

# East Renfrewshire Council

## Annual report on the 2011/12 audit



Prepared for Members of East Renfrewshire Council and the Controller of Audit  
October 2012

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.

---

# Contents

<b>Key messages</b> .....	<b>4</b>
2011/12 audit findings .....	4
Outlook.....	4
<b>Introduction</b> .....	<b>5</b>
<b>Financial statements</b> .....	<b>6</b>
Audit opinion .....	6
Accounting issues .....	7
Outlook.....	8
<b>Financial position</b> .....	<b>9</b>
Financial results .....	9
Capital investment and performance 2011/12 .....	12
Financial planning to support priority setting and cost reductions .....	14
Outlook.....	16
<b>Governance and accountability</b> .....	<b>18</b>
Corporate governance.....	18
Prevention and detection of fraud and irregularities.....	20
Standards of conduct and arrangements for the prevention/ detection of bribery and corruption .....	21
Outlook.....	21
<b>Best Value, use of resources and performance</b> .....	<b>23</b>
Management arrangements .....	23
Overview of performance in 2011/12.....	25
National performance reports .....	26
Progress against audit risks identified in the SRA .....	28
Outlook.....	30
<b>Appendix A: audit reports</b> .....	<b>31</b>
<b>Appendix B: action plan</b> .....	<b>32</b>

# Key messages

## 2011/12 audit findings

We have given an unqualified opinion that the financial statements of East Renfrewshire Council for 2011/12 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

The general fund in-year surplus of £11 million compares to a budgeted surplus of £2 million. Officers have agreed to include earlier outturn forecasts in the budget reporting in 2013/14 to help communicate the development of the financial position through the year. The Council has attributed its underspend to having taking early action in applying savings measures over the last three years.

The majority of the total general fund balance (£13.8 million) is not ear-marked (£9 million) and East Renfrewshire Council has a relatively high level of usable reserves and relatively low levels of external borrowing. This suggests a relatively good current financial position compared to other Scottish councils, but with the expectation of future funding shortfalls (see Outlook below).

The Council has managed the programme for short term staff reductions and continues to progress a more measured approach to workforce planning. Service redesign and reviews of service delivery with the assimilation of the Public Sector Excellence projects are starting to drive the shape of the Council's workforce.

## Outlook

Scotland's public bodies continue to face financial pressures in 2012/13. An indicative 2012/13 budget was agreed in February 2011 with savings measures included and quantified over 2 years. These savings were detailed across service departments. The final budget for 2012/13 incorporating these previously agreed savings was approved in February 2012.

The Council identifies a potential funding shortfall of between £30 and £32 million for the period 2010 to 2014 and continues to address that gap through longer term financial planning.

# Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of East Renfrewshire Council. The nature and scope of the audit were outlined in the Audit Plan presented to the Audit Committee on 23 February 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the 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 we 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 East Renfrewshire Council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to members and the Controller of Audit and should form a key part of discussions with audit committees, 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 Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
6. The management of East Renfrewshire Council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their 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
  - the regularity of the expenditure and income (except for local government bodies).
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, annual governance statement, and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return.

## Audit opinion

10. We have given an unqualified opinion that the financial statements of East Renfrewshire Council for 2011/12 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2012 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.

## Annual governance statement and remuneration report

12. We are satisfied with the disclosures made in the Annual Governance Statement and the adequacy of the process put in place by the council to obtain the necessary assurances. The statement refers to measures taken during 2011/12 to address weaknesses identified in the council's housing service in 2010/11.
13. 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 2011/12 financial statements include all eligible remuneration for the relevant council officers and elected members.

## Accounting issues

14. East Renfrewshire Council is required to follow the 2011/12 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and we can confirm that the financial statements have been properly prepared in accordance with the Code. The two main changes for 2011/12 were the introduction of heritage assets and the new disclosures on exit packages for the remuneration report.

## Accounts submission

15. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 29 June 2012. A comprehensive working papers package was also available by this date and we also received excellent support from Council staff. This enabled us to conclude the audit and certify the financial statements by the target date of 28 September 2012. The financial statements are now available for presentation to members and for publication.

## Presentational and monetary adjustments to the unaudited accounts

16. A small number of minor monetary adjustments have been made to the 2011/12 unaudited financial statements in accordance with normal audit practice. A number of other presentational amendments were also made to improve the disclosures within the financial statements.

## Impairment of Doubtful Debt

17. The Council includes impairment allowances for all categories of debt in the accounts, including council tax, non-domestic rates and the overpayment of housing benefit. From our review of those allowances we questioned the assumptions used and in particular the setting of the housing benefit overpayment bad debt provision at a lower percentage of the debt than that set in previous years. This provision was increased in the final adjustments to the accounts.

### Refer Action Plan No. 1

18. We established that £1 million of outstanding debt was greater than 12 months old with £0.3 million of this outstanding debt referred to Legal Services and a further £0.3 million passed to the Sheriff Officer. We are aware that the council is instigating new procedures to improve debt recovery and we will monitor this during 2012/13.

## Prior year adjustments

19. The introduction of Financial Reporting Standard 30 (FRS30) covering heritage assets resulted in a change in accounting policy and consequently a prior year adjustment. This standard requires heritage assets to be carried in the balance sheet at valuation. Previously, heritage assets were either recognised as community assets (at cost) in the balance sheet or were omitted, as it was not possible to obtain cost information on the assets. The adoption of FRS30 increased the net asset value of the council as at 31 March 2011 by £0.3m, this

included £0.06m of assets that were previously recognised as community assets. The Council has restated comparative figures to reflect this change.

### Pension costs

20. East Renfrewshire Council is a member of Strathclyde Pension Fund, a multi-employer defined benefit scheme. The Council's share of net liabilities within the scheme as at 31 March 2012 totalled £81 million (31 March 2011 £55 million). This increase is due to lower than expected investment performance and a decrease in the discount rate.

### Whole of Government Accounts Group accounts

21. 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 on 31 July 2012 which was one day after the deadline. The return was audited and submitted by the reporting deadline of 5 October 2012.

### Group Accounts

22. 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 £119 million. This reduction is mainly due to the pension fund liabilities of the Strathclyde Joint Police Board and the Strathclyde Fire and Rescue Board.

