

# Inverclyde Council

**Report to Members and the Controller of Audit  
on the 2006/07 Audit**



**October 2007**



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# Key Messages

## Introduction

1. In 2006/2007 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 main findings, summarising key outcomes in 2006/2007 and the outlook for the period ahead.

## Key outcomes from 2006/2007 audit

2. We have given an **unqualified** opinion on the financial statements of Inverclyde Council for 2006/2007.
3. The Council continues to face significant challenges in relation to its improvement agenda. A Transformation Programme was established following the Council's best value audit report in 2005. Eight of the twenty work streams have been completed and progress has been made in taking forward the remaining areas. It is acknowledged that some of the work streams will be on going but the Council recognises the need to identify specific milestones to ensure effective progress. Some slippage has been experienced and the Council is continuing to progress these areas including the completion of corporate and community plans, roll out of the schools estate strategy and transferring the housing stock to River Clyde Homes.
4. Progress on the delivery of the Transformation Programme is being reported to the Policy and Resources Committee in November 2007. This will close down the Transformation Programme work streams with outstanding work streams being incorporated into the new Organisational Development and Improvement Plan which will inform the Council's preparations for the next audit of Best Value and Community Planning.
5. Performance management arrangements have developed during the year with the introduction of a strategic planning and performance management framework. The focus is now on ensuring that reporting mechanisms for the new corporate plan from 2007 are based on more effective, outcome focused, measurable impacts. The Council needs to demonstrate that service outcomes have been maintained or improved and to evidence the link between performance and resources measurement.
6. At the end of the year the Council had increased its general fund working balance by £6.8 million due mainly to delays in finalising the single status agreement and under spends in both the Rainbow Nursery and Birkmyre Pavilion projects. The Council is however likely to experience significant budget pressures during 2007/2008 and beyond due to the impact of implementing the single status



agreement for employees which has been estimated to cost £2.3 million in 2007/2008. This will increase in future years to meet the cost of incremental drift, it is anticipated that this will be in the region of £0.6 million to £0.8 million per annum. Further pressures include loan charges arising from the schools estate strategy, the housing stock transfer and funding allocations to Riverside Inverclyde urban regeneration initiative.

7. The capital plan for 2006/2007 was some £20.9 million under spent against the planned spend of £45.5 million.
8. Riverside Inverclyde is a joint partnership project involving Inverclyde Council, Scottish Enterprise Renfrewshire, Communities Scotland and Clydeport Limited. The regeneration initiative amounts to £400 million and involves radical transformation of the water frontage from Port Glasgow to Greenock over the next ten years. Riverside Inverclyde became an urban regeneration company allowing it to more effectively co-ordinate investment plans of both the public and private sector bodies involved. There are risks associated with this method of service delivery in particular with ensuring that the activity delivers the services required and that there is clear accountability for public funds. The Council should continue to develop and monitor arrangements in place to manage these risks.

## Outlook for future audits

9. 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:
  - Strategic management and organisational restructuring
  - Performance management and improvement
  - Corporate governance and risk management
  - Affordability and sustainability
  - Effective partnership working
  - Efficient government.
10. A further Best Value follow up progress report requires to be submitted to the Accounts Commission by 30 June 2008. It is important that the Council maintains momentum to achieve best value objectives and improved performance.
11. The Council currently has 279 current or former employees who have raised an equal pay compensation claim which is to be taken to an Employment Tribunal. This number includes employees who have already been offered a compensation package by the Council and have rejected it, as well as employees who were not part of the group offered compensation. The 2006/2007



accounts includes an ear-marked reserve of £1.370 million, however the Council have not performed an analysis on the number and type of outstanding claims to ensure that this figure is adequate.

12. The Council has yet to implement pay and grading conditions for its employees which comply with the single status agreement. The earliest possible date for its implementation is January 2008, however it is more likely to be later than this. Included in the 2006/2007 financial accounts is an ear-marked reserve for single status to the value of £1.499 million. Until such time as single status is implemented the Council could potentially be underpaying some employees, continued delay in implementation leaves the Council open to further equal pay claims.
13. An efficiency statement was submitted to COSLA within the permitted timescales, outlining proposed efficiency savings for 2007/2008, however the Council recognises it has more work to do to identify efficiency savings for subsequent years to meet the target set by the Scottish Government. It will also be challenging for the Council to deliver on its programme of savings while managing the impact on services, service users and the Council's overall objectives.
14. The housing stock transfer was due to take place on 1 October 2007. Due to a failure to agree terms with River Clyde Homes the transfer has been delayed until 3 December 2007. An alternative strategy has not been developed to manage the housing stock should further delays occur which may impact on services available to tenants.
15. There has been slippage in delivery of the schools estate programme as further consultation on the way ahead has taken place due to a change in Administration. Additional delays will affect the Council's ability to deliver the schools estate strategy.
16. Changes to accounting rules had a major impact on the presentation of the 2006/2007 annual financial statements. The Council should take this opportunity to review the presentation of its budget and summary financial results to councillors and the wider public to ensure transparency.
17. There is currently no formal system in place to effectively manage and monitor external audit action plan points. Consideration should be given to developing such a system to ensure planned action is implemented both effectively and timeously.
18. The co-operation and assistance given to us by Inverclyde Council councillors and staff during the year is gratefully acknowledged.

**Audit Scotland**  
**October 2007**



# Introduction

19. This report summarises the findings from our 2006/2007 audit of Inverclyde Council, the first year of a five year appointment. Findings are drawn together within four sections, namely, performance, financial position, governance and financial statements. Within each of these sections we have also provided an outlook setting out key issues and concerns facing the council going forward.
20. The scope of the audit was set out in our Audit Risk Analysis and Plan (ARAP), which was submitted to the Council's Corporate Management Team in March 2007. Under the following strategic themes, the ARAP set out our views on the key business risks facing the Council and described the work we planned to carry out:
  - Strategic management and organisational restructuring
  - Performance management and improvement
  - Corporate governance and risk management
  - Affordability and sustainability
  - Effective partnership working
  - Efficient government.
21. Overall conclusions about the Council's management of key risks are discussed throughout this report.
22. We also undertook a review of the budgetary control system and followed up the previous year's computer services review which resulted in separate audit reports. Within this report, we highlight key messages from those separate reports for the consideration of members. Appendix A of this report sets out the key risks highlighted in this report which we wish to draw to the attention of members and the action planned by management to address them.
23. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members during the course of our audit work.



# Performance

## Introduction

24. In this section we summarise key aspects of the Council's reported performance during 2006/2007 and provide an outlook on future performance, including our views on the current status of identified risks. We also comment on the best value audit follow up which was carried out during the year.

## Corporate objectives and priorities

25. The Council's interim Corporate Plan for 2006 – 2007 sets out the key goals and priorities for the Council until 2007 and explains how it planned to achieve these. The plan was set out in five priorities, which cut across a variety of services:

- promoting economic development
- promoting lifelong learning
- promoting health, well-being and active citizenship
- promoting a safe and sustainable environment
- developing the organisation.

26. A total of 24 aims are stated across these priorities. These priorities include the following pledges by the council:

- improve the attractiveness of Inverclyde to encourage economic investment
- to raise standards of education attainment and achievement
- to improve the environment
- promote health improvement
- deliver the highest possible customer service.

27. Following the May 2007 elections, the previous administration of Inverclyde Council was replaced by a new minority administration with Labour having 9 of the 20 members.





## Overview of performance in 2006/2007

### Annual Public Performance Report

28. The Council's performance report was published in February 2007 and provided a brief round-up of the performance of services provided by Inverclyde Council for 2005/2006. It includes a joint statement from the former Leader of the Council and the Chief Executive highlighting both current and future developments. The 2006/2007 report is due to be published in December 2007.
29. The report describes aspects of performance, achievements and areas for future improvement across each of the corporate plan themes, including:
- **Promoting economic development** – An urban regeneration company Riverside Inverclyde was established to shape and regenerate the water frontage from Port Glasgow to Greenock; key partners are Inverclyde Council, Scottish Enterprise Renfrewshire, Communities Scotland and the major landowner Clydeport. The main focus during 2006/2007 was to further improve employment opportunities for residents in disadvantaged communities and developing a skilled and flexible workforce.
  - **Promoting lifelong learning** – increase in secondary education attainment levels with higher than national average results. Limited progress was made during the year in increasing life skills, ambition and creativity of learners; this will be the focus for improvement in 2006/2007.
  - **Promoting a safe and sustainable environment** – Recycling rates for waste collected increased from 6% to 18.6%; a problem solving unit was established which encourages a multi-agency approach to tackling anti-social behaviour in communities. Progress was disappointing in promoting sustainable construction and promotion of energy conservation and the use of renewable energy resources, these areas will be targeted in 2006/2007.
  - **Promoting health, well-being and active citizenship** – progressing and establishing with NHS Greater Glasgow and Clyde a Community Health Partnership. Improvements in 2006/2007 were planned around working with communities and community planning partners to develop and implement a range of initiatives to promote well-being.
  - **Developing our organisation** – producing an interim Corporate Plan for 2006/2007; a new council magazine was launched to engage with residents. A number of areas were identified for improvement in 2006/2007 including;
    - development of a new corporate performance management framework
    - implementing a new organisational structure
    - developing an asset management strategy
    - development of a corporate human resources strategy



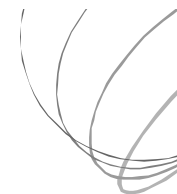
- introducing effective community planning arrangements
- developing a customer service strategy.

30. We will follow up planned progress identified above as part of our 2007/2008 audit activity.
31. The annual public performance report is linked to the interim corporate plan and the associated objectives set. Improvements identified in the 2005/2006 report will require to be measured against the interim corporate plan to assess achievements to date. 2006/2007 improvements need to be aligned to the new 2007/11 Corporate Plan. If performance targets and indicators are not directly linked to the key challenges and goals in the corporate plan it will be difficult for members and the public to consider the extent to which resources are being used most effectively to address the corporate priorities.
32. This matter is being addressed as part of progress against the transformation programme with continuing development of a comprehensive performance monitoring system linked directly to directorate plans.

## **Corporate Performance Management Report**

33. The Council has developed a Corporate Performance Management Report; this was presented to the Policy and Resources Committee in September 2007. This information has been presented to the Corporate Management Team on a bi-monthly basis since January 2007. The report includes:
  - updates on key corporate programmes/ projects
  - progress with the efficiency review programme
  - corporate “health check” performance indicators.
34. The report is a positive development in terms of progressing the performance management framework. Directorate specific performance reports are also presented to the appropriate committees to provide detailed information on performance to date. This gives members the opportunity to review and scrutinise aspects of performance on a regular basis and provides more balanced reporting. Consideration should be given to further developing this reporting mechanism to highlight achievements, areas for improvement and action taken to deliver services effectively. In addition there is a need to link performance indicators to directorate plan targets to measure outcomes in terms of meeting customers’ needs and achieving efficiency for the Council.

