

East Renfrewshire Council

Annual report on the 2010/11 audit



Prepared for Members of East Renfrewshire Council and the Controller of Audit
October 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

2010/11

Scotland's public bodies are facing major spending cuts and must focus on their long term financial sustainability to ensure effective public services in the future, with clear priorities, budgets and workforce plans. Councils have responded to reductions in funding in 2011-12 and are making significant savings, however there is a risk that cost pressures will be greater than expected due to unforeseen events.

Pay restraint and reducing workforces are the most common approaches being taken by public bodies to reduce costs over the next few years. Most councils have already reduced staff numbers through recruitment freezes and voluntary redundancy schemes. The key issues for members include the leadership and governance of public service reform, financial sustainability, and workforce planning to deliver effective public services.

We have given an unqualified opinion on the financial statements of East Renfrewshire Council 2010/11.

The general fund recorded a net surplus for 2010/11 of £10.436 million which after transfers to reserves increased unallocated balances to £8.392 million and earmarked reserves to £4.196 million. Other reserves held for repairs, capital and other purposes total £25.293 million. During 2010/11, the Housing Revenue Account increased its reserves by £0.223 million resulting in a carried forward balance of £0.724 million. The balance of unallocated funds held is, at 3.7 per cent of net revenue expenditure, an improvement towards achieving the 4 per cent target balance. The surplus achieved in 2010/11 is the result of the early action taken by the council to reduce costs, primarily through staff reductions, and places the council in a good position to meet the challenges of reduced future grant settlements from the Scottish Government coupled with a continuing commitment to a council tax freeze.

During 2010/11, the council incurred slippage in its non housing capital expenditure programme of £4.158 million due primarily to adverse winter weather conditions.

The council continues to make good progress in improving its arrangements for procuring goods and services and has continued with a programme of staff reductions (66 during 2010/11) in line with service redesigns and other efficiency measures.

The council's internal control environment is generally strong, with a proactive approach to anti fraud initiatives. Recommendations however have been made to strengthen controls over the collection of commercial rents and third party compliance with lease conditions.

The council is an active participant in the Clyde Valley Review of shared services and has agreed to work on four of the seven main workstreams set out in that review. Business case, governance arrangements and costings for a shared approach to waste management and the provision of support services will however need to be carefully reconsidered in light of the withdrawal of other local authorities from the original proposal.

Performance has improved in 2010/11 with 69 per cent of the council's SPI indicators showing progress on last year and 73 per cent of indicators meeting or being close to their Outcome Delivery Plan targets.

Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years. The Audit Scotland Report "Scotland's public finances: responding to challenges" contained a number of key messages for councils to consider given the financial constraints being faced.

In response to these constraints, financial planning within the council has identified a potential funding gap of between £30 to £32 million over the period to 2014. Responding to this the council has set a budget for 2011/12 incorporating savings of £12.4 million. An indicative budget for 2012/13 generating a further £6.2 million of savings has also been planned. These plans, together with the current level of reserves, place the council in a positive position to meet the financial challenges that lie ahead.

Introduction

1. This report is the summary of our findings arising from our 2010/11 audit of East Renfrewshire Council. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements), conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead focus on the financial statements and any significant findings from our wider review of East Renfrewshire Council.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management actions and have a mechanism in place to assess progress.
4. This report is addressed to the members and the Controller of Audit and should form a key part of discussions with the Audit Committee, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be available to the Scottish Parliament, other stakeholders, and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the council. The information in this report may be used for the annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and presented to the Local Government and Communities Committee of the Scottish Parliament.
6. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, statement on Corporate Governance and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit of the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of East Renfrewshire Council for 2010/11 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2011 and of the income and expenditure for the year then ended.

Legality

11. Through our planned audit work we consider the legality of the council's financial transactions. In addition the Director of Finance 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 relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Statement on Corporate Governance

12. We are satisfied with the disclosures made in the Statement on Corporate Governance and the adequacy of the process put in place by the council to obtain the necessary assurances. The statement reflects the significance of the Public Service Excellence Programme in transforming council services to meet the financial challenges facing the council and to serve stakeholders in the most efficient and effective way possible.
13. The statement also refers to the measures taken during 2010/11 to address some of the weaknesses identified in the council's housing service in 2009/10. These weaknesses were highlighted in the 2009/10 Statement on Corporate Governance and it is reassuring to note that the council has taken appropriate action to address these weaknesses.

Remuneration report

14. In 2010/11 the Scottish Government introduced a Remuneration Report into the financial statements. This required disclosure of the salary including bonuses, benefits in kind, compensation for loss of office, pension contributions and benefits for senior officers, senior members, and anyone not otherwise included earning over £150,000 per year. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the financial statements include eligible remuneration for all relevant council officers and elected members.

Accounting issues

15. 2010/11 is the first year where Local authorities in Scotland are required to report on the International Financial Reporting Standards (IFRS) basis following the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010 Code). This change represents the biggest challenge faced by accountants and auditors in recent years and has been resource intensive to produce financial statements in compliance with the Code.
16. The council complied with recommended practice in respect of the introduction of IFRS through the preparation and submission to audit of a restated opening balance sheet position as at 1st April 2009 and restated shadow accounts for 2009/10. This approach allowed any issues to be resolved ahead of the final accounts process and ensured the 2010/11 audit could be completed by 30 September 2011.
17. We are satisfied that the council prepared the 2010/11 financial statements, including restated 2009/10 information, in accordance with the 2010 Code.

Accounts submission

18. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2011. A comprehensive working papers package was also available by this date. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2011. The financial statements are now available for presentation to members and for publication.

Presentational and monetary adjustments to the unaudited financial statements

19. A number of adjustments have been made to the 2010/11 unaudited financial statements in accordance with normal audit practice. These adjustments resulted in an increase in the General Fund balance of £0.283 million and an increase in the net worth of the council of £0.443 million. With the exception of a re-presentation of HRA transactions, the main adjustments to the unaudited statements were a reduction of £0.103 million in the council tax bad debt provision, a reduction of £0.143 million in the Equal Pay provision and an increase in asset valuations of £0.115 million. A number of other presentational amendments were also made to improve the disclosures within the financial statements.

Provisions

20. Our audit found that there were instances where provisions were not soundly based. In particular, we found that while overall the level of provision for council tax and housing repairs debts was not unreasonable, there were flaws in how the level of provision was derived. Elements of both the council tax and housing repairs provisions were originally set at levels which were greater than the outstanding debt.
21. We also found that the Equal Pay provision was overstated by £143,000 based on the best estimate of the likely cost of settling outstanding claims. The level of provision has been amended accordingly in the audited financial statements.
22. Overall, the council should ensure that all provisions are correctly calculated and reflect best estimates of likely future costs.

Action point 1

Bank Interest Receivable

23. An area of concern identified through the audit process was that the council had omitted to account for an element of bank interest received on funds placed on deposit in an investment bank account. The council places surplus funds on accounts known as "call accounts" which allow the council to earn interest. It has been council practice to record that accumulating income only when the interest is actually withdrawn from the account. This resulted in the accounting balances for investment income and the bank balance being understated by £18,062.
24. In future, the council has agreed to withdraw all interest received at the year end to ensure that all cash held is visible and accounted for appropriately.