### Trust Funds

23. East Renfrewshire Council acts as Trustee for 17 trusts, 7 of which have charitable status. These 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, which in effect means that by 2013/14 a full set of financial statements will be required for each registered trust fund, which will be subject to independent audit. The council is aware of the OSCR requirements from 2013/14 and currently has a reciprocal arrangement with East and West Dunbartonshire Councils to ensure that these accounts are independently reviewed. However 2012/13 is the final year of the concession for an independent examiner's report and a full audit report will be required from 2013/14. The Council will need to make arrangements for the external audit of these funds.

**Refer Action Plan No. 2**

## Outlook

24. As part of the CIPFA code of Practice on Transport Infrastructure assets, a change in valuation methodology for infrastructure assets is to be implemented in 2014/15 for WGA purposes. This change will see infrastructure assets valued at direct replacement cost instead of the current valuation of historical cost. This will require an opening balance figure on April 2013.



# Financial position

25. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
26. 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.
27. These are key areas in the current economic circumstances.

## Financial results

28. In 2011/12, East Renfrewshire Council incurred £280 million on services. This appears to be consistent with last year.
29. The Council's net cost of services was £231 million, which was funded by central government and local taxation of £233 million, leaving an accounting surplus of £2 million.
30. There are two main areas of accounting adjustments that are made to translate the accounting surplus to the statutory or general fund position. These are:
  - Capital charges - depreciation is removed and an internal repayment of debt from services is substituted.
  - Actuarial pension charges are removed and employer pension contributions substituted.
31. Taking the above adjustments into account the statutory General Fund position has increased too - by £1.2 million (net). This consists of £9.8 million used in 2011/12 from previous general fund balances offset by £11 million surplus generated in 2011/12. The budgeted surplus identified in revenue estimates was £2 million (see paragraph 33).
32. The majority of the total general fund balance (£13.8 million) is not ear-marked (£9 million), although the remaining element has been earmarked for specific purposes including:
  - PPP/PFI equalisation reserve (£1.1 million)
  - Spend to save schemes (£1.5 million)
  - Unspent grants (£1m).

## Budgetary control

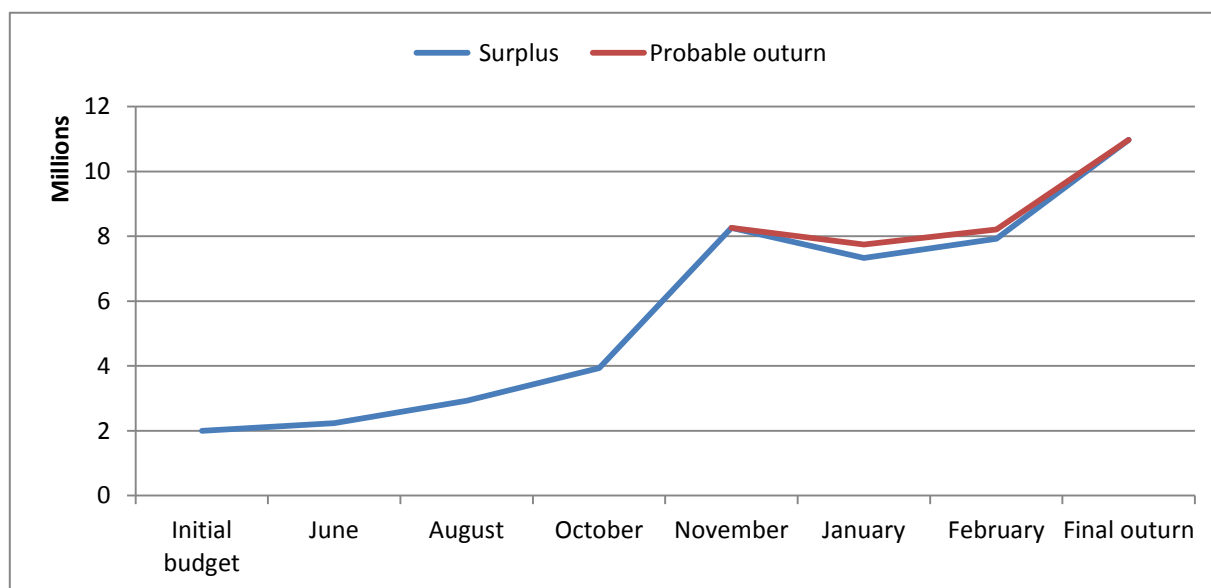
33. The Council's Budget Strategy Group (BSG) meets on a regular basis to review budget setting arrangements, including spending pressure assumptions and proposed savings plans. The

BSG involves all members of the Administration and members of the Opposition also have access to financial information in order to table alternative budget proposals. The Cabinet reviewed seven budgetary control reports during the year with the reports in the first half of the year reporting "actual spend to date" with the first forecast year end outturn position is reported in November 2011. In February 2011, the Council set its revenue budget forecasting a £2m surplus. The Council delivered an underspend of £11 million, of which £10 million was transferred to specific reserves. Exhibit 1 demonstrates how the anticipated general fund surplus increase of £2 million to £11 million developed through the year with the most significant movement taking place between October and November when reporting changed from actual spend to probable year end outturn for the first time in the financial year. We have discussed with officers the basis of the reporting and whether earlier out-turn projections might help communicate the development of the financial position through the year.

**Refer Action Plan No. 3**

---

### Exhibit 1: Financial Reporting



Source: Revenue Budget Monitoring Reports

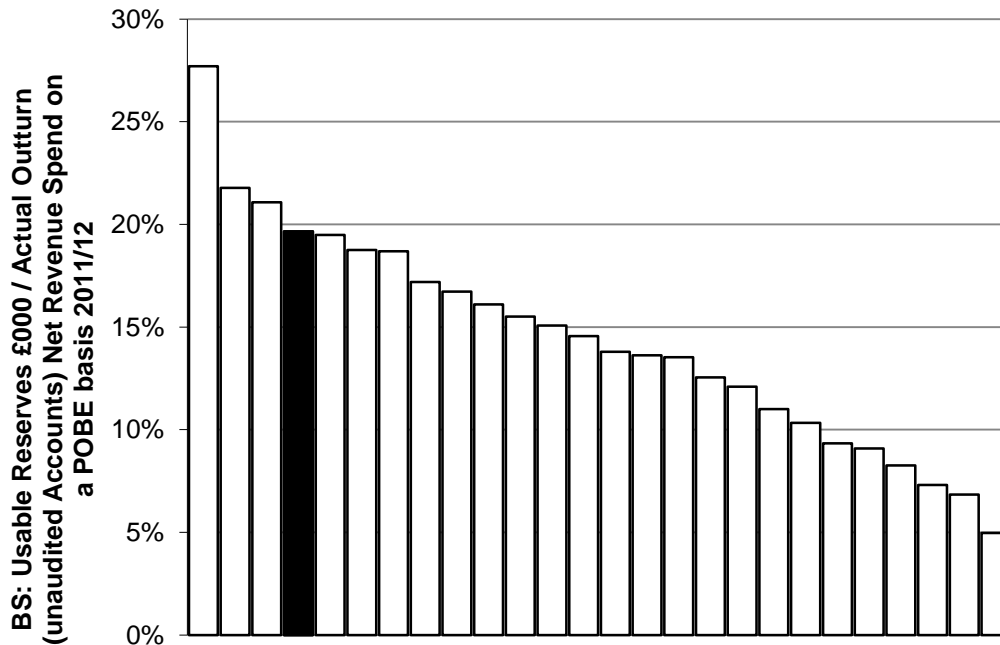
34. The Council has attributed its underspend to having taking early action in applying savings measures over the last three years. Measures taken include the prudent management of staffing levels through the voluntary release scheme and non-filling of vacancies during the year, together with early implementation of service reviews and revised staffing structures and the maximisation of income receivable.