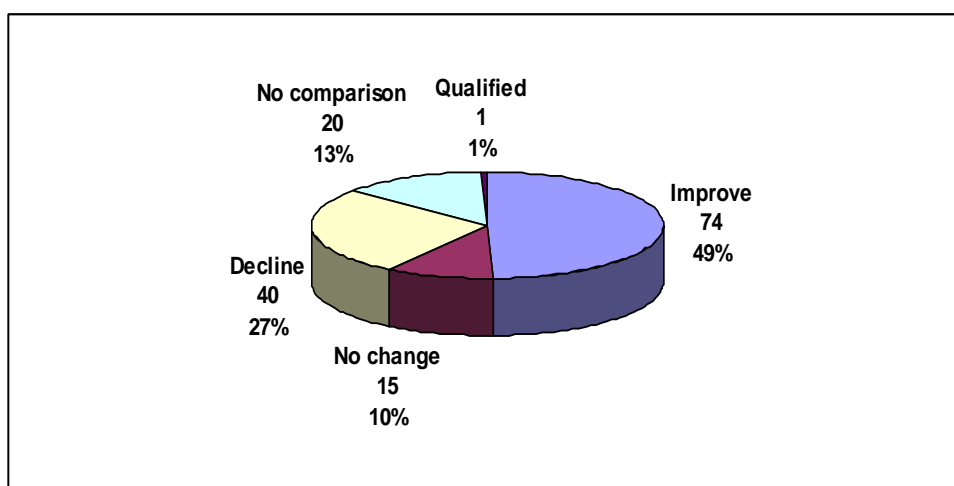
**Action plan 1**



## Statutory performance indicators

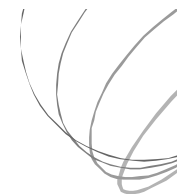
35. One of the ways of measuring the Council's comparative performance is using statutory performance indicators. Historically, the Council has been placed in the lower quartile of national comparisons. It is noted that this has been recognised by the Council and an internal review was carried out in 2006/2007 of the 27 performance indicators which were ranked in the lower quartile and whose performance had fallen in the previous two years. This has helped contribute toward improved performance in 2006/2007 and we further note there is an intention to maintain this momentum in 2007/2008.

### Analysis of 2006/2007 Statutory Performance Indicators



36. Detailed below are areas where substantial improvements have been made although it is noted that some have made improvement from positions of poor prior performance and thus continued improvement is still required in order to attain a good standard of service delivery:

Performance Indicator	2005/2006	2006/2007	Change
Housing benefit overpayments recovered (expressed as a percentage of total housing benefit overpayments identified)	75	81	8%
The percentage of Council buildings suitable for, and accessible to, disabled people	25%	35%	42%
The percentage of care staff with appropriate qualifications working in Council residential children's homes	23%	49%	112%
Total hours of daytime respite care provided to children (hours per 1,000 population)	157.6	457.2	190%



<b>Performance Indicator</b>	<b>2005/2006</b>	<b>2006/2007</b>	<b>Change</b>
The percentage of urgent housing repairs completed within the target response time	38%	71%	88%
The percentage of routine housing repairs completed within the target response time	43%	80%	87%
The average length of time to re-let Council dwellings which are not low demand	163 days	102 days	-37%
The average length of time to re-let Council dwellings which are low demand	237 days	152 days	-36%
The percentage of high risk trading premises completed within the target time (12 months)	80%	100%	25%
The percentage of medium risk trading premises completed within the target time (2 years)	61%	88%	44%

37. However, performance has declined in some areas as shown in the table below.

<b>Performance Indicator</b>	<b>2005/2006</b>	<b>2006/2007</b>	<b>Change</b>
The percentage of primary schools with occupancy levels between 81% and 100% capacity.	27%	23%	-14%
The average time taken to provide community care services from first identification of need the first service provision	8	10	-25%
The percentage of the road network that should be considered for maintenance treatment	47	57	21%
The proportion of street lighting columns that are over 30 years old	22	39	77%
The percentage of bridges that fail to meet the EU standard	9%	17%	86%

38. Each year we review the reliability of the Council's arrangements to prepare SPIs. Overall the quality of working papers provided to support the SPIs this year varied across services as did some of the explanations provided for the year to year variances. Consideration should be given to developing procedural guidance to manage the quality of information provided to support SPI submissions in future. Only one indicator (cultural and community services – museum services) was classified as unreliable compared to four in 2005/2006. This was caused by an inability to differentiate between general usage of the museum website and usage specific to collections. This issue has since been rectified and is not expected to cause difficulty in 2007/2008. In general, we noted considerable



improvement in the returns, both in terms of performance and in terms of the management of the whole SPI process.

## **Audit of Best Value and Community Planning**

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 full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out.
40. Progress against plan is monitored through the audit process and reported alongside other findings elsewhere in this report.
41. The Best Value and Community Planning audit of Inverclyde Council was published in May 2005. Further progress reports were issued in November 2005 and February 2007. A further follow up report on progress made requires to be reported to the Accounts Commission by 30 June 2008. In response, the Council approved a management of change programme in January 2006 setting out the eight work streams from the report together with the planned actions and timescales for implementation.
42. Since this time, the change programme has been incorporated into the Council's overall Transformation Programme. A progress report has been considered by the Council in June 2007 with a further update at September 2007 being presented to Committee in November 2007. The status reports would benefit from specific timescales to enable members to monitor progress effectively.
43. The draft position statement at 30 September indicates that 8 of the 20 key milestones have been completed relating to:
  - chief executive recruitment
  - management structure
  - political management systems and member / officer relations
  - budget and operating plan 2006/2007
  - review of member support
  - set up of Riverside Inverclyde
  - revenue budget setting for 2007/2008
  - elections preparation May 2007.



44. Many of the actions in the progress report are central to the Council's 'core issues' which are reported to the corporate management team. Based on our review and monitoring of the reports produced in the Council for officers and members, the above improvements are consistent with our findings.
45. Progress has been made in the remaining areas and the Council has largely implemented the priorities set out in the management of change programme, some slippage has been experienced, for example:
- Agreement for the community plan has slipped from August to December 2007.
  - Linking corporate to directorate plans is progressing however the financial strategy is outstanding.
  - There have been delays in delivering the schools estates strategy. This in part has been due to consultation on alternative proposals due to a change in policy by the new administration.
  - The housing stock transfer was scheduled for 1 October 2007, this has been delayed until 3 December 2007 as the parties were unable to agree the terms of the transfer agreement itself with River Clyde Homes.
  - There has been significant slippage in delivering a corporate approach to asset management.

#### **Action Points 2 & 3**

46. Overall, however, the Council's monitoring reports clearly indicate that the Council has made progress in delivering its Transformation Programme. When the Transformation Programme is reported to committee in November 2007 this will close down the completed work streams. An assessment will be conducted to identify the areas to be carried forward to the broader Organisational Development and Improvement Plan by December 2007. The Transformation Programme for the continuing work streams will continue to be reported in a bi-monthly performance report.
47. Good progress has been made by the council in implementing its improvement plan however there has been slippage in a number of areas identified above. It is important that the Council maintains momentum to deliver organisational change and development and ultimately improve services provided.



## Performance outlook – opportunities and risks

### Introduction

48. In the course of our audit work we identified some of the strategic risks to Inverclyde Council delivering on its stated objectives and priorities in the years ahead. These risks were set out in our Audit Risk Analysis and Plan and grouped into six risk themes. In the following paragraphs, we comment on the progress made by the Council during the year and the key risks yet to be fully addressed. Where appropriate, matters arising in a number of these areas are also reported in more detail elsewhere in this report. 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”, and have sound processes of risk management, rather than “risk averse”. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.

### Strategic management and organisational re-structuring

49. Political decision making structures have been reviewed and revised arrangements put in place which complement the overall organisational structure. The organisational re-structure is progressing, phase 3 of the directorate structures was approved by Committee in September 2007. This phase deals with posts at team leader level and below. Revised arrangements need to bed down to deliver real service improvements.

50. A revised Corporate Plan has been prepared for 2007/2011 – “An ambitious confident Council”. The plan is undergoing consultation with stakeholders and is due to be adopted by the Council in October 2007. Directorate planning guidance was developed during the year and individual Directorate Plans for 2007/2008 were approved by the Council in June 2007. This represents significant progress for the Council. The date for preparing and adopting the Community Plan has however slipped to December 2007. The timescale for producing the Financial Strategy has also been delayed and a revised date for preparation is outstanding. It is critical that this does not slip further as the Corporate, Community, Service and Financial plans require to be aligned to achieve strategic objectives.

#### Action Point 3

51. The proposed timescale for introducing a workforce plan has been delayed due to workload issues relating to both single status and organisational restructuring. It is now intended that the workforce plan will be incorporated in the Organisational Development and Improvement Plan which is planned to be completed during 2008.



## **Performance Management & Improvement**

52. The Council introduced a “Strategic Planning and Performance Management Framework” during the year which formed the basis for the considerable progress made. Performance reports are based on Directorate Plans and are now being reported to the revised strategic committees. In addition the first bi-monthly Corporate Performance Report was considered by the Policy and Resources Committee in September 2007. A significant amount of activity has taken place during the year to develop the framework, moving forward the success of the framework will be dependent upon the action taken to address achievements and improvements identified across the Council.
53. The Council's performance review and appraisal process has been applied to the Chief Executive, Corporate Directors and Heads of Service. Consideration should be given to rolling out a council wide appraisal process.

## **Corporate Governance and Risk Management**

54. In common with many councils, the elections have resulted in a new administration and a considerable number of new councillors. This has required substantial support from officers to ensure that adequate training and development programmes were provided. Alongside this, the Council took the opportunity to review its political management structure which was agreed and approved prior to the summer recess. While these changes have been bedding in, the Council has experienced disruption in progressing important priorities such as the schools estates strategy.
55. During the year a comprehensive member development programme to be delivered over a two year period was introduced which provided training for all members following the May 2007 elections. To date the planned timescales for implementation have been achieved, however there have been varying levels of attendance by members at training events.
56. A Risk Management Strategy was developed during the year and approved by the Audit Committee in June 2007. In addition Directorate risk registers are in place and an update was reported to the Corporate Management Team in September 2007. An elected Members risk management training session is scheduled for October 2007.
57. Early in 2007/2008 the Financial Regulations, Standing Orders and Scheme of Administration, together with the Standing Orders relating to Contracts were reviewed and adopted. Work continues in revising the Scheme of Delegation for Officers. A handbook for Members was developed and issued during the year.
58. A complaint made by an unsuccessful tenderer resulted in an internal audit investigation during the year. The report was highly critical regarding compliance with tendering procedures and the letting of





contracts and may result in financial loss to the Council as a result of possible legal action. Previously we have reported shortcomings in relation to tendering procedures in the under-noted reports:

- Matters Arising from the investigation of the complaint relating to tender for telescopic handlers (March 2006).
- Review of Tendering Procedures (June 2004).

These reports also highlighted significant weaknesses in tendering procedures and practice.

#### **Action Point 4**

59. Business continuity plans were due for completion by May 2007, this timescale has slipped and a new expected completion date of March 2008 has been set. As risk registers have been developed down to directorate level, it is now intended that a project will be undertaken to extend this work to develop business continuity management arrangements.
60. The Council's corporate governance arrangements and the implications of the of the May 2007 election are discussed in more detail in paragraphs 138 to 175 below.

#### **Effective partnership working**

61. The Council has reviewed its community planning arrangements, resulting in the establishment of new thematic partnership structures and governance arrangements. The Inverclyde Alliance at its meeting in 2006 approved an improvement plan to underpin its approach to community planning. A new Community Plan was scheduled for August 2007; this timescale has now been revised to December 2007. There is a risk that if the timescale slips further community planning arrangements will take some time to bed in thus reducing the pace of community planning across Inverclyde.
62. A number of shortcomings were identified during the year in relation to the management and control of funds awarded to third parties. There were significant weaknesses in project performance monitoring and reporting. We are concerned that Community Regeneration Funding is being used in some cases to support financial commitments such as employee costs. Beyond March 2008 there is no guarantee that CRF funding will continue. Consideration should be given to developing an exit strategy to alleviate financial pressures should funding be discontinued. Revised governance arrangements have now been produced for Community Planning Partnership. Governance arrangements for the Community Regeneration Funding have also been developed.

#### **Action Point 5**

63. A community health partnership (CHP) has been established between the Council and NHS Greater Glasgow and Clyde. Operational arrangements have progressed with an increase in joint working



activity taking place. It is also intended that jointly funded posts will be put in place to further develop the effectiveness of the arrangement. A seminar was held with members in September 2007 to discuss the way ahead for the CHP. Consideration is being given to progressing towards a community health and care partnership to extend integrated working practices in delivering health and social care services to the community.