Action point 2

Actuarial Information

25. The council is required to report on the cost of retirement benefits in the financial statements. The disclosures in the accounts are obtained from the council's actuary, Hymans Robertson. The council has to provide the information required to the actuary in December in advance of the year end to ensure that the actuarial report is available for the accounts preparation process. Due to this timing difference, there were anomalies between the estimates submitted and actual year end data for the number of staff who left the council during the year and the total pension contributions paid during the year. We obtained assurances from the actuary that these differences would not materially affect the pension disclosures in the accounts however it is important that the council continues to engage with the actuary to ensure that pension disclosures are based on as accurate information as possible.

Changes to the valuation of associates

26. In previous years, a number of actuaries for Police and Fire authorities calculated the pensions liability associated with injury benefits on the basis of benefits currently in payment. In 2010/11, this basis changed to reflect an estimate of active scheme members who may be paid benefit in the future. This is a change in accounting policy, which required a prior year adjustment to the financial statements.

Prior year adjustments

27. As set out above, the 2010/11 financial statements have been prepared in accordance with the 2010 Code which is based on International Financial Reporting Standards (IFRS) instead of the previous practice of preparing financial statements under UK Generally Accepted Accounting Practice (GAAP). This transition required a prior year adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position. The main areas that required restatement include the valuation of the council's housing stock, the treatment of capital grants, the inclusion of an accrual for employee benefits such as annual leave and the classification of leases. These changes resulted in the net asset position of the council as at 31 March 2010 changing from £146.197 million to £165.551 million, however the accounting nature of these adjustments means that there has been no change to the usable reserves of the council.

Pension costs

28. East Renfrewshire Council is a member of Strathclyde Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 'Retirement Benefits', the council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation at 31 March 2011 provided by the scheme's actuaries reduced the council's share of the deficit from £123.560 million last year to £55.179 million this year. The large decrease is primarily due to a change in one of the financial assumptions, with future pensions' increases now linked to the consumer prices index (CPI) rather than the retail prices index (RPI).

Whole of government accounts

29. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidated pack to the Scottish Government prior to the deadline of 29 July 2011 and the return was audited and submitted to the Scottish Government by the reporting deadline of 30 September 2011.

Group financial statements

30. The diversity of service delivery vehicles means that consolidated group financial statements are required to give a true and fair view of the activities of the council. To enable the preparation of group financial statements, councils are required to consider their interests in all entities, including subsidiary companies, joint ventures and statutory bodies, such as police,

fire and valuation boards. East Renfrewshire Council does not have any subsidiaries or joint ventures, however it consolidates the results of five associates into the group financial statements. The overall effect of inclusion of these group entities is to reduce net worth by £110.376 million.

Trust funds

31. East Renfrewshire Council acts as Trustee for 16 charitable trusts which distribute money to the people of East Renfrewshire in accordance with the conditions of each fund. Charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006, meaning a full set of financial statements is required for each registered trust fund, which will be subject to independent audit. The Office of the Scottish Charities Regulator (OSCR) has deferred full implementation of this requirement until 2013/14, allowing the council to rely on its existing disclosures for trust funds in the council's financial statements, supplemented with additional working papers.
32. The council is aware of the OSCR requirements from 2013/14 and has a plan in place to ensure it will meet its obligations in this regard.

Action point 3

Outlook

Carbon Reduction Commitment

33. Following the comprehensive spending review in October 2010, there were a number of changes to the Carbon Reduction Commitment Energy Efficiency Scheme which had been due for implementation on the 1 April 2011. The requirement to account for and purchase carbon credits was replaced with a flat levy on emissions of £12 per tonne of carbon dioxide. In addition those incentives previously offered to the most energy efficient organisations through the 'recycling of revenues' have been withdrawn with all charges being retained by the treasury.
34. The council has established an inter departmental Environment Partnership and a Carbon Management/energy efficiency Team to consider carbon and energy matters and monitor performance with regard to energy consumption and carbon reduction targets. A revised carbon management plan is currently being updated with a list of potential new projects such as new technologies which could be installed into the council's property estate to enable the council to benefit from lower energy costs and potential income from feed in tariffs.
35. The 2010/11 charge for the council was calculated as £0.188 million. Whilst 2010/11 was a practice year and the charge was not actually incurred, it is now expected that the council will have to purchase £0.195 million worth of carbon allowances in April 2012.

Audit appointment for 2011/12

36. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and members for their assistance during the last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12). Audit Scotland will again be the appointed auditor for East Renfrewshire Council but a different audit team will be in place. We look forward to continuing the good working relationships that exist.

Financial position

37. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based. Auditors consider whether audited bodies have established adequate arrangements and examine:
- financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
38. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the council.

Financial results

39. In 2010/11, East Renfrewshire Council spent £200.583 million on the provision of public services. £181.862 million was on revenue services and £18.721 million was spent on capital items. After the necessary adjustments between the accounting basis and funding basis under regulations, the council increased its General Fund balance by £2.051 million and other useable reserves by £8.608 million. Expenditure was met by taxation and non-specific grant income of £227.988 million. The budget for 2010/11 was based on Band D council tax of £1,126 per annum.

Budgetary control

40. In February 2010, the council set its revenue budget at £226.623 million including expenditure that was to be financed through specific grants. The actual year end position was a surplus on the provision of services of £35.428 million before the necessary accounting adjustments. After making these adjustments the council delivered an underspend of £12.051 million, £10 million of which was transferred to usable reserves.
41. All service departments operated within budget in 2010/11. The council has attributed its underspend to having taking early action in applying savings measures over the last two years. Measures taken include the prudent management of staffing levels through the voluntary release scheme and non-filling of vacancies during the year, progression and early implementation of service reviews and staffing structures, and the maximisation of income receivable.
42. The council had budgeted to increase its unallocated General Fund balance by £0.4 million in 2010/11 and spend £0.4 million from its Spend to Save earmarked fund and a further £1.350 million from the Repairs and Renewals Fund. However, the substantial underspend at the year end permitted the council to increase various reserves. Increases were made to the: unallocated General Fund balance (£1.531 million); the earmarked General Fund balance

(£0.520 million); the Repairs and Renewals Fund (£3.132 million); the Insurance Fund (£0.170 million); the Housing Revenue Account (£0.223 million); and the Capital Reserve (£5.083 million). Overall, this represents an increase in the level of reserves held by the council of £10.659 million.

43. This significant improvement in council finances was not formally reported to all members during the year due to the timetabling of budget monitoring reports. The council accepts that there is scope to improve the provision of up to date financial information to members.

Action point 4

General Fund position

44. As a result of the year end underspend, the general fund balance increased to £12.588 million as at 31 March 2011. This is made up of earmarked funds of £4.196 million leaving an unallocated general fund balance of £8.392 million. This unallocated balance represents 3.7 per cent of the net revenue expenditure, an improvement towards the council's aim to hold an unallocated balance of 4 per cent of net revenue expenditure.