## Financial position

35. Based on the information in this section of the report, we have concluded that, subject to any major change in pension valuations or Scottish Government funding, the financial position of East Renfrewshire Council is stable and its activities are financially sustainable.

36. The Council's usable reserves are amongst the highest in Scotland (as a proportion of net revenue spend) (Exhibit 2). This high level of usable reserves is part of the Council's long term financial strategy to prepare itself for future financial difficulties.

**Exhibit 2: Total Usable reserves carried forward as a proportion of net revenue spend (East Renfrewshire Council highlighted)**



Source: Audit Scotland. Local Government in Scotland Analytical Review 2012 (excl. Shetland and Orkney)

37. The table below (Exhibit 3) shows that during 2011/12, total usable reserves increased by £6.7 million to £45.3 million as at the 31 March 2012. This balance includes earmarked commitments of £4.8 million. The unallocated general fund balance of £9 million represents 3.9% of net revenue expenditure which is consistent with the Council's policy of 4% to provide against unforeseen expenditure. Other reserves include the capital reserve, repair and renewal fund and insurance fund.

## Exhibit 3: Reserves

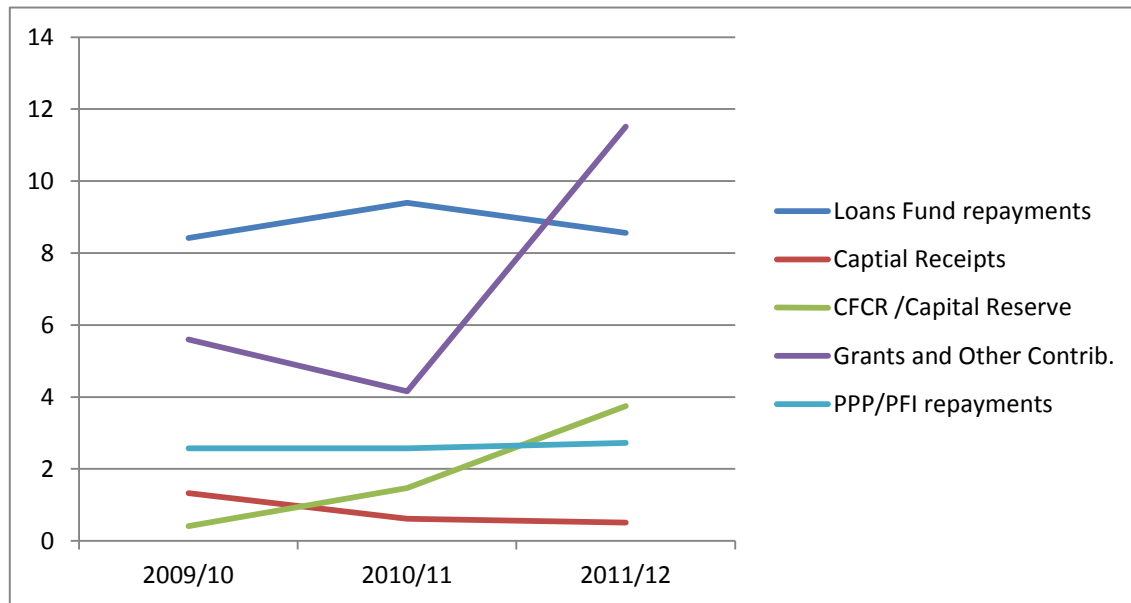
Description	31 March 2012	31 March 2011
	£ million	£ million
General Fund-earmarked	4.8	4.2
General Fund- unallocated	9.0	8.4
Repairs and Renewals Fund	8.4	6.8
Insurance Fund	1.2	1.1
Housing Revenue Account	1.0	0.7
Capital Reserve	20.9	17.4
<b>Total</b>	<b>45.3</b>	<b>38.6</b>

Source: East Renfrewshire Council 2011/12 financial statements

## Capital investment and performance 2011/12

38. The 2011/12 financial statements detail capital expenditure of approximately £23 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 such as Eastwood High as well as improving roads and pathways, community assets and the council's Information Communication Technology (ICT) infrastructure.
39. The housing capital outturn for 2011/12 was £3.2 million against a projected spend of £4.3 million, representing an underspend of £1 million. This is due to external improvements to the council's housing stock being delayed due to the severe winter.
40. The general services capital outturn for 2010/11 was £19.6 million against the budget of £19.9 million, representing a slight underspend of £0.3 million. This underspend is partly due to some projects being funded from revenue.
41. Exhibit 4 below shows the main sources of finance for capital expenditure over a number of years. For 2011/12 Government Grants and other contributions (£11.5 million) has increased significantly due to the change in government treatment. The Capital Reserve and other reserves such as Spend-to-Save along with Capital Funded from Current Revenue (CFCR) (totalling £3.7 million) have become increasingly important sources of capital funding.