## **Affordability and Sustainability**

64. The Council continues to face significant challenges both in relation to delivery of its improvement agenda but also with regard to managing ongoing financial pressures such as implementing single status. The general fund increased by £6.865 million in 2006/2007 to £17.476 million at the 31 March 2007. However the majority of these funds (£14.156 million) are ear-marked for specific purposes, for example the implementation of single status and the settlement of outstanding equal pay claims. The usable general fund therefore at 31 March 2007 was £3.320 million. The 2007/2008 budget process planned to reduce this usable balance further, to £3.2 million, which represents the minimum level recommended by the Chief Financial Officer. The Council will have to exercise control over its expenditure in 2007/2008 to ensure that its level of usable general fund reserve does not fall below the recommended minimum level.

### **Action Point 6**

65. Reports to the Corporate Management Team throughout the year highlight the need for rationalisation of the property portfolio. A revised approach to property asset management is required to provide a more structured method for the effective operation and disposal of properties. Tendering is underway to purchase software to assist with this process. Consultants have also been appointed to provide first phase asset management services which should aid and accelerate the asset management strategy.

66. Limited progress has been made in developing a procurement strategy due to vacancies within the procurement section. It is essential that momentum is increased in this area to ensure best value is being achieved within the purchasing function.

67. There has also been slippage in the following areas:

- delivery of the capital programme
- transferring the housing stock to River Clyde Homes
- delivering the Schools Estates Strategy.

68. We have considered the impact of the above slippage in the financial position and performance sections in this report.



## **Efficient Government**

69. A programme of efficiency reviews has been set up across 17 service areas to identify efficiencies across the Council. Progress on the reviews is reported to the Corporate Management Team and the Policy and Resources Committee. Progress has slipped in 5 of the areas being targeted. It is essential that momentum is not lost in this area as this will have a negative impact on service improvement and delivery.
70. The Council submitted its 2006/2007 efficient government statement to COSLA in August 2007, it was also considered and endorsed by the Policy and Resources Committee in September 2007.
71. The mechanism used to record efficiency savings requires to be strengthened, and there needs to be increased dialogue between finance and services to capture the savings.

## **National studies**

72. 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 of direct interest to the Council are set out in paragraphs 73– 81 below. Further information on these studies and reports can be obtained from Audit Scotland's web page at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## **Sustainable waste management**

73. There is an increasing awareness of the need to protect the environment and to promote the sustainable use of resources. As a result of UN conventions and EU Directives, the UK government introduced a landfill tax to discourage the disposal of waste in landfill sites and set a (non-statutory) target that Local Authorities should recycle 25% of household waste by 2000. This target was not achieved.
74. Further EU Directives required Member States to “take appropriate steps to encourage the prevention, recycling and processing of waste” and to set out details of measuring processes within waste management plans. Subsequently a series of targets was set over the period to 2020 to reduce the amount of biodegradable waste going to landfill. The EC can impose a fine on the UK of up to £350,000 per day if it fails to meet its targets.
75. The purpose of Audit Scotland's study was to examine the performance of Local Authorities, the Scottish Environmental Protection Agency (SEPA) and the Scottish Government in reducing the amount of municipal waste being disposed of as landfill, including the impact and value for money achieved by the investment in this area.



76. The key findings highlighted in Audit Scotland's national report, published in August 2007, were that:

- while significant progress has been made in meeting interim recycling targets, the rate varies considerably between councils and the type of collection system employed
- there has been slow progress in developing facilities to treat residual waste. There is therefore a significant risk that EU directive targets may not be met
- increased recycling has led to increased costs
- all parties need to work more effectively together to make rapid progress in waste minimisation, recycling and waste treatment to achieve the landfill directive targets.

77. Specifically in relation to Inverclyde, the report states that:

- In 2005/2006 Inverclyde recycled around 20% of its municipal waste compared to a national average figure of around 25%.
- The level of public participation in recycling in Inverclyde slightly exceeds the national average of 81%.
- The cost of mainstream waste collection in Inverclyde in 2005/2006 is greater than the cost in 1999/2000 in real terms. This is in line with most other councils in Scotland.

## **Dealing with offending by young people**

78. Audit Scotland published reports on Dealing with offending by young people in December 2002 and November 2003. Audit Scotland undertook a follow-up study review to ascertain improvements in performance since 2002 of agencies who deal with young people who offend in the context of a changing policy landscape.

79. The key findings from the study are:

- The Scottish Government has shown a consistent commitment to improving youth justice services and has increased funding for youth justice services from £235 million in 2000/2001 to £336 million in 2005/2006 together with practical support and guidance to help youth justice services to improve performance.
- However, the impact of this on services and outcomes is not yet demonstrated. Limited outcome measures are available and there are weaknesses in performance management arrangements. Therefore, it is not possible to assess the effectiveness of the additional expenditure in reducing offending and improving the quality of life of local communities.



80. Although the report does not make specific reference to Inverclyde, there are a number of recommendations which the Council should consider.

### **Scotland's School Estate**

81. A national review of how effective recent investments in the Scottish school estate have been in terms of improving the quality of the learning and teaching environment. The performance of the Scottish Government and local authorities in improving the schools estate within the context of the 2003 strategy 'Building our Future' – Scotland's school estate will be considered. This work is currently in progress and due to be reported by December 2007.



# Financial position

## Introduction

82. In this section we summarise key aspects of the Council's reported financial position and performance to 31 March 2007, providing an outlook on future financial prospects, including our views on potential financial risks. Under the strategic theme of 'affordability and sustainability', our Audit Risk Analysis and Plan (ARAP) recognised the significant challenges being faced by the Council both in relation to delivery of its improvement agenda but also with regard to managing ongoing financial pressures such as implementing single status. Our findings and key messages are set out in this section.

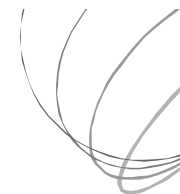
## Council tax and the general fund

### Operating performance 2006/2007

83. The presentation of the 2006/2007 financial statements has changed significantly from the previous year, as a result of changes to the Code of Practice on Local Authority Accounting in the United Kingdom 2006 (the SORP). In place of the previous consolidated revenue account, the accounts now include an income and expenditure account and a statement on the movement of the general fund balance. The income and expenditure account discloses the income receivable and expenditure incurred in operating the council for the year. The deficit incurred on the income and expenditure account represents the amount by which income is less than expenditure.

84. The income and expenditure account is prepared using essentially the same accounting conventions (UK GAAP) that a large unlisted company would use in preparing its annual financial statements. However, there are items of income and expenditure that need to be included in the general fund and therefore taken into account when determining a local authority's budget requirement and its council tax demand. These items are determined by statute and non-statutory proper accounting practices, rather than being in accordance with UK GAAP, and are reported in the statement of the movement on the general fund. The general fund surplus for the year is disclosed within the statement on the movement of the general fund balance; previously this was disclosed on the consolidated revenue account.

85. The Council's net operating expenditure in 2006/2007 was £168.896 million. This was met by government grants and local taxation of £168.272 million, resulting in an Income and Expenditure deficit of £0.624 million. The statement of movement on the general fund balance shows that a general fund surplus of £6.865 million was achieved in year. When this surplus is added to the general fund balance brought forward from 2005/2006, the Council has a general fund balance of £17.476 million at 31 March 2007.



86. The budget set for 2006/2007 was based on a Band D council tax level of £1,206. A contribution from the unallocated general fund reserves of £0.32 million was planned. In his Foreword to the financial statements the Chief Financial Officer highlighted that the General Fund returned a surplus of £6.865 million against a planned breakeven position. The main reasons given for this result in the foreword are:

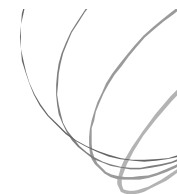
- The delay in implementing pay and conditions for Council employees which meet with the single status legislation (£1.5 million).
- Under-spends in respect of the Birkmyre Park Pavilion and the Rainbow Nursery relocation projects (£1.16 million and £0.5 million respectively).

87. During the year the anticipated year-end general fund position was reported to the Policy and Strategy committee. The last update was provided to members at the meeting held on the 3 April 2007 (for the period to the 31 of January 2007). The table below shows the movement between the forecast position and the final audited accounts. The format used for these reports is not consistent with the financial statements, and therefore does not allow the reader to make meaningful comparison with ease. We raised concerns about the format and layout of these reports in our Review of Budgetary Control report which was issued in September 2007.

#### Action Point 7

#### General fund analysis

Description	2006/2007 Forecast £ Million	2006/2007 Audited £ Million	Movement £ Million
Usable general fund	3.200	3.320	0.120
Ear-marked reserves	13.846	14.156	0.310
<b>General Fund</b>	<b>17.046</b>	<b>17.476</b>	<b>0.370</b>



## Reserves and balances

88. At 31 March 2007 the Council had total cash backed reserves and funds of £22.820 million, including an insurance fund and an education fund. The table below provides an analysis of these reserves and funds.

### *Reserves and Funds 2006/2007*

Description	2006/2007 £ Million	2005/2006 £ Million
General Fund	17.476	10.611
General Fund – Housing revenue account balance	0.842	(0.039)
Insurance Fund	4.360	3.039
Education Fund	0.142	0.141
	<b>22.820</b>	<b>13.752</b>

89. The Council aims to maintain a minimum usable General Fund reserve (i.e. not earmarked for a specific purpose) of 2% of budget, which equated to around £3.4 million in 2006/2007). At 31 March 2007, the majority of the general fund was earmarked for specific purposes and the usable balance had been reduced to a figure of £3.320 million. The Council plans to reduce this balance further, to £3.2 million by 31 March 2008. This represents the minimum level recommended by the Chief Financial Officer. A range of financial issues which could further impact on the reserves position are discussed in our Financial Outlook section below. Given the planned use of resources in 2007/2008 the Council will require to closely monitor its financial position over the year to prevent it from falling below its recommended level of reserves.

90. Significant earmarked amounts include:

- £1.156 million in relation to the Birkmyre pavilion
- £1.435 million for Social Protection Team wardens
- £1.763 million for the Schools Estate Strategy
- £1.370 million in respect of outstanding equal pay claims
- £1.499 million for the implementation of a pay and grading structure for employees which complies with Single Status legislation
- £1.110 million for the Community Investment Fund.





## Rents and housing revenue account

91. The Council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to at least cover the costs of its social housing provision. The budget set for 2006/2007 was based on an average weekly rent level of £63.14, an increase of 4.9% on the previous year. A review of the treatment of the infrastructure assets utilised to provide heat was undertaken and a prior year adjustment of £0.427 million was incorporated as a result. This adjustment reduced the overall HRA balance in 2005/2006 to a deficit position of £0.039 million. A surplus was however generated in 2006/2007 bringing the overall HRA into surplus.
92. The level of housing rent arrears has continued to rise in 2006/2007. The Council have written off arrears amounting to £0.442 million during 2006/2007 (compared to £0.096 million in 2005/2006), the overall level of arrears however reduced by £0.319 million, indicating additional debts were incurred during the year. Given the recent delay in the implementation of the housing stock transfer, this is an area the Council will have to carefully manage prior to transfer. We have been informed that arrears will pass to River Clyde Homes upon the housing stock transfer.

### Action Point 8

93. Furthermore, during our testing of the financial statements we were made aware of a number of 'overpayments' made by Council tenants in the housing revenue account which relate to both current and former rent accounts. An explanation was not available ascertaining why these overpayments had arisen.