Housing Revenue Account position

45. The council had a housing stock of 3,056 properties at 31st March 2011. The income and expenditure arising from the provision, management and supervision of these properties is reported in the Housing Revenue Account (HRA).
46. After the necessary adjustments between the accounting basis and the funding basis under statute, the HRA made a surplus of £0.223 million during 2010/11. This increased the year end balance on the HRA to £0.724 million, representing 8.7 per cent of total expenditure on the HRA. A healthy reserve level will be essential to support the delivery of the improvements required to bring the council's housing stock up to the Housing Quality Standard by 2015.

Reserves

47. IFRS introduced the terminology usable reserves and unusable reserves. Usable reserves are cash backed and can be used to fund future expenditure. Unusable reserves are for accounting purposes only and do not represent funds that can be used to provide services.
48. Exhibit 1 shows the balances of the council's usable reserves at 31 March 2011 compared to the previous year. The reserves held include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repairs and renewals fund to finance expenditure incurred in repairing, maintaining, replacing and renewing assets. The council's funds at 31 March 2011 totalled £38.605 million, an increase of £10.659 million on the previous year.

Exhibit 1: Usable Reserves

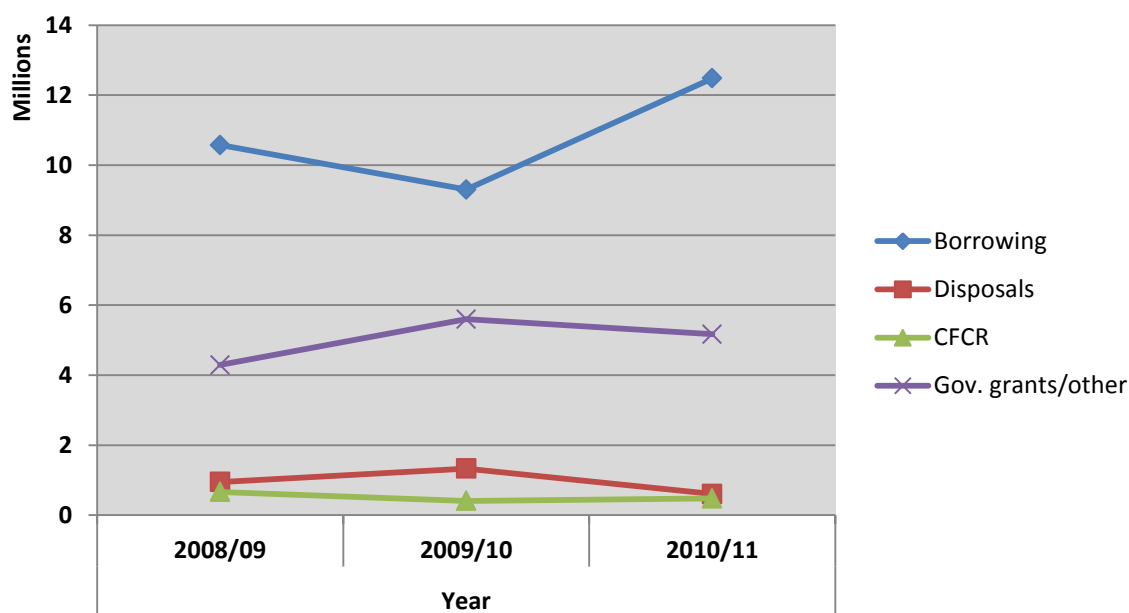
| Description | 31 March 2010 | 31 March 2011 |
|-------------------------|---------------|---------------|
| | £ million | £ million |
| General Fund | 10.537 | 12.588 |
| Housing Revenue Account | 0.501 | 0.724 |
| Repair and Renewal Fund | 3.692 | 6.824 |
| Capital Fund | 12.264 | 17.347 |
| Insurance Fund | 0.952 | 1.122 |
| Total | 27.946 | 38.605 |

Source: East Renfrewshire Council 2010/11 financial statements

49. A suite of financial indicators has been developed in consultation with the CIPFA Directors of Finance working group and 2010/11 data for all Scottish local authorities will be reported to that group in due course.

Capital investment and performance

50. The 2010/11 financial statements detail capital expenditure of £18.721 million, split between the housing programme and the general services programme. The housing programme includes areas such as external upgrading, energy efficiency and meeting the Scottish Housing Quality Standard. The general services programme includes investment in schools and the Barrhead Health/Day Centre as well as improving roads and pathways, community assets and the council's Information Communication Technology (ICT) infrastructure.
51. The planned housing and general services capital expenditure for 2010/11 was set at £22.912 million in February 2010. Actual expenditure was £4.191 million less than budget, representing slippage of 18 per cent during the year.
52. The housing capital outturn for 2010/11 was £4.297 million against a budget of £4.330 million, representing an underspend of £0.033 million. This is due to external improvements to the council's housing stock being delayed due to the severe winter during the year.
53. The general services capital outturn for 2010/11 was £14.424 million against the budget of £18.582 million, representing an underspend of £4.158 million. This slippage is largely due to delays in the site transfer of the Isobel Mair school due to the extreme winter weather conditions and tender and contract issues with the new Eastwood High School project.
54. Exhibit 2 shows the sources of finance for capital expenditure for 2008/09 to 2010/11.

Exhibit 2: Sources of finance for capital expenditure 2008/09 - 2010/11

Source: East Renfrewshire Council audited financial statements 2008/09, 2009/10 and 2010/11

Treasury management

55. The council has continued its prudent approach to Treasury Management in 2010/11. Total borrowing has reduced by £0.127 million to £86.720 million in the year with £6.046 million of this balance having a remaining term of less than one year. In 2010/1, the council held 19 per cent of its debt in variable rate loans, well below its approved upper limit of 30 per cent. This allows the council to forecast the cost of borrowing with greater certainty due to the limited exposure to changing interest rates.
56. The council's temporary investments increased to £26.102 million in 2010/11 (£14.824 million at 31 March 2010). To safeguard the council's assets, surplus funds continue to be invested for a maximum of 3 months and only to institutions included on the council's approved counterparty list.

Investment in Heritable Bank

57. As has been reported in previous years, the council had £1 million invested in Heritable Bank, a UK based subsidiary of the Icelandic Bank, Landsbanki, when it went into administration in October 2008. At the time of the preparation of the financial statements the administrators, Ernst and Young, were projecting a return of 85 pence in the pound, payable by the middle of 2012. At 31st March 2011 the council had received six interim payments amounting to £526,690.
58. The administrators provided a further update in September 2011 which projects a return of 86 to 90 pence in the pound. This is a moving picture but indications of an improved recovery rate are encouraging.

Management of resources to support priority setting and cost reductions

59. The council has been proactive in preparing financial and resource plans in order to identify the savings required by the reduced local government settlements.

