirming the effective operation of systems of internal control.
- plan to evaluate the effectiveness of existing political governance arrangements when these arrangements have had time to mature; and
- prioritise participation in the National Fraud Initiative to improve arrangements to prevent and detect fraud and corruption.

4. Performance

Introduction

In accordance with the 2006-07 Audit Plan we have reviewed key aspects of the Council's performance arrangements during 2006-07. The detailed recommendations arising from our performance review are contained in our Best Value Follow Up report issued in August 2007 and our Interim Report issued in October 2007. The key findings from our audit of the Council's performance arrangements are summarised below.

Best Value

The Council received a full best value audit in 2005, with the report published in February 2006. In May 2006 the Council published an 'Implementation and Development Plan' outlining how it would seek to improve its best value performance.

As part of our 2006-07 audit, we followed up the Council's progress in addressing the issues raised by Audit Scotland and issued our report in August 2007. We assessed the adequacy of the Council's arrangements for performance management and the achievement of Best Value by:

- working with Audit Scotland, to follow up the Council's progress in addressing the key findings emerging from the recent Best Value report;
- reviewing the Council's arrangements for identifying, measuring and reporting efficiency savings under the efficient government agenda;
- assessing the Council's progress in implementing an effective performance management system; and
- evaluating the effectiveness of management arrangements for reporting performance through statutory performance indicators.

We found that the Council has responded positively to the Best Value report and, with few exceptions, has completed all of the improvement actions contained in the Best Value Implementation and Development Plan prepared in response to the report. In particular, the Council has made significant progress in revising its corporate planning and strategic management arrangements.

The progress made by the Council provides a sound basis from which to take forward the best value and improvement agenda, and the Council must now focus on turning strategies into action and embedding best value principles throughout the organisation to better demonstrate continuous improvement. The key recommendations from our report are highlighted below:

- the Council should explore ways of ensuring that sufficient corporate responsibility is taken for delivering cross cutting themes such as efficiency, performance and risk management, and ensuring priority is given within individual departments to delivering key corporate initiatives;
- there is an immediate need to create additional corporate resource to ensure recently developed improvement plans and strategies, including performance management, are implemented;

4. Performance

- the Council's plan to roll out the performance management system across all Council services should be implemented in a shorter timescale than currently envisaged;
- risk management arrangements should be developed as an effective operational management tool;
- the Council faces a significant challenge to rationalise its property portfolio, release efficiency savings and develop its existing estate to improve the provision of Council services to the public; and
- the Council has developed its strategy for efficient government but has not yet agreed a programme of efficiency savings required to meet central government targets and expectations. In addition, the Council does not yet have a systematic process in place for identifying, measuring, monitoring and reporting on efficiency.

An action plan has been agreed with the Chief Executive to address the issues raised. Audit Scotland has informed the Council of its intention to undertake a further interim Best Value review during the 2007-08 financial year and our report will inform that review. The Council should prioritise action to address the issues raised in our report to prepare for the Audit Scotland review later in the year.

Community Planning and Partnership Working

Community planning is the process through which public sector organisations work together and with local communities, the business and voluntary sectors, to identify and solve local problems, improve services and share resources. The Local Government Scotland Act 2003 provides the statutory basis for community planning. It requires councils to initiate and facilitate the community planning process, and NHS boards, the enterprise companies, the police and the fire and rescue service to participate.

Our review considered the progress the Council has made in implementing a comprehensive community plan and implementing the recommendations made in Audit Scotland's national report on community planning.

The Council has improved its community planning processes and has prepared a Community Plan for the period 2007-2012 and this has been published on its website. This Plan sets out the Council's approach to community planning and partnership working, and includes an action plan setting out the key priorities and how they will be achieved.

The Council has yet to implement some of the recommendations in Audit Scotland's national report on community planning. The report recommended that schemes of delegation and joint risk registers be established between the Council and its partners.

Performance Indicators

The Council is required to prepare statutory performance indicators (SPIs) in accordance with a direction issued annually by the Accounts Commission. We audit these indicators to ensure they are prepared in accordance with the guidance. SPIs represent the main source of performance information for the Council.

We classified one indicator relating to asset management as unreliable as the total floor area used to calculate the indicator did not agree back to the conditions surveys undertaken by the Council. The Council had also not carried out any formal suitability surveys in 2006-07 (or the preceding 5 years) as required by the guidance. The Council has agreed to take action to obtain this information for the 2008 indicators as part of its overall arrangements to improve asset management information.