### Action Point 9

## Group balances and going concern

94. 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. In 2006/2007 the Council has consolidated five joint boards (Strathclyde Joint Police Board, Strathclyde Joint Fire and Rescue Board, Strathclyde Partnership for Transport, Strathclyde Concessionary Travel Scheme and Renfrewshire Valuation Joint Board) as well as Inverclyde Leisure Trust as associates. The Inverclyde Common Good Fund has been classified and consolidated as a subsidiary. With the exception of Strathclyde Concessionary Travel Scheme, all associates had an excess of liabilities over assets at 31 March 2007 due to the accrual of pension liabilities. As the Council has an obligation to meet a proportion of the expenditure of these bodies, a proportionate share of these liabilities are incorporated into the group balance sheet resulting in a reduction to reserves and net assets by £169 million. These are significant amounts as the pension schemes for police officers and fire fighters are unfunded and met entirely from current and future council tax payers as payments fall due. We have



received assurance from the Chief Financial Officer that all group bodies' accounts have been prepared on a going concern basis as there is no reason to suggest that future funding will not continue.

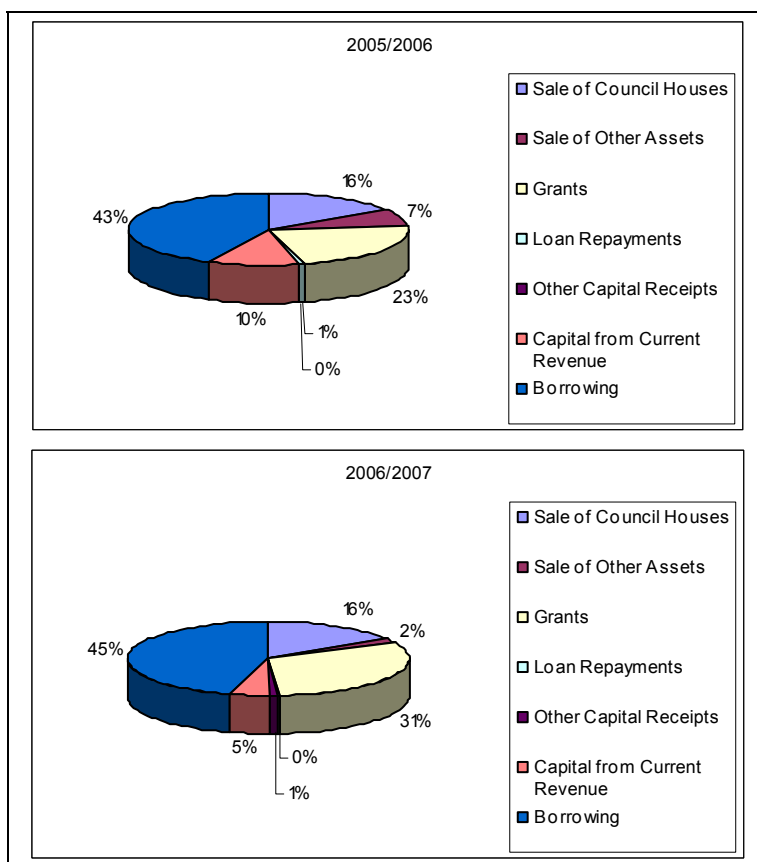
## Spending on assets and long-term borrowing

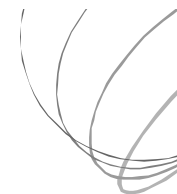
### Capital performance 2006/2007

95. 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 2006/2007 were set in April 2006 and an increase of approximately £20 million has been made in capital expenditure under these freedoms as the Council seeks to improve its asset infrastructure.

96. Capital expenditure in 2006/2007 totalled £24.6 million, rising from £21.8 million in 2005/2006. Capital investment in the last two years was funded as shown below.

#### Sources of finance for capital expenditure





97. As a result of the larger amount of capital expenditure in 2006/2007, the level of this borrowing incurred to meet this expenditure also increased during the year, from £9.4 million to £11.1 million. Interest costs, as shown in the Councils Income and Expenditure Account, also rose in line with this, from £15.0 million in 2005/2006 to £16.2 million in 2006/2007.
98. During 2006/2007 there was considerable slippage against the annual capital plan approved by the Council in February 2006. Inverclyde Council spent £24.6 million which represented only 54% of the planned capital expenditure for the year of £45.5 million.
99. The substantial slippage in the 2006/2007 capital programme was attributed to a number of factors including £11.1 million as a result of delays in the School Estate Programme, £2.4 million against the Housing Capital Programme within Housing Services and £3.0 million in the Property Services programme.
100. It should be noted that significant levels of capital slippage were also reported in both 2004/2005 and 2005/2006. Failure to achieve the planned capital programme will be detrimental to both service delivery and achievement of the Corporate Plan.

#### **Action Point 10**

### **Forward capital programme**

101. The approved general fund capital programme for 2007/2008 is £44.4 million, the largest part of which is attributable to education (£32.536 million). The anticipated year end spend for 2007/2008 (as reported to the Policy and Resources Committee in September 2007) was £44.4 million, with actual spend to mid August reported as £9.577 million (representing 21% of the projected spend after 37% of the year).
102. An HRA capital programme was approved by the Council for the six month period from 1 April 2007 to 30 September 2007 to coincide with the housing stock transfer originally scheduled for 1 October 2007, with a total value of £3.002 million. In addition to this there were a number of projects from the 2006/2007 programme which were not completed resulting in the total programme for 2007/2008 being £6.3 million. As reported to the Safe, Sustainable Communities Committee in August 2007, the projected spend for the period to the 30 September 2007 was £1.951 million, some £1.051 million less than the programme. Given the delay in the housing stock transfer it is now less clear what the likely position will be at the time of transfer. It is understood that any expenditure incurred on any of these projects after the transfer, will be met by River Clyde Homes.



103. Given the significant slippage against the capital programme experienced by the Council in recent years, it is important that controls are put in place to manage the programme to meet objectives from 2007/2008 and beyond.

## **Borrowing in advance of need**

104. In recent years, a number of councils have disclosed significant amounts under investments largely as a result of decisions to take advantage of favourable interest rates when considering borrowing requirements to fund planned capital programmes. In these instances, councils are still required to demonstrate their consideration and compliance with the conditions set out in Audit Scotland's long standing Note for Guidance Number 96/5.

105. This guidance sets out the key factors to be considered by a council when determining whether the decision to borrow in advance of need and lend on temporarily is reasonable. From our review of Inverclyde Council's borrowing activities, in common with good practice, we found that there was no planned borrowing in advance of need during 2006/2007.

106. It was noted however that the slippage on the capital programme has resulted in the authority obtaining funds to be spent on capital projects that were not required during 2006/2007. This money was subsequently reinvested by the Council and although this did not result in a negative financial impact it did expose the authority to the risk that they would incur unnecessary interest. To avoid this situation arising in future years it is important that a realistic capital programme is set and that this programme is closely monitored and adhered to during the year.

## **Significant trading operations**

107. 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 (STOs), which are required to break even over a three year rolling period. The first three year period ended in 2005/2006.

108. In 2006/2007 the un-audited accounts showed that the Vehicle Management Trading account was reporting a surplus of £11,000 which contributed to a small surplus over the 3 year rolling period from 2004/2005 to 2006/2007 of £8,000 for this STO. From review of the entries posted to this account a number of items were identified that had been omitted in error which potentially could have resulted in the STO failing to meet its statutory obligation to break even over the three year rolling period.

109. In response to notification of these errors, a rigorous exercise was undertaken by staff at the Council to identify any further errors that required correction. Through this process a number of additional incorrect allocations and mis-postings to the Vehicle Management STO were identified and action was



taken to rectify these resulting in a revised deficit for 2006/2007 of £9,000 and over the three year rolling period a £37,000 surplus.

110. Although the STO has satisfied its statutory obligation to break even over the three year rolling period, there are still significant concerns about the monitoring and management of the trading accounts and their viability to continue to operate in future years.

#### **Action Point 11**

111. In addition to the issues raised above it was also noted during the audit that it is not clear how the working arrangements have changed since the Act came into force. The activities of the STOs are still in the main part managed in accordance with contracts which were subject to competitive tender at least 10 years ago and in some cases these contracts have been in place for 20 years. This practice is not in the spirit of the current legislation and, in our opinion, would make it extremely difficult for the council to demonstrate that it is delivering best value.

112. We have recommended that management carry out a full review of all significant trading operations during 2007/2008 and as part of this review the Council should:

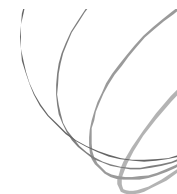
- undertake a fundamental review of the budgets of each of the trading accounts
- redefine existing contracts both in terms of outputs and charges to client departments
- align planning and budgeting with the prescribed financial objective and the preparation of three-year rolling business plans
- review the monitoring reports put to members on the financial performance of the trading accounts to clearly describe material budget variances and proposals for corrective action
- recognise the impact on budgeting and achieving the prescribed financial objective of FRS17 requirements
- agree appropriate charging mechanisms for central support costs, tied in to the three-year planning cycle.

#### **Action Point 11**

## **Financial outlook**

### **Current budget**

113. The 2007/2008 budget was approved at a meeting of the full Council on 15 February 2007. At this meeting the Council approved a 0.65% reduction in council tax resulting in a band D figure of £1,198. A reduction in the level of council tax is unusual, particularly so at a time of increasing constraints in



terms of the level of central government funding. The papers provided to members at the time of the setting of this budget outline a number of unavoidable budget pressures which total £1.685 million, including items such as the Schools Estate Funding Model and Care Home Placements. The papers also provide a listing of savings from across the Council of £2.124 million to off-set these costs.

114. In addition to these the Chief Financial Officer also outlined an additional allowance of £2.3 million in respect of the implementation of pay and grading conditions which comply with single status legislation, £0.5 million for the partial impact of the housing stock transfer and £0.9 million to be provided to the Riverside Inverclyde Urban Initiative in his foreword to the accounts. More recent events such as the delay in implementing the housing stock transfer and the decision to contribute £0.450 million funding towards the 2011 Tall Ships Race (to be held in Greenock) provide further pressures.

## Equal pay

115. 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. Following cases pursued against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2005/2006.

116. As detailed in our 2005/2006 report, a provision of £5 million was included in the 2005/2006 accounts. The Council agreed to a compensation package in May 2006 of around £3.9 million (including legal costs). A breakdown of this package against the various services is provided in the table below. Also provided is the level of uptake of the offer, which shows that £1.370 million of the provision remains. This figure is incorporated in the 2006/2007 financial statements.

### *Equal pay – position statement March 2007*

<b>Description</b>	<b>Original Provision £ Million</b>	<b>Accepted offers £ Million</b>	<b>Remainder of provision £ Million</b>
Social Work (homecare)	1.663	1.502	0.160
Cleaning	1.294	1.249	0.046
Catering	0.899	0.766	0.133
Other costs (ie legal and admin)	1.144	0.113	1.031
<b>TOTAL</b>	<b>5.000</b>	<b>3.630</b>	<b>1.370</b>



117. We have been informed that 156 offers (worth £0.570 million) have been rejected. Furthermore, there are 279 employees or former employees who have opted to take their case to an Employment Tribunal. This figure includes employees who were not considered amongst the original compensation package, such as classroom assistants and special education needs officers. At present no tribunals have taken place. No supporting evidence has been provided to demonstrate that the remainder of the provision (detailed above) is adequate to meet the likely settlement costs of outstanding equal pay claims. Furthermore, given the delay in the implementation of single status, the Council may be open to further claims.

#### **Action Point 12**

### **Single status**

118. In 1999 a single status agreement was reached between Scottish local authorities and trades unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). Initially it was assumed 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.

119. 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.

120. Inverclyde Council has yet to implement a package which complies with the single status agreement. We have been informed that a revised conditions of service for all single status employees has been issued to the various trade unions and that an allowances and pay and grading model is anticipated to be issued by the end of 2007. A provision of £1.499 million is shown in the 2006/2007 financial statements in relation to the implementation of single status.

121. Until single status is implemented the initial and continuing costs to the Council cannot be reliably estimated. This presents some financial risk to the Council. Evidence from other councils shows that variation in the level of potential costs can be up to 10% of the current pay-bill on a continuing basis. In implementing the agreement, the Council needs to maximise the value for money from its investment in staff.