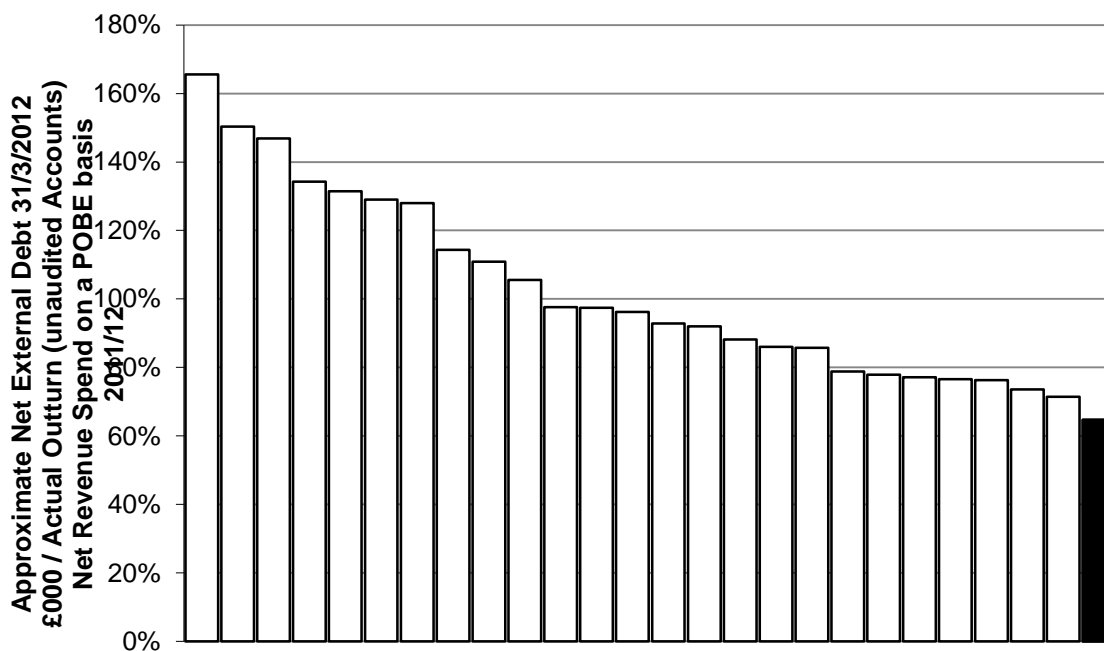
#### Exhibit 4: Capital Adjustment Account Funding movements



Source: East Renfrewshire Council Financial Statements 2009/10 to 2011/12

#### Treasury management

42. The Council has continued its prudent approach to Treasury Management in 2011/12. Total borrowing has reduced by £6 million to £81 million. The Council holds 21% of its debt in variable rate loans, well below its approved upper limit of 30%. This allows the Council to forecast the cost of borrowing with greater certainty due to the limited exposure to changing interest rates.
43. The Council's temporary investments decreased only slightly. Surplus funds continue to be invested for a maximum of 3 months and only to institutions included on the council's approved counterparty list.
44. Relative to the other Scottish mainland councils, the Council has the lowest level of borrowing (see Exhibit 5).

**Exhibit 5: Net external debt as a proportion of net revenue spend**

Source: Audit Scotland. Local Government in Scotland Analytical Review 2012 (excl. Shetland and Orkney)

**Investment in Heritable Bank**

45. 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 LLP, were projecting a return of 88 pence in the pound, payable by the summer of 2013. At 31 March 2012 the Council had received ten interim payments amounting to £713,942.

**Financial planning to support priority setting and cost reductions****Asset management**

46. The Council approved its first Corporate Asset Management Plan (CAMP) in 2009/10. In 2010/11, the Council established a timetable to deliver the various strategies underpinning this plan for Housing Services, roads, fleet, IT and land/open spaces.
47. 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 66% which compares favourably with the average compliance rate reported by Scottish Local Authorities putting East Renfrewshire Council in 8th place out of the 26 local authorities that have their own housing stock. 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 % which is in accordance with the formula previously agreed with Council tenants. The Council monitors key assumptions in the Plan, in particular the level of capital receipts to be generated, loan charges, void rent loss and the level of repairs.

48. 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. Further to the property asset review of 2010/11 the Council reduced its holding of operational properties from 133 to 130 in 2011/12. The closure of a primary school in summer 2012 is a further reduction and the overall maintenance backlog has decreased from £23 million to £21.7 million.

### Workforce reduction

49. In 2011/12 the Council had 13 voluntary redundancies and 4 other departures at a cost of £1.1 million. At April 2012 the Council has 4,285 employees (3,658 full time equivalents (FTE)). This is an overall reduction of 282 FTE since April 2009. This has been achieved through a combination of strict management of vacancies, targeted restructurings, voluntary redundancies and early retirement and natural turnover. Although there has been a reduction in the workforce and loss of senior personnel, the Council's performance indicators do not identify any apparent decline in service delivery.
50. Efficiency reviews identified potential savings within departments and the 2012/13 budgets include an overall reduction of £0.8 million in staff related costs. The overall increase in Chief Executive and Finance Departments is due to the centralising of staff into these departments.

### Exhibit 6: Comparison of Staff Costs

	Budget 2011-12 (£m)	Budget 2012-13 (£m)	Variance (£m)	Increase/ (Decrease) (%)
Education	83.8	83.7	(0.1)	<(1)%
Chief Execs	7.9	8.0	0.1	1%
CHCP	20.0	19.4	(0.6)	(3)%
Environment	13.4	12.9	(0.5)	(4)%
Finance	5.6	5.9	0.3	6%
<b>Total</b>	<b>130.7</b>	<b>129.9</b>	<b>(0.8)</b>	<b>(1)%</b>

Source: ERC Workforce Planning and Strategy 2009-14

51. Budget planning for 2013/14 is underway, based on service reviews and the intention is to provide a 2 year plan to enable departments to predict required changes to the service over the following 2 years.

## Other change management programmes

52. The most significant part of the Council's Public Service Excellence (PSE) change programme is within the CHCP which is undertaking a fundamental and complex transformation programme which includes 5 workstreams and over 40 projects. The programme is driven by the challenges of demographic pressures, the increasing need for cost reduction and the strategy on self-directed support. The workstreams include the reshaping of care for older people and the upgrade of infrastructure.
53. The progress of the CHCP programme is measured against defined milestones and monitored by monthly CHCP Board and Workstream meetings and the CMT PSE Board reporting requirements. The Council reports that the transformation programme should deliver £1.5 million of financial savings over the 3 years to 2014/15.