4. Performance

The Council performs at the extreme end of the range across a small number of indicators as highlighted below:

- the Council processes 99.6% of all housing benefit claims accurately and ranks second of all councils in Scotland on this indicator of performance;
- the number of new probationers seen within one week by a supervising officer has declined to 77.7% in 2006-07 from 93.9% in 2005-06. In addition, the proportion of social enquiry reports submitted to the court by the due date has declined to 90.2% in 2006-07 from 98.9% in 2005-06;
- it costs the Council £128.91 to dispose of refuse for each premises in its area, and this is the highest average cost of any Scottish Council. This high cost is linked to the Council's geography and the high initial costs associated with the development of the Waste Management PPP Scheme; and
- 57 of the Council's 80 primary schools (72%) have occupancy rates of less than 60% with only one other council in Scotland reporting a lower occupancy rate. In addition, the schools estate requires extensive modernisation which is estimated to cost up to £227 million, with £86 million of this sum being invested through the NPDO project. The Council has yet to determine how it will address the need to modernise and rationalise its school estate within existing financial constraints.

The Council has recently introduced the 'Pyramid' performance information system and currently produces information on over 4,000 measures of performance covering all Council services. Our Best Value report identified that the Council is, however, at the early stages in developing its performance management framework and much work needs to be done in this area, including:

- development of performance targets that are better aligned to corporate priorities;
- improved arrangements for monitoring performance against targets, benchmarks and over time;
- more focus on key performance information requirements, including information on service quality and volume, and rationalisation of existing performance measures;
- further development of performance management reporting arrangements, including the frequency and format of reports for all levels of management; and
- clearer arrangements for identifying and tackling poor performance.

The Council undertook to address these issues in its response to our follow-up report on Best Value issued in August 2007.

Efficient Government

The efficient government initiative is a central part of the government's programme of investment, reform and modernisation. The Efficient Government Plan (EGP) sets targets to achieve £745 million of cash-releasing savings, and £300 million of time-releasing savings, by 2007/08. It anticipated that Argyll and Bute Council's contribution to the top-sliced target of £168.3 million will be £3.2 million over three years, equating to around £1 million for 2006-07.

The Council has developed an efficient government strategy and has agreed to take action to build anticipated efficiency gains into future budgets and its programme of best value reviews. The Council is also required to submit an annual 'efficiency statement' to the Scottish Government outlining savings achieved during the year.

4. Performance

The Council estimates that it achieved cash releasing savings of £3.3 million (representing 2% of its net cost of services) for 2006-07, exceeding the Government target. The Council forecasts that additional savings of £7.5 million will be required for the 2007-08 financial year to address the significant financial constraints referred to earlier in this report.

The Scottish Government has indicated its intention to revise the EGP and require 1.5% (now 2%) efficiency savings from existing budgets annually from 2008-09. In order to claim an efficiency, councils need to demonstrate that service outcomes have been maintained or improved and this can only be achieved through a robust performance management system that captures information and baseline data covering both cost, quality and volume aspects of service provision. As noted above, the Council recognises that it is at the early stages of introducing such a system.

Key actions going forward

In summary, the key recommendations arising from our performance audit are that the Council should:

- focus on implementing the strategies and plans developed in response to Audit Scotland's Best Value report to embed a culture of performance and continuous improvement across its services. In particular, the Council's framework for performance management should be further developed and implemented across all Council services as a matter of priority;
- further develop risk management arrangements as an effective operational management tool;
- develop plans to rationalise its property portfolio, release efficiency savings and develop its existing estate to better meet corporate priorities; and
- agree a programme of efficiency savings, as part of a medium term financial strategy, required to meet central government targets and expectations and develop a systematic process for identifying, measuring, monitoring and reporting on efficiency.

Appendix A - 2006-07 Audit Reports Issued

Report Title	Key Topic	Month Issued
Annual Audit Plan	Summary of the 2006-07 planned audit work, demonstrating how we will discharge our responsibilities under Audit Scotland's Code of Audit Practice.	January 2007
Review of Internal Audit	Assessment of Internal Audit against the CIPFA Code of Practice.	July 2007
Follow Up Review of Best Value	Assessment of the Council's progress in addressing the recommendations made by Audit Scotland following publication of the Best Value report in February 2006.	August 2007
Interim Report	Review of the operation of the Council's key financial systems and governance arrangements.	October 2007
ISA260 - Communication of Audit Matter to those Charged with Governance	Summary of key issues emerging from the audit of the Council's financial statements.	September 2007
Annual Report to Members	Summary of the key issues emerging from the 2006-07 audit.	October 2007