#### **Action Point 13**

### **Efficient government**

122. As part of the continuing drive to improve the efficient use of resources committed to delivering public services, the Scottish Government expect public sector organisations to apply the principles of the



efficient government initiative in their day-to-day operations with an aspiration to achieve recurring efficiency gains of £1.5 billion by 2007/2008. In the case of councils, efficiency savings have been incorporated into the annual financial settlement provided to councils by the Executive. The principles of the efficient government initiative encourage the delivery of services for lower unit cost without compromising the quality of the service provided.

123. During 2006, councils across Scotland recognised that as part of their partnership arrangement with the Scottish Government, they had a responsibility to report efficiencies on the Executive's five key operational themes as set out in "Building a Better Scotland" (Procurement, Absence Management, Asset Management, Shared Services and Streamlining Bureaucracy) on a consistent basis. Guidance was issued to all councils in May 2007 by COSLA.
124. It was reported by audit in 2005/2006 that Inverclyde Council's response to the efficient government agenda had been uncoordinated and lacking in leadership from both elected members and senior officers.
125. Following re-structure some progress has been made, a Modernisation and Efficiency Programme has been developed which includes efficient government as one of its work streams. The Corporate Director Improvement and Performance has overall responsibility for this programme and chairs a board charged with leading its development and implementation. This board comprises of senior officers from across all directorates, ensuring a corporate wide approach is taken. The board will report on a regular basis to the Corporate Management Team, a Member Reference Group (acting as an advisory panel) and to the Policy and Resources Committee. In so doing the Council has addressed many of the key areas of weakness previously highlighted. However the challenge will now be to ensure that the measures taken deliver ongoing efficiencies, whilst not having a detrimental impact on the level of service provision and ensuring that there are adequate systems in place to measure these efficiency savings.
126. The Council have recently developed an Efficiency Statement for 2006/2007, which was submitted to COSLA in August 2007 and considered by the Policy and Resources Committee in September 2007. This is the first statement produced by the Council and represents a step forward, as well as compliance with COSLA guidance. This statement reported that the Council generated efficiency savings of £1.009 million in 2006/2007. These savings range from items which are easily quantifiable (such as a reduced insurance premium) to items which are more difficult to substantiate (such as an increase in the level of Council Tax collected in year after taking account of the annual increase). This second example more accurately represents improved performance in terms of cash flow. The Council should ensure that it is able to demonstrate that claimed efficiencies are genuine.
127. The full listing of savings as presented in the statement is reproduced in the table below. The savings are split between cash releasing and time releasing savings. Cash releasing savings are defined by





Scottish Government Efficiency Technical Notes (September 2005) as improvements which arise from producing the same outputs from fewer inputs. Whereas, time releasing savings are defined as where more or better outputs are achieved from the same inputs.

128. In 2006/2007, Inverclyde did not report any time releasing efficiency savings.

**2006/2007 claimed efficiency savings**

<b>Efficient Government Theme</b>	<b>Description of saving</b>	<b>Cash Releasing efficiency £m</b>	<b>Time-Releasing efficiency £m</b>	<b>Total efficiency £m</b>
Other	Council Tax	0.305	0	0.305
Streamlining Bureaucracy	Cost of collecting Council Tax	0.039	0	0.039
Procurement	Insurance Savings	0.201	0	0.201
Asset Management	Pre-5 Review	0.022	0	0.022
Asset Management	HRA Voids	0.278	0	0.278
Procurement	Telephony – new contract	0.096	0	0.096
Procurement	Mobile phone – Tariff Review	0.016	0	0.016
Procurement	Heavy Vehicles Contract	0.052	0	0.052
<b>Total efficiencies</b>		<b>1.009</b>	<b>0</b>	<b>1.009</b>

129. The efficiency statement also outlined a savings target for 2007/2008 of £1.019 million and £1.699 million for 2008/2009. This figure is made up of a number of efficiency reviews (including Directorate management Structures, Internal Shared Services and Overtime) which is expected to deliver savings of £0.700 million, with the remaining £0.319 million targeted from several expenditure areas (including £0.125 million each both from procurement and Telecoms/Photocopier Costs). It will be a challenge for the Council to demonstrate achievement of these efficiencies whilst continuing to deliver high quality services.

**Action Point 14**

130. Of the 16 internal efficiency review workstreams identified for 2007/08 there has been slippage in 5 and, in particular, Shared Services which is one of the streams identified as being part of the national agenda. Shared service discussions are taking place with Renfrewshire and East Renfrewshire



Councils to progress joint working arrangements. The review is in its early stages and a report is expected by March 2008.

## **Asset management**

131. Scottish councils control land, property and equipment valued at around £22 billion. Capital assets are the second highest cost incurred by local authorities after staffing. Prior to 2004, the legislation that controlled capital investment by local government did not contribute towards good asset management. Part 7 of the Local Government in Scotland 2003 Act introduced the Prudential Code which gave local authorities freedom to invest as long as their capital spending plans are affordable, prudent and sustainable. The Code is a fundamental component of an authority's financial governance and management which requires authorities to have regard to option appraisal, strategic planning and asset management planning.
132. The Efficient Government Initiative identified asset management as one of five key areas for achieving efficiency improvements. Proper asset management is a vital part of being an efficient organisation including arrangements to ensure there are:
- strategies to reduce maintenance costs
  - proactive asset disposal policies
  - long-term capital planning and budgeting
  - robust asset management monitoring information.
133. Our 2006/2007 Audit Risk Analysis and Plan (ARAP) highlighted that there is no corporate asset management plan in place, and as a result the corporate and service planning processes are not adequately supported. We have been informed of various key milestones in the development of asset management planning, such as the completion of software procurement/installation, condition surveys and CAD (Computer Aided Design) drawing by 31 March 2008 and the production of a report on preliminary work carried out by consultants on a critical area of the asset portfolio, which is intended to assist the overall strategy by September 2008. It is important that momentum is maintained and that these timescales are met in order to ensure that an effective asset management system is operational as soon as is practical.
- Action Point 15**
134. In addition our ARAP also highlighted options appraisal as an area requiring further development to ensure that asset procurement decisions are fully supported and justified. We have been informed that a report will be submitted to the Policy and Resources committee in November 2007 which will outline the use of option appraisal relating to asset management.



## Pension liabilities

135. Financial planning and accounting for the costs of pensions presents a difficult challenge for the Council. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. 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. 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.
136. 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 in the annual accounts.
137. The Council's estimated pension liabilities at 31 March 2007 exceeded its share of the assets in the Strathclyde Pension Fund by £41.051 million, reducing from £69.395 million in the previous year. A full actuarial valuation of the Strathclyde Pension Fund was reported in early 2006. 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 94% at 31 March 2002 to 84% at 31 March 2005. The actuary is required to make a three-year assessment of the contributions that should be paid by the employing authorities 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. Budgeted contributions are therefore expected to rise from 265% of employee contributions in 2006/2007 to 280% by 2008/2009.



# Governance

## Introduction

138. In this section we comment on key aspects of the Council's governance arrangements during 2006/2007. We also provide an outlook on future governance issues, including our views on potential risks.

139. During 2006/2007 the Council undertook a significant management re-structure which saw the creation of four new directorates. A number of new posts were created which were filled by a mix of new officers to the Council, as well as some existing employees. This re-structure was part of the Council's Transformation Programme, which was in response to the Audit Scotland Best Value and Community Planning report of 2005. Many of the officers in this new structure were not in post until late in 2006/2007.

## Overview of arrangements in 2006/2007

140. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Based on the work undertaken, we concluded that the Council had systems in place that operated well within a sound control environment.

141. However we have identified a number of recommendations which would enhance the overall control environment. Key issues are highlighted in the relevant sections to follow.

142. Effective scrutiny is central to good governance, with a significant role for councillors to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda

## Audit Committee

143. Membership of the Council's audit committee changed following the May 2007 elections and the new committee has met on three occasions since that time with an encouragingly high level of attendance at all three meetings.

144. Five of the eleven audit committee members attended audit committee training provided by the Chief Internal Auditor in September 2007. The training covered areas such as audit committee principles, duties and responsibility, ethics, corporate governance, risk management, internal control and also provided an introduction to the role of internal and external audit. Given that many of the committee members are newly elected we consider this attendance disappointing.



145. The audit committee are required to ensure mechanisms are in place to provide assurance over the adequacy of the risk management framework and control environment and also provide independent scrutiny of the Council's financial and non-financial performance. Pre-agenda meetings are held which are attended by the committee Leader, Depute and representatives of Internal Audit, Finance and External Audit. This is considered good practice as it helps ensure the committee prioritise matters appropriately. However the level of challenge within the committee could be improved in order to ensure that the committee fully meets its remit.
146. During 2006/2007, although the audit committee received summaries prepared by internal audit of all audit reports issued, they did not receive copies of the full reports detailing all the issues raised during fieldwork. In order to address the requirements of the committee we would recommend that full audit reports are made available to members through the Council's intranet to allow for comprehensive scrutiny and follow up.

## **Internal Audit**

147. The environment in which Internal Audit functions operate has changed markedly since the publication of CIPFA's Code of Practice for Internal Audit in Local Government in 2003. To ensure that the Code's requirements, which are mandatory for all local authorities and other relevant bodies under Section 95 of the Local Government (Scotland) Act 1975, continue to be fit for purpose, CIPFA's Audit Panel published a revised Code in December 2006. In general, the Code was brought in line with existing good practice and current professional standards.
148. Such changes to the Code have expanded Internal Audit's role and status within the Council's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system.
149. We carry out an annual review of the Council's internal audit arrangements and found that during 2006/2007 the internal audit function operated in accordance with the CIPFA Code. It is noted that although measures are being taken to appoint a full time Chief Internal Auditor, for the duration of 2006/2007, the service has been led on a part time consultancy basis.
150. In 2006/2007, an Internal Audit Service Improvement Plan was developed and is in the process of being implemented. This plan is intended to support further enhancement of the Council's controls assurance framework.



151. All reports prepared by Internal Audit are reviewed and considered as part of our audit and in 2006/2007 we placed reliance on the following specific pieces of work in 2006/2007:

- general ledger
- debtors system
- payroll and expenses
- bank, cash and treasury management
- council tax
- fixed assets and capital expenditure
- housing and council tax benefits.

152. Internal Audit have completed the fieldwork identified in the 2006/2007 plan with one report currently at draft status awaiting management responses.

## **Risk Management**

153. The Council developed a risk management strategy in the first half of 2007 and it was approved by the Audit Committee in June 2007. Directorate risk registers are in place and a technical briefing has been produced and will be issued to the CMT by Internal Audit with responses to be received by the end of October 2007.

154. Future planned improvements include designating directorate risk champions and the provision of risk workshops to support the development of service risk registers. Elected Member risk management training is scheduled for October 2007 which will incorporate an introduction to risk management, the corporate risk register, the responsibility of members in relation to risk management and linkage between risk management and external audit's Audit Risk and Analysis Plan.

## **Workforce Plan**

155. For the Council to meet its corporate objectives it is critical that a workforce plan is developed to facilitate staffing requirements with linkages to strategic plans. Development of a workforce plan has been delayed until 2008 due to pressures surrounding single status and management restructuring.

**Action Point 16**

## **Procurement**

156. A procurement strategy has yet to be developed to ensure purchasing decisions are in accordance with best value principles.

**Action Point 17**



## Systems of internal control

157. In her annual report for 2006/2007 the Chief Internal Auditor provided her opinion that, based on the internal audit work undertaken during the year, the Council has in place a sound system of internal financial controls, although attention was drawn to two specific matters of concern:

- the arrangements for the management and control of funds awarded to third parties in which a number of weaknesses were identified in project monitoring and reporting
- tender evaluation and the award of service contracts in which shortcomings were identified in the process of tender evaluation and the award of certain service contracts. Compliance with the Council's financial regulations and Best Value principles were not achieved.