Workforce reduction

60. The council introduced a voluntary severance scheme in 2009/10 with key criteria that had to be satisfied prior to the approval of the severance package. In 2010/11, a further 66 staff, in addition to the 99 in 2009/10, left the council. A non recurring cost of £2.6 million was incurred in 2010/11 including £1.1 million payable to the Strathclyde Pension Fund in the form of strain on the fund and lump sum costs. From 1 April 2011 to 30 September 2011 a further 8 members of staff have left the council under the voluntary severance scheme at a non recurring cost of £0.350 million, including strain on the funds and lump sum costs of £0.208 million.

Asset management

61. The council approved its first Corporate Asset Management Plan (CAMP) in 2009/10 with property being the first component to be developed. In 2010/11, the council established a timetable to deliver the Housing Services Asset Management Strategy by March 2012, and made progress in the development of asset management plans for Roads (draft due October), Fleet (draft due December), IT (by March 2012) and Land/Open Spaces (by June 2012).
62. The Housing Asset Management Strategy was informed by the outcome of the Scottish Housing Quality Standard (SHQS) survey of the condition of the housing stock. The survey identified the current level of SHQS compliance at 68 per cent which compares favourably with the average compliance rate of 43 per cent reported by Scottish Local Authorities in 2009/10. The council has also approved a draft thirty year business plan for Housing Services which projects that the funding requirements of the Housing Service can be met through annual rental increases of CPI plus 1 per cent which is in accordance with the formula previously agreed with council tenants. The council will require to monitor the key assumptions of the plan, in particular the level of capital receipts to be generated, loan charges, void rent loss and the level of repairs.
63. The council has addressed the issue of asset disposal which we raised in our 2009/10 Report by recently approving a land and property asset disposal framework. The new framework will enable a consistent approach to the identification of and arrangements for the disposal of surplus land and property assets.
64. The key objective of the CAMP is to secure efficiencies through the rationalisation of the heritable estate and to achieve the optimum number of properties necessary for service delivery. The council has 133 non housing properties with annual maintenance costs of some £12 million and a maintenance backlog of approximately £23 million. The council completed its property asset review in 2010/11 and this has informed a strategy of retracting staff from a

wide range of outlying accommodation into a cluster of 6 "core" offices. Such an approach has the potential to reduce property running costs by up to £635k per annum and the maintenance backlog liability by £1.65 million.

Procurement

65. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement. In 2009, the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. Two rounds of PCA assessment have been completed. In 2009 the council achieved a score of 27 per cent which is classed as 'conformance' with the principles of the McClelland review. This score increased to 42 per cent in 2010 and while still falling within the "conformance" banding, represents one of the highest score increases in Scotland.
66. The 2010 PCA found that the two key areas for improvement were the lack of corporate procurement involvement in Supplier and Contract Management decisions and the need for greater engagement of the procurement function in business planning and longer term service strategy development.
67. In response to these recommendations, the Corporate Procurement Section is now more closely involved with the Public Service Excellence (PSE) programme where initiatives in services and processes are being pursued and is currently contributing to a number of initiatives including a review of mailing, the CHCP transformation programme (tendering for services) and the review of the housing stores service.
68. The Corporate Procurement Section has also delivered seven specialist training sessions to around 75 senior members of staff involved in tendering for goods and services which should place the council in an advantageous position to improve its assessment in "defining the supply need" and "contract and supplier management" in the 2011 PCA.

Outlook

2011 to 2013 budgets

69. The council, like all public sector organisations, faces a very challenging financial climate. Budget savings required in 2011/12 are far in excess of those needed in previous years and this requires strategic planning and the implementation of sustainable measures to balance the budget, including rigorous monitoring.
70. The council identified a potential funding shortfall of between £30 million and £32 million for the period 2010 to 2014 and continues to address that gap through longer term financial planning. In February 2011, following an extensive community engagement exercise, the council approved a balanced budget for 2011/12 and also set an indicative budget for 2012/13, incorporating savings measures of £12.4 million and £6.2 million respectively.

71. The savings measures included within the budget were very detailed for each service department and included specific service programmes and corporate savings activities. The key measures , with savings quantified over the 2 years, include:

- Cross council two year pay freeze for all employees (£3.6 million)
- Savings in Loan Charges (£1.1 million)
- Workforce planning savings in all departments (£5 million)
- Revisions to Terms & Conditions Teachers (£1.1 million)
- School meal service redesign and increased charges (£0.5 million)
- Increased income from fees and charges (£0.95 million)

2011/12 budget reporting

72. The most recent 2011/12 budget monitoring report (as at June) indicates a continuing underspend of £0.2 million, representing 0.5 per cent of the profiled budget for the period. It will be important for the council to actively monitor this year's outturn and ensure that all departments meet or exceed their efficiency targets.

Financial forecasts beyond 2011/12

73. The outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The UK Comprehensive Spending Review indicates that significant budget reductions will be required across the public sector and the Scottish Government is not immune to these budget pressures. The Scottish Government remains committed to the council tax freeze for another year and has confirmed that there will be a substantial real terms cut to capital budgets. Continuing to deliver vital public services with a reducing budget will be a significant challenge for the council.

Governance and accountability

74. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
75. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance, including audit committees, in monitoring these arrangements.
76. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
77. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

78. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the transformation agenda. The council has a well established system of regular reporting to Cabinet and the Corporate Management Team to enable existing policies and new proposals to be subject to consideration and discussion by members and senior officers.
79. The Cabinet has oversight of the financial resources and functions of the council, including revenue budget, capital plan and treasury management. It is also responsible for corporate asset management planning and property disposal.
80. A key responsibility of the Audit Committee is to undertake a corporate overview of the council's control environment and to review the adequacy of the policies and practices in operation to ensure compliance with relevant statutes, directions, standards and codes of corporate governance. The Audit Committee is also responsible for evaluating the arrangements in place for securing the economical, efficient and effective management of the council's resources and for considering internal and external audit reports and ensuring management implement the agreed recommendations. In 2010/11, the Audit Committee

made arrangements to consider how the council is placed against the content of national external audit reports.

81. The council completed five improvement actions arising from a 2010/11 review of its Code of Corporate Governance. Ongoing actions are incorporated in the 2011/12 Code, approved in August 2011, and these include the implementation of the new staff Performance Review and Development Scheme.

Internal control

82. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
83. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
84. As part of our work, we took assurance from key controls within the council's financial systems. The results of our review of key controls were reported to the Director of Finance in May 2011. Areas where key control improvements could be made have been discussed with officers and have either already been implemented or will be implemented in due course. Our audit work identified that the control over the collection of commercial rents was not as strong as it should be, with outstanding rents and income associated with lease conditions (e.g. profit share arrangements) not being pursued rigorously. This issue was also the subject of an internal audit report during 2010/11. The council should take steps to improve the control over commercial rent collection and compliance with lease conditions.