## Partnership working

54. Over the last year the Council has continued to lead a partnership of Clyde Valley local authorities to develop a shared services model with the aim of saving resources by streamlining the provision of support services across four local authorities (East Renfrewshire, Renfrewshire, Inverclyde, and North Lanarkshire). A report to Council on 24 October 2012 noted that whilst the business plan has been re-scoped, given the uncertainty around the impact of universal credit and the budget challenges facing Councils this project should not go ahead with this shared services model at this time although the vision of shared services remains. However, the four local authorities will progress an initial project to share ICT services based on the recommendations in the McClelland report on national ICT infrastructure. The Council is also looking, in principle, at a shared roads service with Renfrewshire and Inverclyde Council. We will monitor progress in these areas.
55. In February 2012 the Council approved participation in the shared procurement of residual waste processing capacity with East Dunbartonshire, North Lanarkshire, Inverclyde and Renfrewshire Councils. We understand that the Clyde Valley Waste Management Initiative Steering Group has recently appointed financial advisors and that the initial briefing of potential industry bidders for the tender has taken place.

## Outlook

### 2012/13 budget

56. In February 2012 the Council approved a budget of £225 million net that reflected savings measures of £6.2 million. The savings measures 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, included:
  - cross-council two year pay freeze for all employees (£1.3 million in 12/13)
  - a review of special uplift service (£0.2 million in 12/13)
  - workforce planning savings in all departments (£1.8 million in 12/13)



- revisions to terms & conditions for teachers/local government employees (£ 0.8 million in 12/13)
- school meal service redesign and increased charges (£0.2 million in 12/13)
- increased income from fees and charges (£0.3 million in 12/13).

### 2012/13 budget reporting

57. The most recent 2012/13 revenue budget monitoring report (as at 17 August 2012) indicates an underlying underspend of £0.4 million, representing 0.2 per cent of the profiled budget for the period. The Council will prepare its first forecast outturn at the end of period 8 (to 9th November) and this position will be reported to the Cabinet in January.

### Financial forecasts beyond 2012/13

58. The Council, like all public sector organisations, faces a very challenging financial climate. The budget savings required in 2012/13 and future years requires strategic planning and the implementation of sustainable measures to balance the budget, including rigorous monitoring.
59. Looking ahead it is clear that the public sector faces continuing financial challenges in the medium to long term. The 2012/13 grant figure of £182 million exceeds the February 2011 forecast assumption, but grant levels for the subsequent two financial years show a cash reduction when compared to the 2012/13 level. The indicative 2013/14 grant of £181 million represents a cash reduction of 0.6% on 2012/13. After accounting for inflation, service demands, demographic pressures and proposed pay awards being re-introduced, the current funding gap for the 3 years to 2015/16 is £15 million. The BSG is considering measures to meet this gap and the first stage of implementation will be proposed in the budget setting process for 2013/14 and in the indicative budget setting for 2014/15 (both to be considered by Council meeting in February 2013).

# Governance and accountability

60. 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.
61. 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 or similar groups) in monitoring these arrangements.
62. 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.

## Corporate governance

63. We found that overall, corporate governance arrangements operated effectively during 2011/12.

## Processes and committees

64. Following the local elections in May 2012 the Council continues to be governed by a coalition administration, consisting of 8 Labour, 4 SNP and 1 Independent Councillor. The majority of the councillors (16 out of 20) were in post prior to the May election and this provides continuity for the Council. An induction programme was provided for all members but principally focussing on the four new members covering essential sessions on leadership and additional sessions on matters such as local review boards and planning applications. All members have been recently invited to consider their personal development plans with a view to identifying further training needs.
65. 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 considered and discussed by members and senior officers.
66. The Cabinet has oversight of the financial resources and functions of the Council, including revenue budgets and capital plans. It is also responsible for corporate asset management planning and property disposal.

67. The Audit Committee performs an essential scrutiny function and is composed of a majority of members from the Opposition parties. It has the right to call in decisions made by Cabinet and to respond with its own recommendations. 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 best value, considering internal and external audit reports and ensuring management implement agreed recommendations.
68. In February 2012, the Council agreed to become a Pathfinder to test local scrutiny and governance arrangements for Police and Fire Services ahead of the establishment of the new national Police and Fire Services in April 2013. This builds on existing arrangements already in place through community planning and council decision making structures. Two additional opposition members were appointed to the Cabinet solely for the consideration of Police and Fire business at stand alone meetings.
69. The Council completed five improvement actions arising from a 2011/12 review of its Code of Corporate Governance, including the completion of an Anti-Fraud and Bribery Strategy.

### Internal control

70. 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. For 2011/12 we found internal audit work to be of good quality and we were able to place reliance on their audit work in many of the key control areas.
71. The results of our review of 100 key controls were reported to the Director of Finance in May 2012. Most of these controls were found to be satisfactory. No material weaknesses in the accounting and internal control systems were identified 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.
72. Key control improvements have been discussed with officers and have either already been implemented or are planned. In particular, the Council agreed to reinforce its procedures for evidencing the award of council tax discounts and exemptions and to review the extent of its own supervisory checks on the calculation of housing benefit claims.

### ICT data handling and security

73. The Council provides 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 ICT projects including an expansion of the electronic document records management, introduction of a new flexi-system and mobile working have been implemented to improve storage and access to information. The Council is currently replacing

the traditional desktop with a virtual-desktop environment which will provide cost and operational benefits. While there is recognition of the need for other capital investment in the ICT infrastructure, to ensure its continued effective operation, budgetary constraints and the Clyde Valley Review affect this going forward.

74. 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 and through training and guidance on processing personal data.

## Prevention and detection of fraud and irregularities

75. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements. The Council has appropriate arrangements in place to help prevent and detect fraud. These arrangements include an anti-fraud and bribery policy incorporating a whistleblowing policy and response plan.
76. No instances of significant fraud were reported to Audit Scotland in 2011/12 nor investigated by the Council's internal audit department. However, there were two attempts by unknown third parties to get standing orders of £7,900 paid from a Council bank account and one instance where a stolen cheque book resulted in the presentation of three fraudulent cheques. In both cases the Council did not suffer any financial loss.

## NFI in Scotland

77. The National Fraud Initiative in Scotland (NFI) is undertaken every two years as part of the statutory audit of participating bodies. The next round of NFI has recently commenced with an expansion of the range of data sets and bodies.
78. The NFI works by using data matching to compare information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error. These are made available to bodies to investigate via a secure web application. Bodies investigate these and record appropriate outcomes based on their investigations. Council tax/ electoral register matches were provided to the Council in February and this investigation is due for completion soon with the main focus being on single person discounts.
79. Audit Scotland's previous National Fraud Initiative in 2010/11 noted that the Council had made improvements in its arrangements since 2008/09. This included a more effective use of resources, which enabled full coverage of all recommended matches and the investigation of a further ten per cent of all non-recommended matches. Around £9,000 of housing benefit was identified as overpaid and recoverable, although no fraudulent intent was proven.