158. It is noted that remedial action is being taken to address the issues highlighted in both these reports.

159. 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 through walkthrough testing, a review of budgetary control procedures and a follow up of the 2005/2006 Information, Communication and Technology (ICT) Service Review.

160. Our walkthrough testing provided us with the assurance that the key financial systems have a satisfactory level of control with a number of minor recommendations being made in a letter issued to management.

161. Although our review of the controls associated with the budgetary control system concluded that the internal controls were operating satisfactorily we did highlight a number of weaknesses where improvement could be made. In particular we identified a need for:

- a more formal system of documenting meetings between the finance officers and budget holders regarding matters discussed, actions agreed, timescales for action and action taken on previous action points
- budget monitoring reports provided to members to report actual expenditure to date for the current period against budget at objective and subjective level and adequate explanations should be provided for material variances
- procedural guidance should be developed to enhance the budgetary control processes
- the overall financial position reported to Policy and Resources committee should be consistent with individual committee reports.

**Action Point 7**



162. Our follow up ICT Service Review concluded that satisfactory progress was being made against the previously agreed action plan. Although eight action points were outstanding and had not achieved their target date there was sufficient evidence of progress being made and revised target dates were agreed.

163. During our audit of the Council's financial statements we identified a number of weaknesses in the payment of overtime and the processing of employee records. In particular we noted:

- employees working excessive levels of overtime, including an employee who worked in excess of 100 hours in a week who had not signed a waiver to the Working Time Directive
- a discrepancy between payroll records and human resources records resulting in a member of staff being assigned the wrong grade and thus receiving a salary overpayment
- incomplete human resources and payroll records including employees who had not signed their terms and conditions, employees with no assigned grade, and employees whose payroll files had no 'New Start' notification forms from Human Resources.

**Action Point 18**

164. We noted that the Council have not performed an exercise to establish the existence and ownership of its heritable properties. This is important to ensure that both the Council's and any common good fixed asset figures are fairly stated.

**Action Point 19**

## **Prevention and detection of fraud and irregularities**

165. At the corporate level, the Council has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption. These arrangements include an anti-fraud and irregularity policy, a whistle blowing policy, codes of conduct for elected members and staff and appropriate financial regulations and standing orders.

166. It is noted that the anti-fraud and irregularity policy dates back to January 2003 and the revision of the policy is outstanding.

**Action Point 20**

## **NFI in Scotland**

167. In 2006/2007 the Council again took part in the National Fraud Initiative (NFI) in Scotland. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and





prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. For 2006/2007 the exercise was extended to include information about tenants and councils were asked to submit further specified datasets where the risks merited their inclusion. The NFI has generated significant savings for Scottish public bodies (£27 million to 2005) but if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

168. The NFI 2006/2007 results (data matches) were made available to councils on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the Council's involvement in NFI 2006/2007 during the course of our audit.

169. The Council have shown a clear, and ongoing, commitment to the NFI process through the allocation of responsibility to senior officers within the Revenues and Benefits section, monitoring meetings involving key personnel and regular updating of the NFI website.

170. As at mid September the Council have identified, and are actively recovering, a total of £31,833 in overpayments (caused by either fraud or error). A further 321 cases are still being investigated and to date there have been 8 cases of fraud identified.

171. The work on reviewing and investigating NFI referrals is ongoing and further savings may be identified. The Council needs to ensure that it maintains the current momentum in addressing NFI and uses the opportunities presented by NFI on an ongoing basis to assist in the detection of fraud.

## **Governance outlook**

### **Impact of the 2007 elections**

172. Following the May 2007 elections, no single political party has an overall majority within the Council. The Labour Party has the largest representation, with 9 of the 20 member positions, allowing them to form a minority administration. As such this administration will have to rely on winning support from members of other parties in order for their proposals to be passed. Of the remaining 11 member places, the Scottish Nationalist Party has 5, the Liberal Democrats (formerly the administration party) have 4, with the Conservatives and an independent party having 1 each.

173. A new committee structure has been implemented following the elections. The Audit Committee (which has been retained from the previous structure) convenor is the leader of the Liberal Democrat Group which represents one of the two opposition parties. A member of the Scottish Nationalist Party Group is the vice-convenor, in recognition of their standing as the other opposition group with a significant representation. As stated at paragraph 144 a training event was provided in relation to the



Audit Committee, where it was noted that only around half of those members who sit on that committee were in attendance.

174. A new decision making structure has been implemented which is aligned with the priorities of the Community Plan and the Council's Corporate Plan.

### **Delay in taking forward key decisions**

175. Following the May 2007 elections the new minority administration has taken the decision to review the proposed schools estate programme. This decision will further delay the provision of the schools estates strategy.



# Financial statements

## Introduction

176. In this section we summarise key outcomes from our audit of the Council's financial statements for 2006/2007. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues. 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 year
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

177. We also review the Statement of Internal Financial Control by considering the adequacy of the process put in place by the Council to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the Council.

## Overall conclusion

178. We have given an **unqualified** opinion on the financial statements of Inverclyde Council for 2006/2007. We would like to highlight that there were no unadjusted errors in the statements.

179. 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.

180. The Council's un-audited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. A quality control process was not in place to oversee the production of the financial statements due to finance staff absences during this period. Consequently there were a significant number of errors on the face of the statements requiring amendments prior to preparing the final version. A review process was however developed to manage the final version of the accounts.

181. Working papers provided were often incomplete and where provided they were often inadequate in terms of supporting the figures in the financial statements. This led to considerable audit queries and intervention. A full suite of working papers was not made available to audit in line with the proposed timetable deadline of 30 June 2007, with papers still being received towards the end of August. The audited accounts were however submitted to the controller of audit by the statutory deadline of 30 September 2007.



182. The Council should consider developing a comprehensive workplan to manage and deliver the 2007/2008 financial statements. This is covered in more detail in paragraph 188, where an action point is also raised.

## Accounting practice

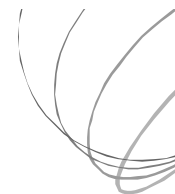
183. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the ‘SORP’). The 2006 SORP required a number of significant changes to be made to the 2006/2007 financial statements to make them more consistent with the accounts of other public and private sector entities. These included:

- 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
- similar changes to the housing revenue account
- parallel changes to the group accounts that would result in them being easier to understand and have a common format to single entity statement of accounts.

184. Overall, we were satisfied that the Council had prepared the accounts in accordance with the revised SORP. A large number of adjustments to the statements were recommended as a result of our audit, all of which were accepted and incorporated, with the result that there were no unadjusted errors at the end of the process. Adjustments were required to all primary statements for both the single entity and group accounts in relation to both 2006/2007 and also to 2005/2006 comparative figures in order to comply with the revised SORP. In addition, amendments were also made to the foreword and a number of supporting notes to the accounts as a result of our audit findings.

## ISA 260 points

185. As is normal practice, issues from our audit of the financial statements were communicated to members of the Audit Committee via a letter issued in line with International Standard on Auditing 260 (ISA 260) communication of audit matters with those charged with governance. Details of significant accounting issues arising in the course of our audit are summarised in paragraphs 183 to 191 below.



## **Single status**

186. An earmarked reserve has been created in recognition of single status amounting to £1.499 million at 31 March 2007. We have been informed that the earliest implementation date for single status is January 2008, although more likely to be after this time. It is estimated that single status will cost in the region of £2.3 million in 2007/2008 and increasing by £0.6 million to £0.8 million per annum for the next 4 to 5 years.

## **Equal pay**

187. The Council currently has 279 current and former employees who have raised an equal pay compensation claim which is due to be heard at an Employment Tribunal. The Council had an earmarked reserve of £1.370 million in the 2006/2007 accounts in recognition of this, however an exercise has not been carried out to verify the validity of this sum in relation to these claims. Furthermore, the continued delay in the implementation of the single status agreement may leave the Council open to additional claims.

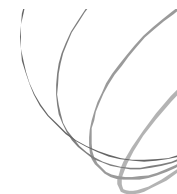
## **Working papers and reconciliations**

188. As referred to previously, the working papers initially presented in support of the draft accounts were on many occasions inadequate or incomplete, and did not provide sufficient detail to verify amounts recorded in the statements. In addition there were delays in the submission of some working papers to audit (with some still being received towards the end of August) which had a detrimental effect on our ability to deliver our review within the given timescales. As a consequence of this we have requested an outline project plan for the production of the 2007/2008 financial statements, in order to avoid these issues re-occurring next year.

### **Action Point 21**

189. The financial statements are drawn from the Council's general ledger system. The general ledger is populated by balances from various supporting systems. An important control which provides assurance over the figures in the ledger (and subsequently the financial statements) is to reconcile the balance in the ledger back to the supporting system or source record. Our audit of the financial statements found a number of occasions where reconciliations contained entries which had been outstanding for a considerable time and had not been fully investigated. Bank reconciliations were of particular concern, they were reviewed prior to completing the audit and adjustments were incorporated where appropriate. These findings were also reflected in an adverse Internal Audit report. In response a full review of reconciliations is planned in 2007/2008 with associated monitoring procedures being developed and implemented.

### **Action Point 22**



## **Fixed Assets**

190. During the course of the audit works of art were identified in the asset register at their 1996/1997 valuation amounting to £2.7 million. A further valuation had taken place during 2001/2002 however the updated value of £5.8 million had not been incorporated in the asset register. An adjustment has been made to the 2006/2007 draft financial statements to reflect the upward valuation.
191. A piece of land located in Gibshill was incorporated in the asset register during 2005/2006 amounting to £1.4 million. The land was disposed of in 2006/2007 for nil proceeds. It transpired that a Committee decision had been taken in 2005/2006 to dispose of the land to a developer, this was not however communicated to the finance department and subsequently the asset register was not updated.
192. In addition a formal process has not been developed to identify assets which have suffered impairment. Systematic impairment reviews should be conducted on an ongoing basis.

### **Action Point 23**

193. The above issues precipitate doubts as to the completeness and accuracy of the asset register. It is evident that a corporate asset management planning framework is not fully embedded within the Council. Greater integration of asset management planning throughout the Council is required to lead to a more efficient and effective way of providing services. We will continue to monitor this issue in 2007/2008.

## **Pensions**

194. An allowance has been made for exchanging (commuting) part of the Local Government Pension Scheme (LGPS) pension for additional cash for retirements with effect from 6 October 2006. Past service costs to 31 March 2007 includes a saving of £3.339 million in respect of commutation. It is acknowledged that this figure is an estimate.

## **Public Private Partnership**

195. The Council are currently revising their schools estate strategy, a part of which involves the provision of two primary schools and two secondary schools under a public private partnership (PPP). These programmes are currently at the tendering stage and the three bidding consortiums have submitted their plans for the four schools. The evaluation of the final bids is planned to be complete by 21 December 2007 and it is anticipated that financial close will be reached in summer 2008 and work will commence after this. This timescale reflects slippage during the year in relation to the evaluation of final bids from 28 September 2007 to 15 December 2007 and consideration should be given to the potential impact of further slippage.

### **Action Point 24**



196. The current underlying guidance on accounting treatment of PPP projects is contained in Financial Reporting Statement 5 - Reporting the substance of transactions: Private Finance Initiative and similar contracts and supplemented by Treasury Taskforce Technical Note No. 1 (Revised) -How to Account for PFI Transactions. As auditors we will be required to review the accounting treatment, and also consider the Council's assessment of the value for money provided by the project(s), taking account of both whole of life and quality. This will be performed once the Council has provided an initial and final view on the accounting treatment of a project, based on business case information.

## Legality

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

198. Local authorities with registered charitable bodies (i.e. registered trust funds) are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. It has now been agreed with the Office of the Scottish Charities Regulator (OSCR) that as an interim measure in 2006/2007, reliance can be placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers. Further discussions between OSCR and CIPFA Director's of Finance will take place in respect of the requirements for 2007/2008 onwards.