Action point 5

ICT

85. The council has made good progress in providing a sound information management environment for its operations and activities. Appropriate policies, guidance, and standards are in place and staff training is provided as required. New systems, such as electronic document records management, have been implemented to improve storage and access to information. The council is also currently planning a phased deployment of a virtual desktop environment to provide cost and operational benefits. While there is a recognition of the need for other capital investment in the ICT infrastructure to ensure its continued effective operation, budgetary constraints and work under the Clyde Valley Review will have an impact on investment plans going forward.
86. To improve access to information and services the council is redeveloping its website after successfully launching a new intranet which provided features such as an integrated logon to the payroll and human resources package Resourcelink. The website is integrated with the

Lagan customer relationship management (CRM) system which had the enhanced self-service feature launched on the website in 2011.

87. Data handling and security continues to receive public and media attention as a result of a number of incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions (DWP) and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to civil and criminal litigation. It should be noted that from April 2010, the Information Commissioner's Office has been able to fine organisations up to £500,000 for serious data protection breaches.
88. The council has made progress with its information management plans through the introduction of an information asset register which is reviewed on a regular basis by each department. In addition the council's Information Security Officer and Data Protection Officer are continuing to provide training and guidance with regard to processing personal data.

Prevention and detection of fraud and irregularities

89. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
90. The council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy incorporating a whistleblowing policy and response plan; to be revised in October 2011, codes of conduct for elected members and staff; and defined remits for committees.
91. During the year, an attempt was made to defraud the council of £72,000 through the submission of a falsified contract and invoices. The council's internal controls identified the attempt and a report was made to the police. There was no loss of public funds.

National Fraud Initiative in Scotland

92. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. We are satisfied that the council has demonstrated a strong commitment to the NFI process and at the current time of preparing this report well over one thousand matches have been investigated. To date the exercise has resulted in one confirmed fraud and a further seven errors worth over £7,000. It should be noted however that there are a number of investigations that are still on-going and it is therefore possible that these figures will increase over the coming months.

Housing benefit inspections

93. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. The risks to East Renfrewshire Council's benefits service were originally assessed in April 2009 with a subsequent assessment in September 2010 which identified 9 risk areas for attention including the decline in the accuracy of benefit claim processing and the decline in overpayment recovery performance. The council duly responded in November 2010 with an action plan.
94. With reference to the accuracy of benefit claim processing, the results for 2010/11 show an improvement from the mid year low of 87 per cent accuracy to 90 per cent for the full year, although this remains below the levels achieved in the previous two years. With regard to the recovery of overpayments, the council recovered 55 per cent of benefits debt that had been raised in 2010/11 (vs. a target of 65 per cent) and 10 per cent of the total amount of benefit overpayments outstanding (vs. a target of 12 per cent).
95. One of the other risk areas identified in the Audit Scotland report was the reduction in the council's interventions programme (officers visiting claimants) due to a restructuring of the service in November 2009. This change created a greater risk of fraudulent claims and overpayments being undetected. The Housing Delivery Division of the DWP is due to assess the benefit service's claim collection process in October 2011 and the service will take account of DWP findings in a further review of interventions procedures.
96. The progress on the improvement actions from the November 2010 Action plan will be followed up in the next round of Audit Scotland risk assessments in 2012/13.

Standards of conduct and arrangements for the prevention/detection of bribery and corruption

97. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. In our overview of internal financial controls letter of May 2011, we questioned whether employees were sufficiently aware of the need to register interests which may have potential conflict with their duties to the council. We established that arrangements within departments were inconsistent and only a low level of interests was being registered. The Bribery Act of July 2011 placed a further onus on employers to establish adequate procedures to prevent bribery by its employees, agents and third party providers. The council has recently issued a revised Employee Code of Conduct which incorporates guidance for staff on these two issues.

Roles and relationships

98. The council has adopted the Scottish Government's revised Councillors' Code of Conduct, issued in December 2010. Members were invited to attend the Standards Commission presentation to avail themselves of the main changes which included clarification of the rules

on registering and declaring interests, and the new decision-making procedures for planning applications.

99. Complaints alleging breaches of the Councillors' Code of Conduct are referred to the Public Standards Commissioner for Scotland (PSC) who determines whether, in his view, there has been a breach. If no evidence is found the matter is closed, however if the PSC concludes that there has been a breach of the Code, he reports to the Standards Commission which then decides whether to hold a hearing.
100. In June 2011 the Standards Commission held a hearing into an alleged breach of the Councillors' Code of Conduct by a council member who accepted responsibility for a failure to register remunerated employment as a teacher by a neighbouring council. The Commission decided to censure the member under the terms of section 19(1)(a) of the Ethical Standards in Public Life etc.(Scotland) Act 2000.
101. Council members have attended a range of learning and development events during 2010/11 and details of those attendances are published annually on the council's website. All members, bar one, have a PDP in place and half of the membership has had updates to their PDPs in the past year.

Best Value, use of resources and performance

102. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
103. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that audited bodies have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
104. As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
- a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
105. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. During the course of their audit appointment auditors also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
106. This section includes a commentary on the Best Value / performance management arrangements within the council. We also note any headline performance outcomes and measures used by the council and comment on any relevant national reports.

Management arrangements

Best Value

107. The first Best Value report in 2005 highlighted that the council demonstrated a clear commitment to best value and community planning. Since that time the council has implemented its plan which was compiled in response to that report. The timing of East Renfrewshire Council's next Best Value audit (BV2) will be informed by a risk assessment performed by the Local Area Network (LAN). In 2010/11, the LAN again noted the continuous improvement being made by the council and, as reported in the Assurance and Improvement Plan (AIP), there are currently no plans for a Best Value review of the council over the next three years.

Self-evaluation arrangements

108. In recognition of the need to adopt robust self-assessment systems to monitor progress and performance in order to drive improvement, the council adopted the Public Service Improvement Framework (PSIF) in 2009. The PSIF is a self-assessment tool, which encourages organisations to conduct a systematic and comprehensive review of their own activities and results.
109. The council has tailored the PSIF to provide a proportionate model that works for the scale of each service area and to take account of other professional frameworks. These frameworks ensure compliance with inspectorate requirements and professional good practice. In 2010/11, the council reports that all services have been evaluated with an internal or external inspection, assessment model or PSIF self-assessment.

Public Sector Excellence

110. The council's Public Service Excellence (PSE) programme aims to identify opportunities to improve the efficiency and quality of services provided. These opportunities can come from a variety of sources including budget scenario planning, improvement plans arising from PSIF and from other improvement work in services. Customer and Business Change Services monitor the development of the PSE programme across departments and report to Members on an annual basis. A selection of key achievements and issues from the 2010/11 report are:

Customer Services

- The transfer of registration ,taxi licensing, sports pitch bookings, cash collection and housing call centre to Customer First resulting in a 40% increase in volume of contact, serviced by a 30% increase in Customer First staff met from transferring existing staff.
- The council noted that balancing the ongoing operational needs of the Customer First Service with the training required for a successful integration of services had proved challenging and that a period of consolidation would be necessary before further transfers could take place.