## Housing and council tax benefits performance audit

80. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Previous risk assessments were completed on East Renfrewshire Council's benefits service in April 2009 with a re-assessment in September 2010. However,

as a result of a deterioration in the speed of processing of new benefit claims and change of circumstances during 2011/12, the timing of our next risk assessment will be brought forward to the autumn of 2012/13.

81. The speed of processing of new claims placed the Council 31st in Scotland for 2011/12 at 41 days against an average of 25 days. The processing time peaked at 50 days in April 2012 and since then has shown a gradual month-by-month improvement to the latest statistic for September 2012 of 24 days. The accuracy of benefit claim processing has improved too with the department recording a 97% level of accuracy for 2011/12 compared to 90% for the previous year.
82. Audit Scotland's 2012/13 risk assessment will review the department's processing performance and the overall progress on the improvement actions from the November 2010 Action Plan. Our report will be available by December 2012.

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

83. 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. We have concluded that the arrangements in the Council are satisfactory.

## **Complaints Handling Procedures**

84. The Council evaluated its procedures in the recent annual review of the Code of Corporate Governance and has since revised them to meet the new statutory requirements of the Scottish Public Services Ombudsman (SPSO). A draft of the new procedures was submitted to SPSO by the target date of 14 September 2012. The SPSO assessed East Renfrewshire Council as non-compliant by September 2012 but with positive progress and a clear and realistic plan for implementing by 31 March 2013 at the latest. Progress towards compliance with the model was rated by the Ombudsman as 'significant'. The Council intends to implement the procedures by April 2013, in line with the Scottish Public Services Ombudsman's requirements.

## **Outlook**

85. The Welfare Reform Act 2012 received royal assent in March 2012. The Act provides for the introduction of a 'Universal Credit' to replace a range of existing means-tested benefits and tax credits for people of working age, starting from 2013. Councils will face challenges in understanding and acting upon welfare reform changes, and communicating these accurately and effectively to local residents. The introduction of Universal Credit will also have a significant impact on councils' strategies and plans in areas such as housing, asset management, finance, ICT and customer service. Councils will be challenged during this period of change to maintain service delivery and performance around housing benefit claims.

86. The Council recognises that the new arrangements will also have significant financial implications in terms of reduced funding and a possible increase in rent arrears. In response a Strategic Planning Group involving all Council departments and reporting to the CMT has been established to plan ways to mitigate the impact of the reforms. As part of our work on the 2012/13 audit, we will consider the Council's preparedness for the introduction of these changes, and how it is developing and taking forward its strategies and plans to address the risks arising from these changes.

# Best Value, use of resources and performance

87. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
88. 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 specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
89. As part of their statutory responsibilities, the Auditor General and 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.
90. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
91. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

## Management arrangements

### Best Value and self evaluation

92. The 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 2011/12, 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.

93. Public Service Excellence (PSE) is the umbrella programme for all change, efficiency, and redesign and shared service activities across the Council and was established in 2009. The six principles of Public Service Excellence are:
- One council
  - Clear strategic intent
  - Customer First as the main point to handle enquiries
  - Services online
  - Improved asset management
  - Support activities streamlined and duplication removed.
94. A report was presented to Cabinet on 16 August 2012 which noted the progress made across the Council in 2011/12.
95. Many of the projects which have been implemented have been based on the introduction of a new service support model for the Council. These included streamlining and consolidating back office systems; using Customer First to carry out as many customer interactions as possible; providing departments with business partners who provided advice on HR and Finance; consolidating job roles and widening remits to enable economies of scale and free up front line services to concentrate on their primary focus.
96. Accountancy services were rationalised across the Council; a purchase-to-pay section was created and a revamped Council website led to an increased facility for customers to pay online. As a result online payments have increased in year by 290%. Work is also on-going in areas such as online services for employees, modernising IT systems and invoice processing.
97. The Council has also developed an approach called "How good is our service" (HGIOS) to assess how efficient and effective it is in delivering services to residents and customers. HGIOS is based on the European Foundation of Quality Management (EFQM) excellence model, widely used in the public and private sectors. Every year, services use this approach to look at: how well they are performing, identifying actions and priorities for the year ahead, and ensuring that relevant, high quality services continue to be delivered.

## Performance management

98. The Council has satisfactory arrangements in place 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).
99. Annual performance reports, including departmental reports on ODP performance, are available on the Council website. Reports provide balanced examples of performance.



## Community/user engagement

100. The community and service users are able to comment on the Council's performance through the citizens' panel. The East Renfrewshire citizens' panel is a group of local people that broadly represent the local population, based on census data on area of residence, age, gender, ethnicity and tenure. Approximately 1,200 panel members provide their views on issues that affect East Renfrewshire.
101. The results from the panel have helped shape some of the Council's major policies including the Corporate Statement and the Single Outcome Agreement (SOA). The panel results also allow the Council to monitor satisfaction with the services provided and identify those services that need to improve.
102. The Council has a set of 22 service standards which indicate the minimum level of services residents can expect. Where a standard has not been met residents can challenge the level of performance.

## Overview of performance in 2011/12

### East Renfrewshire Council's performance measurement outcomes

103. The Council's strategic mid-year performance report 2011/12 was reported to Cabinet on 8 December 2011 with a final end year report being considered by Cabinet on 7 June 2012. . This highlighted positive end year outcomes for the Council. Of the 140 strategic indicators reported on, 102 had been achieved or were on target, 20 had yet to be achieved, with 7 being off target. The remaining 11 indicators were for contextual information only.
104. A sample of the measures the Council achieved in 2011/12 include:
  - The best results to date for educational attainment for the academic year August 2010- June 2011 (comparing very well against comparator authorities and national averages) as well as a 100% positive inspection record across schools and pre-school centres for 2011-2012
  - Increased the number of young people in targeted areas participating in culture and leisure activities per week (Active Schools Monitoring Database)
  - Improved road conditions in terms of the percentage of the road network that should be considered for maintenance treatment.
105. However the following performance measurement outcome has not been achieved in 2011/12:
  - Percentage of invoices paid within 30 days - the council had a target of paying 90% of invoices within 30 days. It is currently paying 83.1% of invoices within this target.