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

## Financial reporting outlook

200. The Council has experienced significant difficulties in producing the 2006/2007 financial statements, where a number of technical changes to the format of accounts were introduced. The Council faces a further challenge in managing changes included in the 2007 SORP.

201. The main change is that the 2007 SORP requires authorities to comply with financial reporting standards (FRS) 25 and 26 in respect of loans, from 2007/2008. This will result in large expenditure entries to the income and expenditure account as the SORP requires premiums on loans which have been rescheduled to be written off in line with the FRSs. At present, Councils are able to write off premiums over the period of the replacement loan, which can be up to 60 years. The regulations restrict the write off periods for new premiums incurred on LOBOs from 1 April 2007 to a maximum of



20 years. Statutory guidance mitigates the impact on Council tax by requiring authorities to reverse the entries in the statement of movement on the general fund balance.

202. Other changes include:

- changes to capital accounting requirements to introduce a revaluation reserve and capital adjustment account
- a requirement for further information to be disclosed in respect of charitable funds.

203. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2008/2009. The government also announced its intention to publish Whole of Government Accounts on an IFRS basis from 2008/2009. It was recognised that there would need to be discussions with CIPFA/ LASAAC about the introduction of IFRS-based accounts for local government. Of particular note is that IFRS do not address PFI accounting in the public sector. The Treasury are therefore currently considering the most appropriate accounting treatment for PFI public sector transactions. If IFRS principles, or similar, were applied in the public sector then many PFI assets are likely be brought onto public sector balance sheets.

204. Consideration should be given to developing procedures and plans to actively manage technical changes to forthcoming financial statements to facilitate compliance with guidance. To this end, we have been informed that an action plan is currently being developed (due in November 2007) to take forward this issue.





# Final Remarks

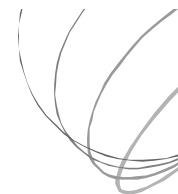
205. We have made a number of recommendations in the various reports we have issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate.

206. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of members. In response, officers have considered the issue and have agreed to take the specific steps set out in the column headed 'planned management action'. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management's response to the identified risks.

207. A mechanism should be considered and agreed by members for monitoring the effectiveness of planned action by officers in response to external audit reports. We will review the operation of the agreed mechanism as part of the 2007/2008 audit.

## **Action Point 25**

208. The co-operation and assistance given to us by Inverclyde Council members and staff is gratefully acknowledged.



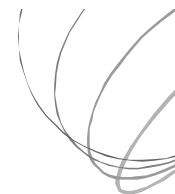
# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	34	<p><b>Performance Management Reporting</b></p> <p>Performance management reporting requires further development to highlight achievement of the corporate plan and service delivery objectives.</p> <p><b><i>Risk: the Council cannot effectively monitor service objectives and improvement.</i></b></p>	<p>The Corporate Plan and Directorate Plans will be subject to regular monitoring and reporting in terms of performance in line with the agreed framework.</p> <p>The Council is currently considering the most effective approach to managing performance information electronically and a report will be submitted to the Corporate Management Team (CMT) in due course.</p> <p>Work is currently underway to establish a clear baseline and specify the key performance indicators in the Corporate Plan and in a degree of detail.</p> <p>Discussions are taking place on the use of the Council website as a vehicle to communicate performance information to a wider range of stakeholders.</p>	Head of Performance Management and Procurement	<p>Ongoing</p> <p>31 March 2008</p> <p>31 March 2008</p> <p>31 January 2008</p>
2	45	<p><b>Housing Stock Transfer</b></p> <p>The handover date for the Housing Stock transfer has been delayed from 1 October 2007 to 3 December 2007 which places doubt over its successful conclusion.</p> <p><b><i>Risk: the Council have no contingency plan in place to ensure ongoing</i></b></p>	<p>The transfer process is progressing in a controlled manner under a continuing schedule of Transfer Team meetings and regular liaison with Communities Scotland. The following key tasks having been completed:-</p> <ul style="list-style-type: none"> <li>• Identification and agreement on key items for progress.</li> </ul>	Head of Implementation Team	3 December 2007



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>provision of service to tenants if the transfer is not completed on the revised date of 3 December 2007. Furthermore there would be additional financial pressures.</i>	<ul style="list-style-type: none"> <li>Land capacity review undertaken for input to legal transfer agreement.</li> <li>Risks identified with the transfer date having been identified and being monitored through the Project Board.</li> <li>Housing Services continuity for tenant issues (repairs, allocations etc) addressed pending transfer.</li> </ul> <p>In addition, the "in principle" agreement to outstanding issues is nearing completion. Subject to final negotiated agreement, It is proposed to submit a report to the elected members on 20 November 2007 for their review and approval of the transfer proposal.</p>		
3	45 50	<p><b>Strategic Plans</b></p> <p>Development of the Community Plan and Financial Strategy have been delayed. It is hoped that the Community Plan will be finalised by December 2007, a date has not been agreed for completion of the Financial Strategy.</p> <p><b>Risk: Further slippage may have a negative impact on the delivery of service improvement.</b></p>	<p>The Community Plan is currently being refreshed and will be available in draft form by December 2007.</p> <p>Consultation on the draft Community Plan will take place during January / February 2008 with a view to submission of the final Plan to the Council and to the Inverclyde Alliance Board.</p> <p>A Financial Strategy for the Council is currently being developed with an additional draft available in December 2007.</p>	<p>Head of Performance Management and Procurement</p> <p>Head of Performance Management and Procurement</p> <p>Corporate Director: Improvement &amp; Performance</p>	<p>31 December 2007</p> <p>31 March 2008</p> <p>31 December 2007</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	58	<p><b>Tendering Procedures</b></p> <p>Shortcomings have been identified in the process of tender evaluation and the award of certain service contracts. These shortcomings related to compliance with the Council's financial regulations and the achievement of Best Value.</p> <p><b><i>Risk: the Council is in breach of its financial regulations and is subject to legal claims over the award of additional service contracts.</i></b></p>	<p>The Corporate Procurement Unit is working alongside particular services which are engaged in procurement / tendering.</p> <p>The Corporate Procurement manager will have responsibility for improving the Council's tendering and procurement practices in partnership with services.</p>	Head of Performance Management and Procurement	31 March 2008
5	62	<p><b>Partnership Governance and Funding</b></p> <p>Management of funding awarded to third parties may result in withdrawal of funding to the Council. The Council is currently in receipt of Community Regeneration Fund (CRF) funding, however this is only guaranteed until 2008.</p> <p><b><i>Risk: mismanagement of funding awarded to third parties may result in the withdrawal of funding to the Council.</i></b></p>	<p>Governance arrangements for external funds such as CRF will be implemented in full.</p> <p>Officers from partners are currently evaluating the present CRF programme and will work with grant recipients and partner organisations to develop exit strategies.</p> <p>The Alliance Board will convene in Special Meeting in November 2007 to make decisions on the CRF programme.</p> <p>A report will be presented to the Alliance Board on the process to be used to establish any future programme.</p>	Head of Performance Management and Procurement / Head of Economic and Social Regeneration	30 November 2007



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
6	64	<p><b>Revenue Performance</b></p> <p>The Council's 2007/2008 budget involves reducing the usable general fund reserve to the minimum level advised by the Chief Financial Officer.</p> <p><i><b>Risk: ongoing financial pressures may impinge upon the Council's ability to deliver services.</b></i></p>	<p>This will be addressed through the Council's Financial Strategy which is currently being prepared.</p> <p>Prepare a Reserves Strategy as part of the 2008/9 budget process, as already agreed by the Policy &amp; Resources Committee.</p>	<p>Corporate Director: Improvement &amp; Performance</p> <p>Chief Financial Officer</p>	<p>31 December 2007</p> <p>28 February 2008</p>
7	87 161	<p><b>Budget Monitoring</b></p> <p>Our interim review identified a number of weaknesses in relation to the arrangements for revenue budget reporting and monitoring.</p> <p>In addition monitoring by members is made difficult by a lack of alignment between the financial statements and budget monitoring reports submitted to committee.</p> <p><i><b>Risk: insufficient information is provided to enable members to perform their scrutiny role and appropriate corrective action may not be taken, or monitored, to rectify identified budget variances.</b></i></p>	<p>The recommendations agreed in the external audit report "Corporate Governance – Review of Budgetary control systems" will be implemented.</p> <p>No further action - the format of the Policy &amp; Resources Committee report has been reviewed to make it clearer for Members. It is accepted that many of the technical adjustments shown in the accounts are not reflected in the budget reports and it is not proposed to incorporate these at this point in time.</p>	<p>Chief Financial Officer</p> <p>Chief Financial Officer</p>	<p>31 January 2008</p> <p>N/A</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
8	92	<p><b>Rent Arrears</b></p> <p>The Housing Stock Transfer is currently proposed to be completed on 3 December 2007. At 31 March 2007 the amount of rent outstanding from former tenants was £1.72 million with a further £1.28 million of current tenant rent arrears. Despite arrears to the value of £0.442 million being written off during the year the overall level of arrears has only reduced by £0.319 million indicating an increase of £0.123 million.</p> <p><b><i>Risk: the Council experiences financial loss as a result of rent arrears outstanding when the housing stock transfer takes place.</i></b></p>	<p>Formal agreement is being progressed with River Clyde Homes to take on responsibility for current tenants' arrears.</p> <p>A proposal will be developed for dealing with rent arrears where the debtor is no longer a current tenant. This is likely to that such debts will be retained by the Council and recovered under the Council's arrangements with its debt recovery partners.</p>	<p>Head of Housing / Head of Implementation Team</p> <p>Head of Housing / Head of Implementation Team</p>	<p>30 November 2007</p> <p>30 November 2007</p>
9	93	<p><b>Rent Overpayments</b></p> <p>There are a number of rent accounts containing credit balances. The total value of these balances at 31 March 2007 was £314,663 (£194,150 relating to current tenants and £120,513 relating to former tenants). The Council were unable to explain why these balances had arisen.</p> <p><b><i>Risk: the validity of credit balances requires to be investigated to ascertain accuracy in the make up of the overall rent account balances.</i></b></p>	<p>A number of the credit balances are valid and arise because of the frequency with which tenants choose to pay their rent or because some like to maintain credit as cover for unforeseen circumstances. Tenants in credit receive a Statement of Account explaining the position. There are other accounts where credits could be regarded as excessive and individual investigation is required. Checks on these balances are currently in progress but these are unlikely to be completed prior to stock transfer.</p>	<p>Head of Housing</p>	<p>31 March 2008 and ongoing</p>

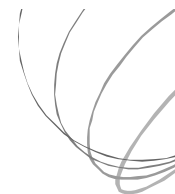


Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
10	100	<p><b>Capital Slippage</b></p> <p>There was considerable slippage against the annual capital plan with £20.9 million of the planned £45.5 million capital expenditure being unspent. This follows on from significant levels of capital slippage in both 2004/2005 and 2005/2006. Reporting of capital spend could also be enhanced to clearly identify performance and areas of concern.</p> <p><b>Risk: Ineffective management and reporting of capital plans leading to excessive slippage could impact on the Council's ability to provide services.</b></p>	<p>Establish a formal 3 year rolling capital programme.</p> <p>Implement procedures for ensuring adequate feasibility work and option appraisal is undertaken prior to selection of major capital schemes.</p> <p>Provide robust challenge throughout the development and delivery stages.</p> <p>Undertake early action to address areas of underspend.</p> <p>Develop sufficient reserve projects.</p> <p>Manage the Council's assets strategically to achieve best value.</p>	Head of Property Resources and Facilities Management	31 March 2008 for all actions
11	110 112	<p><b>Vehicle Management Trading Account</b></p> <p>Although the Vehicle Management STO has satisfied its statutory obligation to break even over the three year rolling period, there are still significant concerns about the monitoring and management of the trading accounts and their viability to continue to operate in future years.</p> <p>Trading accounts should be reviewed periodically to ensure they still meet the criteria set to be classified as a trading account and also to ensure that there are no additional trading accounts that should be established.</p> <p><b>Risk: the vehicle management STO does not achieve its statutory</b></p>	<p>Develop a replacement strategy for vehicles and plant, and identify available funding routes for option appraisal - aimed at identifying true costs to the user services and demonstrating Best Value for the Council.</p> <p>Implement the "preferred replacement cycle" for various items of plant and vehicles which has been drafted, dependant on financial options appraisal.</p> <p>Implement and comply with the draft procurement flowchart which has been developed in conjunction with Purchasing and Finance.</p> <p>Complete the work currently in progress with Purchasing and Finance on options/profiles for Operational Leasing and</p>	Head of Environmental Services	31 March 2008