Tools and Technologies

- Increased online and automated telephone payment services for customers
- Increased online planning applications and developed an online service for Building Standards
- Enabled parents to pay online for school-related payments (e.g. trips, meals)
- Implemented Electronic Data and Records Management (EDRM) in Benefits and Council Tax.

Asset Management

- Completed a housing stock condition survey
- Carried out various staff relocations and integrations to make better use of existing premises and limit the fragmentation of teams.

Procurement

- Increased processing via the e-procurement system by 33% and rolled this out across the school estate.

111. The focus of the PSE programme to date has been on back office support functions and infrastructure projects. This is now changing towards improving efficiency in front line services. Decisions around the council's involvement in shared services will have key implications for the PSE programme and may require a refocus on certain project areas (e.g development of IT systems).

Efficiencies

112. The council produces an Annual Efficiency Statement which, for 2010/11, reported cash - releasing savings of £4.9 million, with workforce planning and the pay freeze contributing £2.8 million of that total. The council believes that it has a rigorous approach to verifying efficiencies (i.e ensuring no adverse knock on effect on productivity or quality) whilst at the same time seeking to minimise associated bureaucracy around the monitoring and reporting of efficiencies.

Clyde Valley shared services programme

113. In March 2009, as a reaction to the recognition of an extended period of financial constraint, East Renfrewshire Council, together with a number of other councils in west central Scotland, commissioned Professor Sir John Arbuthnott to lead an independent review of ways in which councils could enhance the current level of joint working and sharing services. Following publication of his review in November 2009, seven workstreams were identified as detailed below (Exhibit 3) with a lead authority nominated to take the initiative forward.

Exhibit 3: Shared services workstream leads

| Works Stream | Lead Council |
|-----------------------------------------|-------------------------------------------|
| Social transport and fleet management | Glasgow City Council |
| Integrated health and social care | Renfrewshire Council |
| Property sharing and management in hubs | South Lanarkshire Council |
| Joint approach to support services | East Renfrewshire and Inverclyde Councils |
| Common charging framework | East Dunbartonshire Council |
| Joint economic strategy | West Dunbartonshire Council |
| Integrated waste management | North Lanarkshire Council |

114. Four of the workstreams are making progress and East Renfrewshire Council is participating in each of these, namely:
- *Social Transport*
 - *Integrated Health and Social Care*
 - *Joint Approach to Support Services*
 - *Integrated Waste Management*
115. Progress on social transport has been limited largely to a data gathering exercise by Glasgow City Council and Strathclyde Passenger Transport which will be analysed to identify trends and opportunities for improved cost effective services. Work to date on integrated health and social care is also ongoing with discussions centring on joint procurement opportunities covering children and adult services.
116. East Renfrewshire Council is the joint lead authority for the workstream concerning shared support services. A detailed business case has been prepared which based on full participation by councils could initially generate gross annual savings of up to £30 million for all councils after 5 years. An investment of around £30 million would be required to achieve this but it is likely that some of this expense would be incurred by authorities anyway over this period.
117. It is proposed that a new organisation would be required to manage operations with staff drawn from participating councils. Staff numbers in the new organisation however are likely to drop by 25 per cent after a few years.
118. In September 2011, the council noted the progress achieved and agreed in principle to participate in phase 1, subject to proposals on governance, an equality impact assessment and final business plan. Members noted both the progress made to date and the steps towards a finalisation and validation of implementation plans. The council has since informed us, in October, that four councils (East Renfrewshire, Renfrewshire, Inverclyde, and North Lanarkshire) will continue to work together in the wake of withdrawals by East Dunbartonshire, West Dunbartonshire, South Lanarkshire and Glasgow City councils. The council will need to carefully reappraise the extent that business case assumptions are still valid and consider whether the remaining participating councils can devise a business model which will deliver savings over the medium term. Key to this decision will be the investment burden to be carried by councils under the revised proposal. The council intends to have the revised business case completed by Spring 2012 for further consideration by the four participating councils.

Action point 6

119. Plans have been developed to create a new organisation to undertake all waste treatment and disposal. This organisation would have the responsibility for procuring all contracts relating to the treatment and disposal of waste and it is believed that this co-ordinated approach would help achieve national recycling and landfill targets. The council has noted work on the detailed business plan and is expecting a further report in late autumn to permit consideration

of its participation in the new entity and its ability to provide the council with a cost effective and deliverable solution to future disposal needs.

Action point 7

Progress against audit risks identified in the Shared Risk Assessment

120. The Assurance and Improvement Plan (AIP) for East Renfrewshire Council was published in July 2010 and during 2011 the Local Area Network undertook an exercise to update its assessment to identify those areas of scrutiny uncertainty. In the Assurance and Improvement Plan update 2011 - 14, strategic housing issues were considered as an area of significant risk, with risk uncertainties being identified in the corporate areas of People Management and Asset Management.

Strategic Housing

- 121.** At the time of the AIP update the council had made limited progress towards meeting the Scottish Government's target for all unintentionally homeless households to be entitled to settled accommodation by 2012. In addition, a number of the council's performance indicators, although improving on the previous year, were considered poor performance in a national context. These included areas such as the housing repairs service, gas safety testing, re-let times and rent arrears.
- 122.** The above issues were also referred to in the Scottish Housing Regulator's report published in April 2011. The council has actively addressed these issues since the AIP update. For example, progress towards the 2012 homeless target was 98 per cent in the second quarter of 2011/12. Since the 2010/11 statistics were gathered the council's policy in relation to priority need has been changed, resulting in the improved performance. As a result of the revised policy, the council is of the view that the target to abolish priority need will be reached on 1 February 2012 and not 31 December 2012, i.e. eleven months ahead of the required schedule. This is a demonstration of the council's commitment to homeless reforms. Action on other housing issues continues as part of the council's comprehensive improvement plan and we are aware that regular progress reports are planned to be presented to the council's Housing Service Liaison Group. The LAN will monitor progress in this area.
- 123.** The AIP also identified risks concerning the completeness of information over the council's housing stock condition and the resultant works and investment necessary to bring its properties up to the Scottish Housing Quality Standard, by the Scottish Government's target of 2015. In consultation with the council, the LAN agreed to carry out scrutiny work in this area in the autumn of 2011. Recent discussions with council officials have suggested that it would be more appropriate to carry out this scrutiny in April 2012, once the council has fully ascertained and agreed the funding sources for the capital investment necessary in its housing stock. The LAN has indicated agreement to this postponement.