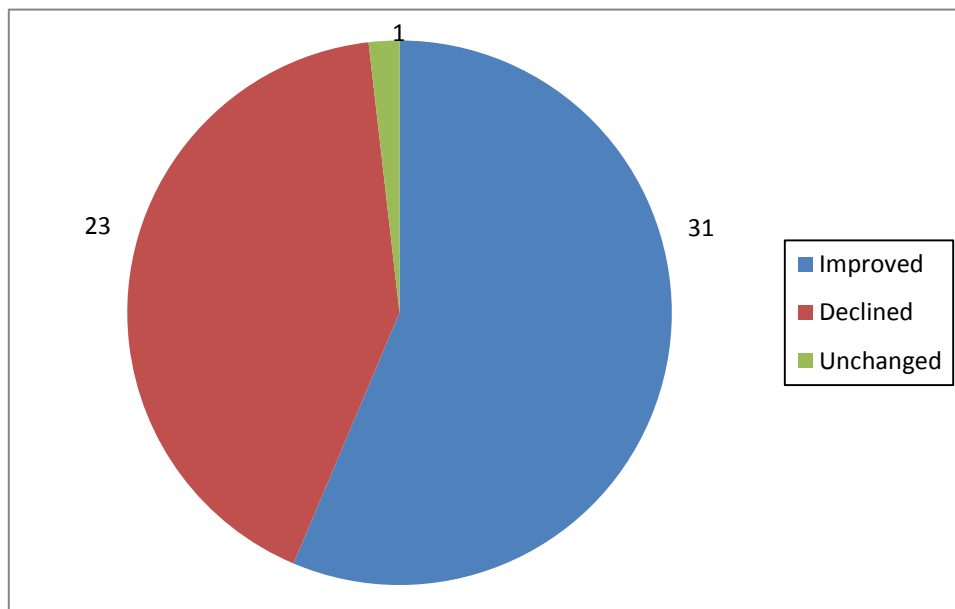
### Statutory performance indicators

106. In 2011/12, a total of 25 statutory performance indicators (SPI's) were required and these indicate a more mixed picture of performance than has been the case in the past. These

include a total of 55 sub indicators which are relevant to East Renfrewshire and 31 of these are showing an improvement in performance, 23 have declined and 1 has remained the same as illustrated in Exhibit 7.

---

### Exhibit 7: Improvements demonstrated by SPIs (Total 25 indicators)



Source: East Renfrewshire Council SPI data returns

---

107. The improved indicators include public access, benefits administration costs, processing of planning applications, the cleanliness index, refuse recycling, housing quality and carriageway condition. A decline in performance was observed in the cost of collecting council tax, payment of supplier invoices and rent management.

## National performance reports

108. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports issued in the last year which are of direct interest are detailed in Exhibit 8 below:

---

### Exhibit 8: A selection of National performance reports 2011/12

- Commissioning social care
- The National Fraud Initiative in Scotland
- Transport for Health and Social Care
- Modernising the planning system
- Reducing greenhouse gas emissions
- The role of community planning partnerships in economic development

Source: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

---

## Transport for Health and Social Care

- 109.** This report assessed the efficiency and effectiveness of transport for health and social care in Scotland. This included assessing how well agencies work together to plan and deliver transport for health and social care to meet local needs.
- 110.** The Council has reviewed the information in the report and identified its position in relation to the recommendations of the report. Prior to publication of the report the Council had undertaken a series of cross-departmental reviews of transport to identify efficiencies. Social Transport and Fleet Management have been identified by the Clyde Valley Partnership as a project area for further work to be completed.

## The role of community planning partnerships in economic development

- 111.** The audit considered whether CPPs have made a difference to local communities. As CPPs cover a wide range of activity, audit work focused on examining their contribution to economic development. The report made seven key messages for Community Planning Partnerships to consider.
- 112.** The Council has considered the recommendations and provided the Audit Committee with an update and actions in place to ensure an effective CPP is in place.

## Modernising the planning system

- 113.** The audit looked at whether recent reform and modernisation of the planning system is making it more economic, efficient and effective. The overall progress made by the public sector in modernising the planning system and the impact that modernisation is having on councils' performance in managing planning applications was assessed.
- 114.** East Renfrewshire Council has reviewed the six key recommendations made in the report and identified that it:
- amended the planning scheme in 2010 after one year of the modernised planning regulations
  - worked with the Scottish Government to monitor the use of ePlanning, quantify efficiency improvements and note the benefits and improved service offered
  - introduced community engagement initiatives, including both developers and community forums
  - formed a Major Developments Team of key professionals to provide a comprehensive service to developers
  - liaised with the Scottish Government on a performance measurement framework
  - regularly collects and monitors the cost of development planning and management
  - carried out customer surveys in 2011.

## Maintaining Scotland's Roads - A Targeted Follow Up Audit

115. During the year we carried out a review on the Council's response to 'Maintaining Scotland's Roads: a follow up report' published in February 2011. The review assessed the progress made by the council in improving the management of road maintenance focussing on road asset management planning, performance management and maximising value for money. It highlighted the need for asset management in particular:
- Up to date information on the condition of the assets being managed including roads, bridges and street lighting.
  - Asset management systems linked to GIS and financial systems.
  - Pavement management systems to minimise whole life costs of road maintenance.
  - Electronic records of safety inspections.
116. Within East Renfrewshire Council, the Road Asset Management Plan (RAMP) was presented to Cabinet on 23 February 2012. The roads asset is worth £712m. The RAMP is a comprehensive plan and follows the minimum content suggested by The Society of Chief Officers of Transportation in Scotland (SCOTS) and includes: assets description, community requirements, future demands, levels of service, lifecycle planning, financial summary and risk management. It also contains an improvement plan and indicates how the plan will be controlled and managed.
117. The main output from the RAMP is a long term programme of asset investment based on need. The Council has responded positively to the report and additional funding of £1.5 million was made available in 2011/12 which was allocated to carriageway resurfacing.
118. The Council is part of the 3C group which includes Inverclyde and Renfrewshire Councils. Benchmarking is carried out across all aspects of the department as part of the 3C group and through working with SCOTS.
119. The Roads Revenue Works Programme for 2012/13 was considered by Cabinet on 1 March 2012. The associated report included an analysis of the Council's position across all other Scottish Councils. The Road Condition Indicator (RCI) had improved for A Class Roads moving from 22nd to 8th position however the unclassified roads value remains high at 52.8%, which put the council in 29th position. The programme for 2012/13 shows £4.9 million of revenue expenditure and notes that the additional funding would continue to address the concerns raised in the national report.