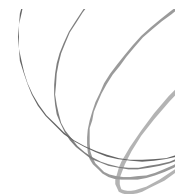


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		<i>financial objective in future years and the STOs may not be providing best value in service delivery.</i>	Contract Hire (with and without maintenance). Implement the revised processes for recovery of fleet management costs, which utilise vehicle weightings as used by the Association for Public Sector Excellence (APSE), resulting in a re-profile of the budget for the service.		
12	117	<b>Equal Pay</b>  The Council continues to face potential additional equal pay claims from further groups of employees and has created a reserve amounting to £1.37 million which is the best estimate of the expenditure likely to be required to settle the present obligation at the balance sheet date.  <i>Risk: costs exceed the level of reserves created in relation to equal pay claims.</i>	Further equal pay claims have been lodged against the Council but, as in other Councils, no specific action is being taken on these claims at this time. The position is being monitored internally in terms of the numbers and nature of claims, and externally in terms of claim of Employment Tribunals outcomes in other authorities. Going forward, action will be taken on specific claims for specific types of post as required.	Head of Organisational Development and HR	Ongoing
13	121	<b>Single Status</b>  Single status has not yet been implemented. An estimate for the ongoing costs has been built into the budget setting process.  <i>Risk: continuing costs to the Council cannot be reliably estimated representing an unquantifiable ongoing financial pressure.</i>	In conjunction with the trade unions progress has been made in agreeing a revised set of Conditions of Service and a Pay and Grading model which will have an effective date of 1 April 2007. The 90 day notice period for consultation has been put in place and it is anticipated that employees will be advised of the outcome by the end of December 2007.	Head of Organisational Development and HR / Chief Financial Officer	31 January 2008





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14	129	<p><b>Efficient Government</b></p> <p>The Council's level of funding from central government is likely to be reduced in the coming years, and pressure will be exerted from the Scottish Government to ensure that the level of Council Tax does not rise above inflation.</p> <p><b><i>Risk: The Council will be unable to replace the Scottish Government's assumed savings if it does not identify offsetting efficiencies.</i></b></p>	<p>The Council has submitted to COSLA its Efficiency Statement for 2006/07. The Statement identifies a series of Efficiency Reviews which should generate savings to support the budget process. A policy decision will need to be made by the Council on the future make-up of its efficiency programme as part of the budget process.</p>	<p>Head of Performance Management and Procurement</p>	<p>31 March 2008</p>
15	133	<p><b>Asset Management</b></p> <p>A corporate asset management planning framework is not fully embedded within the Council.</p> <p><b><i>Risk: the Council fails to achieve best value in its utilisation of assets and does not have the necessary information to make informed investment decisions.</i></b></p>	<p>A revised approach to property Asset Management is required to not only introduce a more structured method for the effective operation and disposal of properties to optimise capital receipts, but also to manage the portfolio more efficiently and address the Council's statutory obligations in a more structured manner.</p> <p>An IT based Asset Management Plan will be introduced and managed.</p>	<p>Head of Legal and Administration</p>	<p>31 March 2008</p>



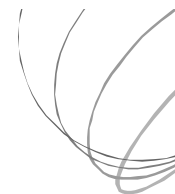
Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
16	155	<p><b>Workforce Plan</b></p> <p>Workforce planning arrangements have yet to be developed in the Council.</p> <p><b>Risk: There is a risk that the Council's workforce is not equipped to deliver strategic plans.</b></p>	<p>This programme of work will be progressed once the majority of work has been completed for the implementation of Single Status. Likely timescale for commencement is now March, with implementation during 2008/09.</p> <p>A draft project brief for the Organisational Development and Improvement Plan has been prepared for the Corporate Management Team. The report will go to the Policy and Resources Committee in November.</p>	<p>Head of Organisational Development and HR</p> <p>Head of Performance Management and Procurement</p>	<p>31 March 2008</p> <p>30 November 2007</p>
17	156	<p><b>Procurement Strategy</b></p> <p>The absence of a procurement strategy makes it difficult to assess efficiency in purchasing decisions made.</p> <p><b>Risk: Purchasing decisions across the Council are un-coordinated and do not achieve best value.</b></p>	<p>A Procurement Strategy has been drafted following a consultancy review of procurement. An action plan is being developed and implemented. The appointment of a Corporate Procurement Manager will accelerate change in this area.</p>	<p>Head of Performance Management and Procurement</p>	<p>31 March 2008</p>
18	163	<p><b>Overtime and Employee Records</b></p> <p>Sample testing identified employees working excessive overtime and a number of issues relating to incomplete employee records held by payroll and human resources.</p> <p><b>Risk: the Council breach the Working Time Directive regulations and staff are not subject to regulation terms and conditions.</b></p>	<p>The instance of excessive hours on standby duty drawn to our attention by external audit has been highlighted to the service concerned with details of the appropriate guidelines to be put in place.</p> <p>The incomplete files were for employees who transferred to Inverclyde Council and were employed pre-reorganisation. It would not be feasible to obtain the missing documentation now after such a passage of time.</p>	<p>Head of Organisational Development and HR</p> <p>Head of Organisational Development and HR</p>	<p>31 October 2007</p> <p>N/A</p>



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19	164	<p><b>Common Good Title Deeds</b></p> <p>The Council have not performed an exercise to establish the existence and ownership of its heritable properties.</p> <p><i><b>Risk: the Council's and any common good fixed assets are not fairly stated.</b></i></p>	<p>This is a massive exercise and the conveyancing team is small. The required resources will be assessed and if able to be made available, the task should take some 18 months to complete.</p>	<p>Corporate Director: Regeneration &amp; Resources</p>	<p>31 March 2009</p>
20	166	<p><b>Anti-fraud and irregularity policy</b></p> <p>The Council has not revised its anti-fraud and irregularity policy since January 2003.</p> <p><i><b>Risk: the Council may not have appropriate arrangements in place to prevent and detect fraud.</b></i></p>	<p>The policy will be reviewed and updated to reflect current good practice in this regard and to take into consideration the Council's new structures.</p>	<p>Interim Chief Internal Auditor</p>	<p>31 March 2008</p>
21	188	<p><b>Final Accounts Preparation</b></p> <p>There were a significant number of errors on the face of the financial statements requiring amendments prior to preparing the final version. Working papers provided were often incomplete or inadequate in terms of supporting the figures in the financial statements.</p> <p>A full suite of working papers was not made available to audit in line with the proposed timetable deadline of 30 June 2007, papers were still being received towards the end of August.</p> <p>There is a risk that the Council will be unable to prepare financial statements in accordance with regulations if technical and accounting updates are not</p>	<p>A thorough review of working papers and processes, currently in progress, will be completed and an action plan covering both the qualitative and technical aspects of the accounts will be drafted by November 2007.</p> <p>Advice will be sought externally, where appropriate, to learn from Best Practice elsewhere.</p>	<p>Chief Financial Officer</p> <p>Chief Financial Officer</p>	<p>30 November 2007</p> <p>31 March 2008</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>managed and actioned timeously.</p> <p><b>Risk: The Council is not well placed to prepare annual financial statements in accordance with accounting and statutory requirements. Audit fees are likely to increase due to the effort required in addressing changes to the financial statements.</b></p>			
22	189	<p><b>Reconciliations</b></p> <p>Reconciliations often contained balances which were old and had not been fully investigated. Bank reconciliations were of particular concern, though it is noted that they were reviewed prior to completing the audit and adjustments were incorporated where appropriate.</p> <p><b>Risk: untimely performance of reconciliations, or inadequate investigation of balances may result in balances not being fairly stated in the financial statements.</b></p>	<p>Bank reconciliation procedures will be updated to establish a process to actively manage any items over one period old.</p> <p>The presentation of bank reconciliations will be reviewed and will be standardised.</p> <p>The process for drawing down information for reconciliation purposes will be reviewed and improvements implemented as appropriate.</p>	Chief Financial Officer	31 October 2007
23	192	<p><b>Impairment Review</b></p> <p>A formal process has not been developed to identify assets which have suffered impairment. Systematic impairment reviews should be conducted on an ongoing basis.</p> <p><b>Risk: asset values carried in the financial statements do not represent current valuations.</b></p>	An IT based Asset Management Plan will be introduced and managed, to include the process for ongoing impairment reviews.	Head of Legal and Administration / Head of Property Resources and Facilities Management	31 March 2008



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
24	195	<p><b>Schools Estates Programme</b></p> <p>There has been slippage in the timescales for the completion of the PPP tendering phase with the evaluation of the final bids now not expected to be complete until 21 December 2007, originally this was scheduled for completion by 28 September 2007.</p> <p><b><i>Risk: further slippage could have a negative effect upon the Council's ability to deliver the school's estate strategy.</i></b></p>	<p>A consultancy exercise will be undertaken to assess the fitness for purpose of Governance and Project Management Arrangements in the School Estate Strategy. The findings are due for delivery by end November 2007, and will be used to inform improved practices in this area of activity.</p> <p>The Prudential Programme of a new secondary school in Ravenscraig and a new primary school in Port Glasgow which has already started is scheduled for completion dates for each school of Spring and Autumn 2008 respectively.</p> <p>The 3 consortia who are in the Invitation to Participate in Dialogue (ITPD) have submitted plans for the four new PPP schools (2 secondary schools and 2 primary schools). A long process of competitive dialogue has been undertaken and final evaluations will take place in December 2008.</p> <p>Elected Members have consulted on future plans and a mandatory variant (amendment) has been introduced into the programme to adjust the size of two schools. A consultation on the future make up of secondary schools finished on 21 September and was reported to Committee on the 11 October. The financial implications of the decision</p>	Corporate Director Education and Social Care	<p>30 November 2007</p> <p>31 October 2008</p> <p>31 December 2008</p> <p>By 31 May 2008</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			to, in principle, support a sixth secondary school is being studied. A further four consultations have been agreed on the future school building programme. The results will be announced next Spring. Discussions have taken place with Scottish Ministers to secure future funding for school, buildings.		
25	207	<p><b>Monitoring of audit action plans</b></p> <p>The current system for monitoring audit action plans is cumbersome and has not operated since March 2007 pending a review of the arrangements.</p> <p><b><i>Risk: points raised on audit action plans may not be implemented.</i></b></p>	<p>An exercise will be undertaken to review the continued appropriateness of the outstanding actions and revise them, as necessary, to reflect current operations within the Council.</p> <p>A revised monitoring process will be developed and implemented, with:-</p> <ul style="list-style-type: none"> <li>• a recommendations database being populated with the revised outstanding actions and any new actions arising from this and other external audit reports</li> <li>• arrangements for collecting and challenging information on progress being clearly defined</li> <li>• progress being reported initially to the Audit Committee meeting on 18 March 2008, and to each Audit Committee thereafter, for review and challenge by Members.</li> </ul> <p>Consideration will, be given to the most appropriate way of linking this monitoring information into the Council's Performance Management Framework.</p>	<p>Interim Chief Internal Auditor</p> <p>Interim Chief Internal Auditor</p> <p>Head of Performance Management and Procurement</p>	<p>31 January 2008</p> <p>31 January 2008</p> <p>31 March 2008</p>