People Management

124. The AIP assessed People Management as an area of uncertainty due to the programme of staff reductions, stringent vacancy management and the implementation of revised terms and conditions for staff. All of these factors contribute to a great deal of uncertainty for staff. We plan to review the council's workforce planning arrangements in 2012/13. While the exact scope of this work is yet to be determined, it is likely to consider the impact of staff changes on service provision and examine the evidence that these changes have been appropriately considered so that they do not leave skills gaps across the council.
125. The council is facing a number of challenges which are likely to impact on staff morale. National pay freezes and workforce reductions are key to delivering the required levels of savings across the council. Where possible the council has sought to make savings without cutting frontline services. There are now fewer staff to manage the workload and without careful management this could lead to increased stress and pressure on employees. We understand that the council has plans to establish the views of staff in the near future via surveys on a number of areas relating to health and coping with change.
126. Public sector employees nationally are locked in debate over changes to their pension contributions and benefits. While local government employees may be partially shielded from this due to the fact that the local government pension scheme is funded by contributions, there may be a risk of industrial action among teachers and other staff relating to proposed changes to pension schemes.
127. Finally, the council is a key driver of the Shared Service agenda with other councils. While the outcome of this initiative is not yet known, there is significant uncertainty among staff about their job security.
128. The council has recognised the cumulative impact of these factors on staff morale in its risk register.

Asset Management

129. Concern was expressed over the delay in the survey of housing stock to establish what investment is required for the council to meet the 2015 Housing Quality Standard and the lack of progress in the rationalisation of the council's property estate. Survey information recently received indicates that the likely investment required is less than anticipated. While the rationalisation of office accommodation to six "core" sites is work in progress, the reduction of the annual running costs and the maintenance backlog remains a challenging task.

National risk priorities

130. During the AIP process, LANs were asked to consider their council's position against three national risk priorities.

The protection and welfare of vulnerable people (children and adults) including access to opportunities

131. The council is very well placed to address risks in this area. A recent HMIE inspection report was very positive about the council's arrangements for ensuring that services work together in sharing responsibility for addressing needs and keeping vulnerable people safe. The council's policies and procedures underpinning this activity are well designed and quality assurance procedures are in place to ensure that these are effective.

Assuring public money is being used properly

132. There is no significant risk associated with this area. Within the council there are several mechanisms which assist in providing assurance that public funds are not misused. Proper scrutiny of activities is undertaken by members and officers and the council's Audit Committee operates in line with all the principles of best practice.

How councils are responding to the challenging financial environment

133. The council is well aware of the challenges it faces in ensuring its frontline services are protected in a climate of restricted resources. As part of its budgetary setting process, senior management and members considered various budgetary options to achieve its aim of maintaining a balanced budget whilst closing the anticipated funding gap of £32 million by 2013/14. Substantive community engagement on savings options was also undertaken to inform members' decisions. Key features of the action taken are a mixture of efficiency measures (comprising pay restraint and revised terms and conditions for staff), increased charges, and redesigned methods of providing services to the public which create the opportunity to reduce staffing levels.

134. This year's AIP update noted that the council was aware that it needed to review how its budget plans would affect its commitments under East Renfrewshire's Single Outcome Agreement. Each year an annual report is prepared for the Scottish Government to report on performance against SOA targets. In addition, a review of the SOA will take place with partners in the spring to ensure budget decisions are properly reflected in future commitments and targets. The partners meet in the Partnership and Accountability Review twice a year to review performance of partners in delivering the SOA.

Action point 8

Overview of performance in 2010/11

Performance management

135. The council has satisfactory arrangements in place that allow for effective performance monitoring. The council makes use of various performance management tools such as covalent to report performance across all departments. There is mid and end year reporting on SOA outcomes, Statutory Performance Indicators (SPIs) and the Outcome Delivery Plan (ODP). Performance against the council's service standards was reported to the Audit

Committee during the year. Annual performance reports, including departmental reports on ODP performance, are available on the council website.

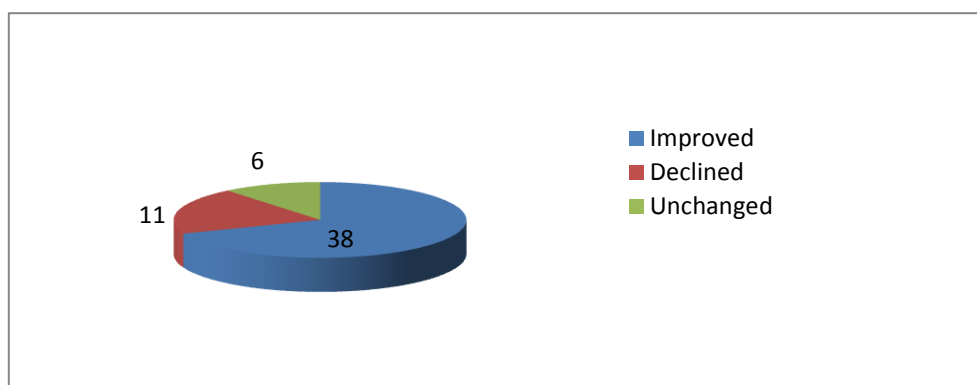
East Renfrewshire Council performance measurement outcomes

136. The council's performance report on the ODP shows 57 per cent of the 219 indicators meeting the target set for 2010/11, 16 per cent of the indicators narrowly missing the target and 12 per cent being off target (the remaining 15 per cent have no information available or are data only indicators with no targets set). The report presents a generally positive picture with a number of the adverse results being attributed to the economic downturn and/or the extreme winter weather.

Statutory performance indicators

137. In 2010/11, a total of 25 Statutory Performance Indicators (SPIs) were required by the Accounts Commission. These include a total of 55 sub indicators which are relevant to East Renfrewshire and 38 of these, or 69 per cent, are showing an improvement in performance, as illustrated in Exhibit 4 below.

Exhibit 4: Improvements demonstrated by SPIs



Source: East Renfrewshire Council SPI data return

138. There has been improvement in sickness absence levels, housing response repairs, the management of tenancy changes and the levels of refuse recycling. During 2010/11, council workers, including teachers, took over 9,000 fewer days off sick than in 2009/10. This 21 per cent improvement has been achieved, in part, due to new arrangements for monitoring and managing absence levels. The percentage of housing response repairs completed within target has increased from 73 per cent to 86 per cent, due in part to a reorganisation of repairs resources. The average time to re-let not low demand houses has improved from 76 days to 51 days, and for low demand houses, from 139 days to 61 days. These improvements are in part a result of the implementation of the action plan arising from the 09/10 housing review. The percentage of municipal waste recycled or composted has increased from 36 per cent to 45 per cent due to the introduction of managed weekly collections in autumn 2010.

139. Of the 11 indicators which have declined, four are related to the condition of the road network, with the overall percentage of the network that should be considered for treatment increasing

from 44 per cent to 50 per cent. The council has taken action to address this situation with increased investment in road repairs. The number of library visits and swimming pool attendances has declined by 2 per cent and 6 per cent respectively although the attendances for other sports and leisure facilities have increased by 3 per cent.

National performance reports

140. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 5.