## Progress against audit risks identified in the SRA

120. The Local Area Network (LAN) of scrutiny partners conducted an update of the Shared Risk Assessment (SRA), culminating in the May 2012 publication of the Assurance and Improvement Plan 2012 -2015 (AIP) for East Renfrewshire Council. This identified housing issues as the only area of uncertainty requiring additional scrutiny.
121. In the SRA we amended our previous assessment which had identified uncertainty around the Council's "people management" noting improvements that had been made in the year.

## Housing

122. The AIP highlighted potential risks in the Council's approach to achieving the Scottish Housing Quality Standard (SHQS) by the Ministerial target of 2015. Following discussions with the Council, the Scottish Housing Regulator carried out targeted scrutiny of this area in order to seek further assurance.
123. Based on the findings of its recent stock condition survey, 66% of East Renfrewshire Council's properties meet the SHQS. This compares favourably with the average compliance of 43%, reported by Scottish local authorities in 2009/10. The Council is confident that it has identified and secured the necessary resources to bring all of its houses up to the SHQS by 2015. A planned investment programme has been put in place for 2012/13 and 2014/2015 financial years at a cost of £5.75 million.
124. The Council recognises the importance of securing the co-operation and participation of owners in mixed tenure blocks in proposed schemes of common improvements and has recently secured additional staff resources and reviewed its processes and publications for owners.
125. In 2011/12 East Renfrewshire Council classified 30% of its housing stock as low demand, a significant increase from 18.7% in 2010/11. There has also been an increase in the average re-let time for low demand stock, from 61 days in 2010/11 to 175 days in 2011/12. The Council has responded by putting in place several local lettings initiatives and targeted advertising in an effort to boost demand and reduce re-let time. It is also planning to re-model some of its smaller sheltered housing properties in an attempt to increase demand for them.
126. The SHR is due to review the Council's self-assessment of its services for the homeless by the end of this year. The results of that review and the overall findings of the Regulator in the housing areas noted above will form part of the considerations of the Local Area Network's' assessment as part of the Shared Risk Assessment process for 2012/13.

## People Management

127. The Council had satisfactorily managed the programme of staff reductions and the implementation of revised terms and conditions for staff. Having achieved the required short term staff reductions in response to the economic recession, the Council has been able to progress a more measured approach to workforce planning. The original April 2009 target of a workforce reduction of 400 to 500 full time equivalent staff by 2014 has been replaced by assigned financial savings targets for each Director as part of the budget process. Workforce planning and the assimilation of the Public Sector Excellence (PSE) projects, service redesigns and the reviews of service delivery are beginning to drive the shape of the workforce across the Council.
128. Data analysis is key to the effective use of resources and HR is currently preparing reviews of casual employees and staff overtime. The initial recessionary phase of staff reductions and strict vacancy management coupled with the need to address service design led to the increased use of both temporary and casual contracts. This position has now stabilised.

129. The Council has made progress in aligning the Corporate Learning & Development plan to the Council workforce planning strategy to ensure the workforce has the correct skills to support service delivery now and in the future. The importance of retaining expertise within the Council has been addressed by the creation and forthcoming roll-out of a Succession Planning Toolkit. This will enable managers to identify critical posts and assist them in managing the continuity of skills and knowledge in their departments.
130. The results of the first full Council-wide employee survey were reported in May 2012. The overall response rate of 41% was typical in comparison to the 28% to 55% response range achieved by recent employee surveys run by other Scottish local authorities. Employees appear to be most positive about the Council and its objectives (average of 81% agreeing), their work colleagues (average 79%) and their own roles (average 78%). The Survey results suggest that employees are least positive about support and recognition at work (average of 60% agreeing) and in the performance of the management team in their management of change (61% agreeing). 65% agreed that the workload and demands of their job are manageable.
131. The rate of staff turnover and rate of staff absence can also serve as indicators of staff morale and the effectiveness of the Council's people management. The 2011/12 turnover rate for local government employees and teachers show marginal increases on the previous year, from 4.1% to 4.3% for Local Government employees (LGE) and from 5.5% to 5.6% for teachers. The average number of working days per employee lost through sickness absence for chief officers and local government employees has improved from 10.8 to 10.7. Teachers, however, are showing increased absence with 5.4 days comparing to 4.5 for 2010/11.

## Outlook

132. Any future best value work will be determined through the shared risk assessment process. There are currently no plans for any best value work in East Renfrewshire Council over the next three years. Work is due to start soon on updating the Assurance and Improvement plan covering the period 2013/16.
133. The Accounts Commission has developed an audit approach for the audit of Community Planning Partnerships. This approach is being piloted in the autumn of 2012 and rolled out across the sector thereafter.

# Appendix A: audit reports

## External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	9 February 2012	23 February 2012
Shared Risk Assessment/Assurance and Improvement Plan	3 June 2012	27 June 2012*
Internal controls management letter	31 May 2012	15 August 2012
Maintaining Scotland's roads - follow-up review	October 2012	8 November 2012
Report on financial statements to those charged with governance	20 September 2012	27 September 2012
Audit opinion on the 2011/12 financial statements	27 September 2012	27 September 2012
Audit opinion on the 2011/12 Whole of Government accounts consolidation pack	5 October 2012	8 November 2012
Report to Members on the 2011/12 audit	October 2012	8 November 2012

\* Paper submitted to East Renfrewshire Council rather than the Audit Committee

# 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	17	<p><b>Bad Debt Provision</b></p> <p>There was inconsistency in the approach to deriving bad debt provisions compared to the previous year.</p> <p><b>Risk: Financial liabilities could be mis-stated.</b></p>	We will identify a process for approving year on year provisions for bad debts, which will include an assessment of any significant changes in assumptions.	Director of Finance	31 March 2013
2	23	<p><b>Trust Funds</b></p> <p>From 2013/14 the current reciprocal agreement with other councils for the independent examination of Trust Funds will no longer satisfy OSCR's requirements and independent auditor arrangements will be needed.</p> <p><b>Risk: There is a risk of non-compliance with OSCR Regulations.</b></p>	We will review our existing audit arrangements for Trusts and will be seeking to appoint independent auditors early in 2013/14.	Director of Finance	30 June 2013
3	33	<p><b>Budgetary Control</b></p> <p>The first financial outturn report of the year at period 8 and subsequent updates show significant changes in the council's financial position.</p> <p><b>Risk: Members have access to less accurate information on the council's probable financial position throughout the financial year.</b></p>	We will produce probable outturn budgetary reports from Month 7.	Director of Finance	30 November 2013