Exhibit 5: A selection of National performance reports 2010/11

- | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • The cost of public sector pensions in Scotland • How councils work: an improvement series for councillors and officers - Arms-length external organisations • Scotland's public finances: addressing the challenges • Maintaining Scotland's roads: a follow-up report | <ul style="list-style-type: none"> • Physical recreation services in local government • An overview of local government in Scotland 2010 • Community Health Partnerships • Improving energy efficiency: a follow-up report • Transport for health and social care |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Source: www.audit-scotland.gov.uk

Scotland's public finances: addressing the challenges

141. This report provides an overview of the financial environment facing the public sector in Scotland and the cost pressures currently faced. It outlines what the public sector is doing to respond to current and future budget reductions, and highlights a number of key risks and issues that the public sector needs to manage in responding to the challenges. Key messages in the report include the following:

- The budget reductions affect revenue and capital expenditure differently with the capital budget taking the largest cut in percentage terms.
- Public bodies are finding it difficult to plan beyond 2011/12, as they do not have a clear view of their budgets beyond 2011/12. The Scottish Government plans to publish detailed spending plans for years 2012/13 to 2014/15 in September 2011, which should establish a framework that bodies can use to make future spending plans.
- The need to reduce costs provides public bodies with an opportunity to reform and streamline public service delivery. However, in doing so, bodies must focus on long-term financial sustainability.
- Pay restraint and reducing workforce levels are the most common approaches being taken by public bodies to reduce costs over the next few years. Good workforce planning

is necessary to ensure that the right people and skills are available to deliver effective public services in the future.

- Public bodies are considering how they can work better together to reduce costs. While a number of initiatives are being planned to increase working together, sharing resources and involving voluntary and private organisations, progress to date has been limited.

Maintaining Scotland's Roads: a follow-up report

142. This report examines on a national basis the progress on implementing the recommendations contained in the initial report published in November 2004, with particular emphasis on the change in condition of the road network, current expenditure on road maintenance and management arrangements. Key messages in the report include:

- Limited progress has been made to improve Scotland's road networks based on an assessment against the recommendations from the 2004 report.
- The condition of Scotland's roads has worsened since the 2004 report despite public spending rising by around 25 per cent. Only 63 per cent of roads are now in an acceptable condition.
- The present levels of spending are insufficient to maintain Scotland's roads, even in their current condition.

143. The Audit Committee reviewed the Roads report in April 2011 and considered the Director of Environment's comments on how the council was placed relative to the national findings. A further meeting was called in August at which the Roads and Transportation Manager clarified that it would cost approximately £25 million to bring all East Renfrewshire's roads up to standard. The council responded to the increasing maintenance backlog earlier in the year by approving a £1.5 million (85%) increase in its 2011/12 structural repair budget for roads.

Appendix A: Audit reports

External audit reports and audit opinions issued for 2010/11

| Title of report or opinion | Date of issue | Date presented to Audit Committee |
|--------------------------------------------------------------|-------------------|-----------------------------------|
| Annual Overview of Internal Audit | 5 January 2011 | 20 January 2011 |
| Annual Audit Plan – East Renfrewshire Council | 28 January 2011 | 12 April 2011 |
| Improving public sector purchasing follow up | 19 May 2011 | 18 August 2011 |
| Review of internal controls | 25 May 2011 | see note below |
| Shared Risk Assessment/Assurance and Improvement Plan | 26 May 2011 | 18 August 2011 |
| Review of IFRS shadow financial statements | 14 June 2011 | see note below |
| Report to those charged with governance on the 2010/11 audit | 19 September 2011 | 29 September 2011 |
| Audit opinion on the 2010/11 financial statements | 29 September 2011 | 29 September 2011 |

The Reviews of internal controls and of the preparations for the adoption of IFRS were issued to the Director of Finance. Our conclusions are summarised in the Internal Control paragraphs of this report.

Appendix B: Action plan

Key Risk Areas and Planned Management Action

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|-----------------|
| 1 | 20-22 | <p>Provisions</p> <p>Errors were identified in the council's provisions in the 2010/11 financial statements.</p> <p><i>Risk - financial liabilities could be under or over stated.</i></p> | All provisions will be reviewed by the appropriate officer at the year end. | Chief Accountant | 30 June 2012 |
| 2 | 23-24 | <p>Bank interest receivable</p> <p>Interest received on bank "call accounts" is not being reflected in the council's financial ledger until the interest is withdrawn from the account.</p> <p><i>Risk - interest receivable and cash balances are understated in the financial ledger.</i></p> | All interest due will be drawn down on 31 March or on a more appropriate day beforehand. | Chief Accountant | 31 March 2012 |
| 3 | 31-32 | <p>Trust Funds</p> <p>OSCR requires a full set of financial statements to be prepared and audited for all charitable trust funds with effect from 2013/14.</p> <p><i>Risk - challenge by OSCR.</i></p> | ERC has partnered up with both East and West Dunbartonshire Councils. We plan to audit one of these authorities' trust funds and be audited in turn by the other to ensure independence. | Chief Accountant | 31 January 2012 |
| 4 | 43 | <p>Budget monitoring</p> <p>The timetabling of budget monitoring reports to members means that this is not generally reflective</p> | From 2011/12, budget monitoring reports presented to members after the probable | Head of Accountancy | February 2012 |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------|
| | | of the most up to date position. <i>Risk - members are not notified timeously of any significant changes to projected budget outturns so are not fully aware of the current financial position / projection.</i> | outturn report will include an updated forecast outturn. 4 weekly financial summary information will also be reviewed by the CMT. | Head of Accountancy | November 2011 |
| 5 | 84 | Commercial rents Control over the collection of commercial rents is not as robust as it should be with outstanding rents and lease conditions not being rigorously enforced. <i>Risk - the council could be losing out on income due and may be exposed to financial and reputational risk if lease conditions are not being met.</i> | New arrangements will be put in place to ensure the efficient processing of invoices for commercial rents. Debtor reports are now available to allow services to monitor payments in relation commercial leases. This information will be used in future when making decisions in relation to new leases and lease extensions. | Head of Environment | 30 November 2011 |
| 6 | 113-118 | Shared services The council is a key driver in the shared services initiative with other Clyde Valley councils although only four of the original eight have agreed in principle to sharing support services. <i>Risk - the business case that was agreed by members, which set out the levels of savings that</i> | The business case and financial model will be reworked on the basis of decisions made by councils in September 2011. New shadow governance arrangements will be put in place to reflect these decisions and to consider the reworked model. | Deputy Chief Executive | June 2012 |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|-------------------------|---------------|
| | | <i>could be achieved, is no longer realistic due to the number and significance of the councils which have declined to participate in sharing services.</i> | | | |
| 7 | 119 | <p>Waste treatment and disposal</p> <p>The council is engaged in plans to create a new organisation to undertake all waste treatment and disposal to help achieve national recycling and landfill targets.</p> <p><i>Risk - if the plan does not go ahead the council will have to make alternative arrangements such as combined or sole procurements within the targeted timescales for landfill diversion/recycling and carbon metric performance.</i></p> | Review revised business case and options available. | Director of Environment | December 2011 |
| 8 | 134 | <p>Impact of budget decisions on SOA</p> <p>The council should ensure that all SOA targets are reviewed against budget decisions.</p> <p><i>Risk - failure to re-visit the SOA may mean that performance measures and targets are unreasonable with constrained resources.</i></p> | SOA targets are reviewed annually as part of the SOA update process. | Deputy Chief Executive | April 2012 |